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

# FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 | 74-0694415 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1111 LOUISIANA<br>HOUSTON, TEXAS 77002 | (713) 207-1111 |
| (Address and zip code of principal executive offices) | (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 |
|---|---|
| - Common Stock, $0.01 par value and associated rights to purchase preference stock | New York Stock Exchange<br>Chicago Stock Exchange |
| HL&P Capital Trust I 8.125% Trust Preferred Securities, Series A | New York Stock Exchange |
| REI Trust I 7.20% Trust Originated Preferred Securities, Series C | New York Stock Exchange |

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 [X] 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. [ ]

The aggregate market value of the voting stock held by non-affiliates of CenterPoint Energy, Inc. (Company) was $5,027,126,669 as of June 28, 2002, 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 25, 2003, the Company had 305,204,724 shares of Common Stock outstanding, including 4,452,404 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.

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

Portions of the definitive proxy statement relating to the 2003 Annual Meeting of Shareholders of the Company, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2002, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 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.

COMMONLY USED TERMS

Below is a list of terms commonly used in this Form 10-K, along with their definitions or descriptions. Some of the definitions or descriptions below are summaries, and you should refer to the corresponding discussion within this Form 10-K for a complete definition or description.

| | |
|---|---|
| 1935 Act | Public Utility Holding Company Act of 1935 |
| AOL TW | AOL Time Warner Inc. |
| AOL TW Common | AOL TW common stock |
| Arkla | CenterPoint Energy Arkla, a division of CERC Corp. |
| Bcf | Billion cubic feet |
| Business separation plan | Reliant Energy's amended business separation plan providing for the separation of its generation, transmission and distribution, and retail operations into three different companies and for the separation of its regulated and unregulated businesses into two publicly traded companies, as filed with the Texas Utility Commission |
| CenterPoint Energy | CenterPoint Energy, Inc. |
| CenterPoint Houston | CenterPoint Energy Houston Electric, LLC, the transmission and distribution business of CenterPoint Energy after the Restructuring |
| CERC | CenterPoint Energy Resources Corp. and subsidiaries |
| CERC Corp | CenterPoint Energy Resources Corp. |
| ECOM | The Texas Utility Commission's Excess Cost Over Market computer model used to estimate stranded costs related to generation plant assets |
| ECOM true-up | A reconciliation, to be part of the 2004 true-up proceeding to be conducted by the Texas Utility Commission, of any difference between the actual market power prices received in state mandated generation capacity auctions and the Texas Utility Commission's earlier estimates of those market prices during the period from January 1, 2002 through December 31, 2003 |
| Entex | CenterPoint Energy Entex, a division of CERC Corp. |
| EPA | Environmental Protection Agency |
| ERCOT | Electric Reliability Council of Texas, Inc. |
| ERCOT ISO | The ERCOT independent system operator |
| ERCOT market | 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 |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| General Mortgage | The General Mortgage dated October 10, 2002, as supplemented, between CenterPoint Houston and JPMorgan Chase Bank, as trustee, which creates a lien which is junior to the lien of the Mortgage |
| GWh | Gigawatt hour, a million kwh |

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|---|---|
| ISO | Independent System Operator |
| Kyoto Protocol | United Nations Framework Convention on Climate Change |
| Laclede | Laclede Gas Company |
| MACT | Maximum achievable control technology |
| Minnegasco | CenterPoint Energy Minnegasco, a division of CERC Corp. |
| MMcf | Million cubic feet |
| Mortgage | The Mortgage and Deed of Trust dated November 1, 1944, as supplemented, between our predecessor in interest, Houston Lighting & Power Company, and JPMorgan Chase Bank (successor to South Texas Commercial National Bank of Houston), as trustee |
| MW | Megawatt |
| Non-bypassable | An element of a transmission and distribution utility's rates that must be paid by essentially all customers and that cannot, except in limited circumstances, be avoided by switching to self-generation |
| NOx | Oxides of nitrogen |
| NRC | United States Nuclear Regulatory Commission |
| October 3, 2001 Order | Order from the Texas Utility Commission dated October 3, 2001 that established the transmission and distribution rates that became effective January 1, 2002 |
| price to beat | The price, as set by the Texas Utility Commission, that retail electric providers affiliated with a former integrated utility charge residential and small commercial customers within their affiliated electric utility's service area |
| Railroad Commission | The Railroad Commission of Texas |
| REGT | Reliant Energy Gas Transmission Company |
| Reliant Energy | Reliant Energy, Incorporated |
| Reliant Energy HL&P | An unincorporated division of Reliant Energy, formerly an integrated electric utility |
| Reliant Energy Services | Reliant Energy Services, Inc., a subsidiary of Reliant Resources |
| Reliant Resources | Reliant Resources, Inc. |
| Reliant Resources Distribution | The distribution of CenterPoint Energy's remaining equity interest in the common stock of Reliant Resources, Inc. to our shareholders that occurred on September 30, 2002 |
| Reliant Resources Offering | The May 2001 initial public offering of approximately 20% of the common stock of Reliant Resources |
| REPG | Reliant Energy Power Generation, Inc. |
| REPS | Reliant Energy Pipeline Services, Inc. |

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| Restructuring..... | The transactions through which CenterPoint Energy became the holding company for Reliant Energy and its subsidiaries, Reliant Energy and its subsidiaries became subsidiaries of CenterPoint Energy, each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock and Reliant Energy's electric generation assets were transferred to Texas Genco |
| SEC..... | Securities and Exchange Commission |
| Separation..... | The transactions that include the transfers of substantially all of our unregulated businesses to Reliant Resources, the Reliant Resources Offering, the Restructuring and the Reliant Resources Distribution |
| SFAS..... | Statement of Financial Accounting Standards |
| South Texas Project..... | South Texas Project Electric Generating Station |
| TCR..... | Transmission Congestion Rights |
| Texas electric restructuring law..... | Texas Electric Choice Plan, Texas Utility Code sec. 39.001, et seq. |
| Texas Genco..... | Texas Genco Holdings, Inc. and the intermediate subsidiaries through which interests in Texas Genco, LP are held |
| Texas Genco Option..... | Option granted to Reliant Resources to purchase all of the shares of capital stock of Texas Genco owned by CenterPoint Energy |
| Texas generation business..... | The generating facilities and operations transferred to Texas Genco in the Restructuring |
| Texas Utility Commission..... | Public Utility Commission of Texas |
| TMDL..... | Total Maximum Daily Load program of the Clean Water Act |
| We, us, our or similar terms..... | Reliant Energy and its subsidiaries prior to the Restructuring and CenterPoint Energy and its Subsidiaries after the Restructuring, unless the context states or implies otherwise |

PART I

ITEM 1. BUSINESS

OUR BUSINESS

OVERVIEW

We are 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). Prior to the Restructuring, Reliant Energy was an operating integrated electric utility, a utility holding company for local gas distribution companies and the parent company of a group of companies providing energy and energy services on a non-utility basis primarily in North America and Western Europe. Reliant Energy's non-utility wholesale and retail energy operations were conducted principally through Reliant Resources, Inc. (Reliant Resources) and its subsidiaries. On September 30, 2002, we distributed to our shareholders the approximately 83% ownership interest we held in our subsidiary, Reliant Resources, effectively divesting our ownership of our unregulated businesses (Reliant Resources Distribution). The Restructuring implemented certain requirements of the Texas electric restructuring law described below. We are the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. Our indirect wholly owned operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities and natural gas pipelines. Our publicly traded subsidiary, Texas Genco Holdings, Inc. (Texas Genco), operates electric generation plants. Our indirect wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in Reliant Energy's former 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 that together form one of the United States' largest natural gas distribution operations in terms of the number of customers served. 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, which owns and operates the Texas generating plants that were formerly part of the integrated electric utility that was part of Reliant Energy. We distributed approximately 19% of the outstanding common stock of Texas Genco to our shareholders on January 6, 2003.

We are a registered holding company, subject to regulation, with our subsidiaries, under the Public Utility Holding Company Act of 1935 (1935 Act). The 1935 Act directs the SEC to regulate, among other things, transactions among affiliates, sales or acquisitions of assets, issuance of securities, distributions and permitted lines of business.

The executive offices of CenterPoint Energy 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 SEC. Our web site address is http://www.centerpointenergy.com.

In June 1999, the Texas legislature enacted a law that substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. We refer to this legislation as the "Texas electric restructuring law." Under this law, integrated electric utilities were required to restructure their businesses to separate their generation, transmission and distribution and retail functions into separate units, and sales by power generators such as Texas Genco and retail sales of electricity (which are now

conducted by subsidiaries of Reliant Resources and not by us) ceased to be subject to traditional cost-based regulation as of January 1, 2002. Also under this law, our transmission and distribution subsidiary, CenterPoint Houston, remains subject to cost-based rate regulation and recovers the cost of its service through an energy delivery charge approved by the Public Utility Commission of Texas (Texas Utility Commission) and not as a component of the prior bundled rate. Texas Genco sells its available generation capacity, energy and ancillary services at prices determined by the market. None of our businesses sell electricity and related services to end users of electricity. Accordingly, we no longer operate under the bundled regulated rates in effect prior to 2002, so there are no meaningful comparisons for these business segments against prior periods.

RECENT DEVELOPMENT

On February 28, 2003, we reached agreement with a syndicate of banks on a second amendment to our existing $3.85 billion bank facility. Under the second amendment, the maturity date of the bank facility was extended from October 2003 to June 30, 2005, and the $1.2 billion in mandatory prepayments that would have been required this year (including $600 million due on February 28, 2003) were eliminated. As part of the consideration for the extension, we agreed to grant the banks (i) a security interest in our 81% stock ownership of Texas Genco and (ii) warrants to purchase up to 10%, on a fully diluted basis, of our common stock, both of which require SEC approval under the 1935 Act. If we are not able to obtain SEC approval by May 28, 2003, in the case of the Texas Genco stock pledge, the interest rate under the facility will increase by 25 basis points and, in the case of the warrants, we will become obligated to provide the banks equivalent cash compensation. If issued, the exercise price of the warrants will be the greater of $6.56 per share or 110% of the closing price on the New York Stock Exchange on the date of issuance, they will become exercisable one year following that date and they will expire four years after becoming exercisable. We have the right to cause some or all of the warrants (or the related rights to equivalent cash compensation) to be extinguished by making certain prepayments under the facility during 2003. Also as part of the consideration for the extension, we agreed to restrictions on the level of cash dividends on our common stock until specified repayment milestones are met. These restrictions limit our quarterly dividend to the lesser of 10 cents per share, or beginning in 2004, 50% of earnings under certain circumstances. For additional information, please read "Market for Common Stock and Related Stockholder Matters" in Item 5 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- "Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Long-Term Debt" in Item 7 of this report.

THE TEXAS ELECTRIC RESTRUCTURING LAW

The Texas electric restructuring law substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition for all customers. Retail pilot projects, allowing competition for up to 5% of each utility's energy demand, or "load," in all customer classes, began in August 2001 and retail electric competition for all other customers began in January 2002. Under the Texas electric restructuring law:

- integrated electric utilities in Texas have restructured their businesses in order to separate power generation, transmission and distribution and retail electric provider activities into separate business units;

- since January 2002, most Texas retail customers that, prior to that date, were customers of investor-owned electric utilities in Texas have been entitled to purchase their electricity from any of several "retail electric providers" that have been certified by the Texas Utility Commission;

- retail electric providers, who may not themselves own any generation assets, obtain their electricity from power generation companies such as Texas Genco, exempt wholesale generators and other generating entities and provide services at generally unregulated rates;

- the transmission and distribution of power are performed by transmission and distribution utilities, such as CenterPoint Houston, at rates that continue to be regulated by the Texas Utility Commission; and

- transmission and distribution utilities in Texas whose generation assets were "unbundled" pursuant to the Texas electric restructuring law, may recover, following a regulatory proceeding to be held in 2004:

(i) "regulatory assets," which consist of the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;

(ii) "stranded costs," which consist of the positive excess of the net regulatory book value of generation assets over the market value of the assets, taking specified factors into account; and

(iii) the ECOM True-Up, Fuel Over/Under Recovery and Price to Beat Clawback components as further discussed in " -- Electric Transmission & Distribution -- Stranded Costs and Regulatory Assets Recovery" below.

The Texas electric restructuring law permits transmission and distribution utilities to recover regulatory assets and stranded costs through non-bypassable charges authorized by the Texas Utility Commission to the extent that such assets and costs are established in certain regulatory proceedings. The law also authorizes the Texas Utility Commission to permit these utilities to issue securitization bonds based on the securitization of the revenue associated with that charge. For more information, please read "Our Business -- Electric Transmission & Distribution -- Stranded Costs and Regulatory Assets Recovery" below.

For additional information regarding the Texas electric restructuring law, retail competition in Texas and its application to our operations and structure, please read "Regulation -- State and Local Regulation -- Electric Operations -- The Texas Electric Restructuring Law" below.

ERCOT MARKET FRAMEWORK

CenterPoint Houston is a member of the Electric Reliability Council of Texas, Inc. (ERCOT), an intrastate 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 consists 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 70,000 megawatts (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 independent system operators in other regions of the country, 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 transmission grid and for the load serving substations. 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 limitations on the ERCOT transmission grid.

## ELECTRIC TRANSMISSION & DISTRIBUTION

### SERVICE AREA

CenterPoint Houston's service area consists of a 5,000-square-mile area located along the Texas Gulf Coast, with a population of approximately 4.7 million people. Electric transmission and distribution service is provided to approximately 1.8 million metered customers in this area, which includes the City of Houston and surrounding cities such as Galveston, Pasadena, Baytown, Bellaire, Freeport, Humble, Katy and Sugar Land. With the exception of Texas City, CenterPoint Houston serves nearly all of the Houston/Galveston metropolitan area. Effective January 2002, all former electricity customers of Reliant Energy HL&P whose service was regulated became free to choose to purchase their electricity from retail electric providers who compete for their business. The competing retail electric providers are now CenterPoint Houston's primary customers. See "-- Customers" below.

### ELECTRIC TRANSMISSION

CenterPoint Houston transports electricity from power plants to substations and from one substation to another and to retail customers taking power above 69 kilovolts (kV). Transmission services are provided under tariffs approved by the Texas Utility Commission. Transmission service offers the use of the transmission system for delivery of power over facilities operating at 69 kV and above.

### ELECTRIC DISTRIBUTION

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. CenterPoint Houston's distribution network consists of primary distribution lines, transformers, secondary distribution lines and service wires. Operations include construction and maintenance of facilities, metering services, outage response services and other call center operations. As part of the Texas electric restructuring law, metering service was to be provided on a competitive basis for commercial and industrial customers beginning January 1, 2004 and for residential customers in each service area on the later of September 1, 2005, or the date when 40% of the residential retail electric customers in that service area are taking service from unaffiliated or not formerly affiliated retail electric providers. However, the Texas Utility Commission has determined that the market is not yet ready for all metering services to be made competitive and has begun a rulemaking proceeding to decide when and what type of metering services will be opened to competition.

CenterPoint Houston's distribution network receives electricity from the transmission grid through power distribution substations and distributes electricity to end users through CenterPoint Houston's distribution feeders.

Distribution services are provided under tariffs approved by the Texas Utility Commission. New Texas Utility Commission rules and market protocols govern the commercial retail operations of distribution companies and other market participants.

### STRANDED COSTS AND REGULATORY ASSETS RECOVERY

The Texas electric restructuring law provides us an opportunity to recover our "regulatory assets" and "stranded costs." "Stranded costs" include the positive excess of the regulatory net book value of generation assets over the market value of the generation assets. The Texas electric restructuring law allows alternative methods of third party valuation of the market value of generation assets, including outright sale, full and partial stock valuation and asset exchanges. Reliant Energy agreed in the business separation plan approved by the Texas Utility Commission that the market value of Texas Genco's generating assets would be determined using the partial stock valuation method. Accordingly, on January 6, 2003, we distributed to our shareholders approximately 19% of the outstanding common stock of Texas Genco. As the surviving regulated utility following the Restructuring, CenterPoint Houston will be allowed to recover these stranded costs in 2004 following the determination by the Texas Utility Commission of the amount of such costs. The market prices of the publicly traded common stock will be used to determine the market value of Texas Genco. For more

information regarding the market value determination, please read "-- Final True-Up -- Stranded Cost Component" below.

The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. For example, 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. Reliant Energy undertook both of these remedies provided in the Texas electric restructuring law.

Under the Texas electric restructuring law, "regulatory assets" consist of the Texas jurisdictional amount reported by an electric utility as regulatory assets and liabilities (offset and adjusted by specified amounts) in its audited financial statements for 1998. The Texas electric restructuring law permits utilities to recover regulatory assets through non-bypassable transition charges on retail electric customers' bills, to the extent that such assets and costs are established in regulatory proceedings as discussed below. CenterPoint Energy recovered a portion of its regulatory assets in 2001 through the issuance of transition bonds.

The Texas electric restructuring law also permits CenterPoint Houston to issue securitization bonds for the recovery of generation-related regulatory assets and stranded costs. Please read "-- Securitization Financing" below for a more complete discussion of the issuance of securitization bonds. Any stranded costs not recovered through the sale of securitization bonds may be recovered through a separate non-bypassable transition charge to transmission and distribution customers.

Mitigation. In October 2001, the Texas Utility Commission ruled that Reliant Energy had overmitigated 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 December 2001, Reliant Energy recorded a regulatory liability of $1.1 billion to reflect the prospective refund of accelerated depreciation, removed its previously recorded embedded regulatory asset of $841 million that had resulted from redirected depreciation and recorded a regulatory asset of $2.0 billion based upon then current projections of the market value of Reliant Energy's Texas generation assets to be recovered by the 2004 true-up proceeding described below. These regulatory assets and liabilities are recorded by CenterPoint Houston. Reliant Energy began refunding the excess mitigation credits in January 2002, and CenterPoint Houston will continue to do so over a seven-year period. If events occur that make the recovery of all or a portion of the regulatory assets no longer probable, we will write off the corresponding balance of these assets as a charge against earnings. We appealed the Texas Utility Commission's true-up rule on the basis that there are no negative stranded costs, that we should be allowed to collect interest on stranded costs, and that the premium on the partial stock valuation applies to only the equity of Texas Genco, not equity plus debt. The Texas court of appeals issued a decision on February 6, 2003 upholding the rule in part and reversing in part. The court ruled that there are no negative stranded costs and that the premium on the partial stock valuation applies only to equity. The court upheld the Texas Utility Commission's rule that interest on stranded costs begins upon the date of the final true-up order. On February 21, 2003, we filed a motion for rehearing on the issue that interest on amounts determined in the true-up proceeding should accrue from an earlier date. We have not accrued interest in our consolidated financial statements, but estimate that interest could be material. If the court of appeals denies our motion, then we will have 45 days to appeal to the Texas Supreme Court. We have not decided what action, if any, we will take if the motion for rehearing is denied.

Final True-Up. Beginning in January 2004, the Texas Utility Commission will conduct true-up proceedings for each investor-owned utility. The purpose of the true-up proceeding is to quantify and reconcile the amount of stranded costs, the difference in the price of power obtained through capacity auctions conducted by Texas Genco and the power costs used in the Excess Cost Over Market (ECOM) model, any fuel costs over- or under-recovery, the "price to beat" clawback and other regulatory assets associated with the generating assets that were not previously securitized as described below under "-- Securitization Financing."

The true-up proceeding will result in either additional charges being assessed on, or credits being issued to, retail electric customers taking delivery from CenterPoint Houston.

Stranded Cost Component. The regulatory net book value of generating assets will be compared to the market value of those assets using the partial stock valuation method. The resulting difference, if positive, represents stranded costs that will be recovered through a transition charge, which is a non-bypassable charge assessed to customers taking delivery service from CenterPoint Houston. Stranded costs may be securitized. Please read "-- Securitization Financing" below for a more complete discussion of the securitization.

The publicly traded common stock of Texas Genco will be used to determine the market value of the generating assets of Texas Genco pursuant to the partial stock valuation method for determining stranded costs. 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 the 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. 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) and any above-market purchased power contracts.

ECOM True-Up Component. The Texas Utility Commission used a computer model or projection, called an 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 the period from January 1, 2002 through December 31, 2003. Any difference between the actual market power prices received in those auctions and the Texas Utility Commission's earlier estimates of those market prices will be a component of the 2004 true-up proceeding.

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 on July 1, 2002. This final fuel reconciliation filing covers reconcilable fuel revenue, fuel expense and interest of approximately $8.5 billion incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance at July 31, 1997 as approved in CenterPoint Houston's last fuel reconciliation. On January 28, 2003, a settlement agreement was reached under which it was agreed that certain items totaling $24 million were written off during the fourth quarter of 2002 and items totaling $203 million will be carried forward for resolution by the Texas Utility Commission in late 2003 or early 2004.

"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 "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 between Reliant Energy and Reliant Resources, Reliant Resources is obligated to pay CenterPoint Houston for the clawback component of the true-up. The clawback may not exceed $150 times the number of customers served by the affiliated retail electric provider in the transmission and distribution utility's service territory, less the number of customers served by the affiliated retail electric provider outside the transmission and distribution utility's service territory, on January 1, 2004. We expect the clawback, if any, will reduce any stranded cost recovery to which CenterPoint Houston is entitled or, if no stranded costs are recoverable, will be refunded to retail electric customers.

Securitization Financing. The Texas electric restructuring law provides for the use of special purpose entities to issue securitization bonds for the economic value of generation-related regulatory assets and stranded costs. These securitization bonds will be amortized over a period not to exceed 15 years through non-bypassable transition charges to customers taking delivery service from CenterPoint Houston. Any stranded costs not recovered through the securitization bonds will be recovered through a non-bypassable competition transition charge assessed to customers taking delivery service from CenterPoint Houston.

In October 2001, one of our subsidiaries issued $749 million of transition bonds to securitize generation-related regulatory assets. These transition bonds have a final maturity date of September 15, 2015 and are non-recourse to us or our subsidiaries other than to the special purpose issuer. Payments on the transition bonds are made out of funds from non-bypassable transition charges assessed to customers taking delivery service from CenterPoint Houston.

We expect that CenterPoint Houston will seek to securitize the true-up balance upon completion of the 2004 true-up proceeding. The securitization bonds may have a maximum maturity of 15 years. Payments on these securitization bonds would also be made out of funds from non-bypassable transition charges assessed to customers taking delivery service from CenterPoint Houston.

PROPERTIES

All of CenterPoint Houston's properties are located in the State of 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. 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, between our predecessor in interest, Houston Lighting & Power Company, and JPMorgan Chase Bank (successor to South Texas Commercial National Bank of Houston), as trustee; and

- the lien of a General Mortgage (the General Mortgage) dated October 10, 2002, as supplemented, between CenterPoint Houston and JPMorgan Chase Bank, as trustee, which is junior to the lien of the Mortgage.

CenterPoint Houston has issued approximately $1.2 billion aggregate principal amount of first mortgage bonds under the Mortgage, including approximately $547 million to secure certain medium-term notes and pollution control bonds for which CenterPoint Energy is obligated. Additionally, under the General Mortgage, CenterPoint Houston has issued approximately $527 million aggregate principal amount of general mortgage bonds to secure certain additional pollution control bonds for which CenterPoint Energy 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. For more information, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- "Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Long-Term Debt" in Item 7 of this report.

Electric Lines -- Overhead. As of December 31, 2002, CenterPoint Houston owned 26,346 pole miles of overhead distribution lines and 3,599 circuit miles of overhead transmission lines, including 444 circuit miles operated at 69,000 volts, 2,078 circuit miles operated at 138,000 volts and 1,077 circuit miles operated at 345,000 volts.

Electric Lines -- Underground. As of December 31, 2002, CenterPoint Houston owned 13,364 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, 2002, CenterPoint Houston owned 224 major substation sites having total installed rated transformer capacity of 44,163 megavolt amperes.

Service Centers. CenterPoint Houston operates 20 regional service centers located on a total of 405 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 89 of the 90 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 give CenterPoint Houston the right to construct, operate and maintain its electrical transmission and distribution systems within city streets, alleys and rights-of-ways in exchange for payment of a fee.

Fiber Optic System. CenterPoint Houston owns a fiber optic system to provide communications among its service center facilities and office operations. CenterPoint Houston owns approximately 284 miles of single-mode fiber in Harris, Fort Bend and Galveston counties located in Texas. This fiber is buried in transmission line rights-of-way or strung on overhead electrical distribution or transmission facilities.

CUSTOMERS

CenterPoint Houston's customers consist of municipalities, electric cooperatives, other distribution companies and approximately 31 retail electric providers in its certificated service area. Each retail electric provider is licensed by the Texas Utility Commission and must meet creditworthiness criteria established by the Texas Utility Commission. Two of these retail electric providers are subsidiaries of Reliant Resources. CenterPoint Houston's receivables balance from retail electric providers as of December 31, 2002, was $85 million. Approximately 72% of this amount was owed by subsidiaries of Reliant Resources. Sales to Reliant Resources represented approximately 83% of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002. CenterPoint Houston provides services under tariffs approved by the Texas Utility Commission. It does not have long-term contracts with any of its customers. CenterPoint Houston 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.

## ELECTRIC GENERATION

Texas Genco acquired Reliant Energy's portfolio of electric generation facilities located in Texas and related business effective August 31, 2002 through a transfer of assets between entities under common control. From January 1, 2002 until August 31, 2002, however, the electric generation assets were operated as a separate division within Reliant Energy. For convenience, we describe Texas Genco's business in this Form 10-K as if Texas Genco had owned and operated its generation assets prior to the date those assets were actually conveyed to Texas Genco.

Texas Genco is one of the largest wholesale electric power generating companies in the United States. 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, 2002, the aggregate net generating capacity of Texas Genco's combined portfolio of generating assets was 14,175 MW. Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market, which is the largest power market in the State of Texas. Collectively, Texas Genco's facilities provide approximately 20% of the aggregate net generating capacity serving 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.

As a result of requirements under the Texas electric restructuring law, as well as an agreement between Reliant Resources and us, Texas Genco is obligated to sell substantially all of its available capacity and related ancillary services through 2003 pursuant to capacity auctions, subject to permitted operating reserves. In these auctions, Texas Genco sells firm entitlements to capacity and ancillary services on a forward basis dispatched within specified operational constraints. For more information regarding these auctions, please read "-- Operations and Capacity Auctions" below.

FACILITIES

Texas Genco's generation facilities as of December 31, 2002 are described in the table below.

| NET GENERATING CAPACITY OF GENERATION FACILITIES (IN MW)(1) | NUMBER OF UNITS | DISPATCH TYPE | FUEL - | - |
|---|---|---|---|---|
| W. A. Parish | 3,661 | 9 | Base-load, Intermediate, Coal/Gas Cyclic, Peaking | Limestone |
| South Texas Project(2) | 770 | 2 | Base-load | Nuclear |
| Cedar Bayou | 2,260 | 3 | Intermediate | Gas/Oil |
| P. H. Robinson(3) | 2,213 | 4 | Intermediate | Gas |
| San Jacinto | 162 | 2 | Intermediate | Gas |
| T. H. Wharton(3) | 1,254 | 18 | Cyclic, Peaking | Gas/Oil |
| S. R. Bertron | 844 | 6 | Cyclic, Peaking | Gas/Oil |
| Greens Bayou(3) | 760 | 7 | Cyclic, Peaking | Gas/Oil |
| Webster(3) | 387 | 2 | Cyclic, Peaking | Gas |
| Deepwater(3) | 174 | 1 | Cyclic | Gas |
| H. O. Clarke | 78 | 6 | Peaking | Gas |
| Total | 14,175 | 62 | | |

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(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) In October 2002, Texas Genco announced its plan to mothball all 2,213 MW of capacity at its P.H. Robinson facility, 229 MW of capacity at its T.H. Wharton facility, 406 MW of capacity at its Greens Bayou facility, 374 MW of capacity at its Webster facility and all 174 MW of capacity at its Deepwater facility through at least May 2003.

Beginning in September 2002, an outage was commenced for one of the generating units at the South Texas Project to replace its steam generators with a model that is less susceptible to tube cracking. We expect this change will restore the design life of the unit and increase the potential for an extension of the South Texas Project's license. This unit was briefly returned to service in December 2002. However, as a result of certain non-safety-related mechanical failures, the unit was removed from service in December 2002 and is expected to return to service in the first quarter of 2003. The steam generators in the other generating unit at the plant were replaced in the spring of 2000.

MARKET FRAMEWORK

Since January 1, 2002, any wholesale producer of electricity that qualifies as a "power generation company" under the Texas electric restructuring law and that can access the ERCOT electric grid is allowed to sell power in the ERCOT market at unregulated rates. Transmission capacity, which may be limited, is needed to effect power sales. In the ERCOT market, buyers and sellers enter into bilateral wholesale capacity, energy and ancillary services contracts or may participate in the centralized ancillary services market that ERCOT administers.

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 (state mandated auctions) and will sell 85% of its available generation capacity in the auctions mandated by an agreement with Reliant Resources (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. This enables Texas Genco to dispatch its commitments in the most cost-effective manner, but also exposes it 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 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 gas payments 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

Texas Genco is contractually obligated to auction entitlements to substantially all of its available capacity and related ancillary services available after the state-mandated auctions until the date on which the Texas Genco Option, described below, either is exercised or expires. Texas Genco is 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. Since Texas Genco sells the majority of its available capacity as firm entitlements, it typically reserves 1,250 MW of its capacity as operating reserves, which can be sold as interruptible power on a system-contingent basis.

Through 2003, Reliant Resources has the contractual right, but not the obligation, to purchase 50% (but not less than 50%) of each type of capacity entitlement Texas Genco auctions in the contractually mandated auctions at the prices established in the auctions. To exercise this right, Reliant Resources is required to notify

Texas Genco whether it elects to purchase 50% of the capacity auctioned no later than three business days prior to the date of the auction. Texas Genco excludes the amount of capacity specified in Reliant Resources' notice from the auction. Texas Genco auctions any portion of the capacity that Reliant Resources does not reserve through its notice in the contractually mandated auctions.

Upon determination of the prices for the capacity entitlements Texas Genco auctions, Reliant Resources is obligated to purchase the capacity it elected to reserve from the auction process at the prices set during the auction for that entitlement. If Texas Genco auctions capacity and ancillary services separately, Reliant Resources is entitled to participate in 50% of the offered capacity of each. In addition to its reservation of capacity, and whether or not it has reserved capacity in the auction, Reliant Resources is entitled to participate in each contractually mandated auction. If Reliant Resources exercises its option to purchase the shares of Texas Genco common stock owned by us in January 2004 (Texas Genco Option), Texas Genco will not conduct any capacity auctions, other than as required by Texas Utility Commission's rules, between the option exercise date and the option closing date without obtaining Reliant Resources' consent, which it may not unreasonably withhold. If Reliant Resources does not exercise the Texas Genco Option, Texas Genco will no longer be required to conduct contractually mandated auctions following the expiration of that option.

Auction Results. Texas Genco conducted its initial state mandated auctions and contractually mandated auctions from September 2001 through January 2003. Thirty-one companies, including Reliant Resources, registered and qualified to participate in these auctions. As a result, Texas Genco sold 91% of its available capacity for 2002 and has sold 74% of its available capacity for 2003. 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. The 3,400 MW of capacity that we have "mothballed" as described below under "-- Competition" is included in our available capacity only for the months of June through September 2003. Reliant Resources purchased 63% of Texas Genco's available 2002 capacity and, through January 2003, has purchased 58% of Texas Genco's available 2003 capacity. Texas Genco intends to hold auctions to sell its remaining available capacity for 2003 in March and July 2003.

To date, the market-based prices established in Texas Genco's capacity auctions have provided returns on its facilities substantially below historical regulated returns. Higher gas prices in the latter part of 2002 and early 2003 have positively influenced the prices established in its recent capacity auctions. Generally, higher gas prices increase the capacity prices for its base-load entitlements since prospective purchasers face higher-cost and more volatile-priced gas-fired generation alternatives.

TEXAS GENCO OPTION

Reliant Resources has an option that may be exercised between January 10, 2004 and January 24, 2004 to purchase all of the approximately 81% of the outstanding shares of Texas Genco common stock that we currently own. The per share exercise price under the Texas Genco Option will equal the average daily closing price of Texas Genco common stock on The New York Stock Exchange over the 30 consecutive trading days out of the last 120 trading days ending January 9, 2004 which result in the highest average closing price. In addition, a control premium, up to a maximum of 10%, will be added to the price to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco. If the option closing has not occurred within sixteen months of the option exercise, rights under the option agreement will terminate.

The exercise price formula is based upon the generation asset valuation methodology in the Texas electric restructuring law that we will use to calculate the market value of Texas Genco. This market value will be used to determine the amount CenterPoint Houston will be allowed to recover as generation related "stranded costs" under the Texas electric restructuring law. The exercise price is also subject to adjustment based on the difference between the per share dividends Texas Genco pays to us during the period through the option closing date and Texas Genco's actual per share earnings during that period. To the extent Texas Genco's per share dividends are less than its actual per share earnings during that period, the per share option price will be increased. To the extent its per share dividends exceed its actual per share earnings, the per share option price will be reduced.

Reliant Resources has agreed that if it exercises its option, it will purchase from us all notes and other payables owed by Texas Genco to us as of the option closing date, at their principal amount plus accrued interest. Similarly, if there are notes or payables owed to Texas Genco by us as of the option closing date, Reliant Resources will assume those obligations in exchange for a payment from us of an amount equal to the principal plus accrued interest.

In the event Reliant Resources exercises its option, Reliant Resources and CenterPoint Energy have agreed to make an election under Section 338(h)(10) of the Internal Revenue Code with respect to the purchase. As a result of the Section 338(h)(10) election, CenterPoint Energy will recognize no gain or loss from the sale of the Texas Genco stock for income tax purposes. Instead, at the closing of the sale, Texas Genco would be deemed, for income tax purposes, to have sold all of its assets for an amount generally equal to the value of the equity of Texas Genco, based upon the purchase price, plus the principal amount of Texas Genco's indebtedness at the time of the purchase.

Under an agreement with Reliant Resources, we have agreed to maintain ownership of our approximate 81% interest in Texas Genco following the distribution until exercise or expiration of the Texas Genco Option. In addition, Texas Genco has agreed with us that it will not issue additional equity securities. We have agreed to lend funds to Texas Genco for operating needs upon request from time to time following the distribution. Texas Genco may also obtain third-party financing if it so desires. CenterPoint Energy's separation agreement with Texas Genco, as amended, contains covenants restricting Texas Genco's ability to:

- merge or consolidate with another entity;

- sell assets;

- enter into long-term agreements and commitments for the purchase of fuel or the purchase or sale of power outside the ordinary course of business;

- engage in other businesses;

- construct or acquire new generation plants or capacity;

- engage in hedging transactions;

- encumber its assets;

- issue additional equity securities;

- pay special dividends; and

- make certain loans, investments or advances to, or engage in certain transactions with, its affiliates.

Exercise of the option will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and United States Nuclear Regulatory Commission (NRC) license transfer approval. In certain circumstances involving a change in control of us, the time at which the Texas Genco Option may be exercised and the period over which the exercise price is determined are accelerated, with corresponding changes to the time and manner of payment of the exercise price.

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 2002, was approximately 60% coal and lignite, 28% natural gas and 12% nuclear. As of December 31, 2002, the fuel mix of its generating portfolio based on the capacity of its facilities 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 2003 from prior levels. As a result of new air emissions standards imposed by federal and state law, Texas Genco anticipates having higher levels of plant maintenance in 2003 and subsequent years associated with the installation of environmental equipment. These factors could affect the mix of its future fuel usage.

As a result of the Texas electric restructuring law, most of Texas Genco's capacity and energy sales are now based on the generation capacity entitlement auctions described above. Successful bidders in these auctions are able to dispatch energy from their entitlements within specified operational constraints. Under the terms of the capacity auctions, successful bidders are required to make energy payments to cover a variety of charges related to the fuel and ancillary services scheduled through the auctioned entitlements.

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 2002, 60% of Texas Genco's natural gas requirements were purchased under these long-term contracts. Texas Genco purchased the remaining 40% of its natural gas requirements in 2002 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 2002, 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 was fixed under the first contract through the end of 2002, after which the price is tied to spot market prices. The price for coal under the second contract was approximately three times greater than the spot market prices for coal as of December 31, 2002. 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. The energy payments Texas Genco collects for capacity entitlements with underlying coal-fired capacity are based on a pre-established price based on the Texas Utility Commission's forecasted fuel costs, which incorporate Texas Genco's expected fuel costs under these long-term coal supply contracts. 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.

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. The energy payments Texas Genco collects for capacity entitlements with underlying lignite-fired capacity are based on a pre-established price based on the Texas Utility Commission's forecasted fuel costs, which incorporate Texas Genco's expected costs under its lignite supply contract.

During 2002, Texas Genco conducted a successful test burn of Wyoming coal at the Limestone facility. Texas Genco anticipates using a blend of lignite and Wyoming coal to fuel its Limestone facility beginning 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. The energy payments Texas Genco collects for capacity entitlements with underlying nuclear capacity are based on a pre-established price based on the Texas Utility Commission's forecasted costs, which incorporate Texas Genco's expected costs under these contracts.

Fuel Pipeline. Texas Genco owns an 87-mile fuel pipeline that can transport either fuel oil or gas. As part of its system, it owns over five 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. Texas Genco expects its mix of customers and the mix of participants will change significantly as the ERCOT market evolves from one dominated by vertically integrated electric utilities to one with utility-affiliated retail electric providers, new-entrant retail electric providers, greater participation by unregulated energy merchants, and more generation capacity from independent generation companies. Sales to Reliant Resources represented approximately 66% of Texas Genco's total revenues in 2002.

COMPETITION

The ERCOT market is highly competitive. Texas Genco has approximately 80 competitors, which 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, 2002, Texas Genco's facilities provided approximately 20% 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 -- Risk Factors Affecting the Results of Our Electric Generation Business" below.

In October 2002, Texas Genco announced its plan to remove temporarily from service, or mothball, approximately 3,400 MW of its gas-fired generating units through at least May 2003. Texas Genco decided to mothball these units because of unfavorable market conditions within the ERCOT market, including a surplus of generating capacity and a lack of bids for the output of these units in its previous capacity auctions. The ERCOT ISO has determined that the mothballed units are not required to remain in service for reliability reasons through May 2003. Based upon the results of Texas Genco's recent capacity auctions, we will return some or all of the mothballed facilities to service during the summer of 2003.

## NATURAL GAS DISTRIBUTION

Through CERC, we engage in intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas and some non-rate regulated retail gas marketing operations. CERC currently conducts intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers 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.

- Arkla. Arkla provides natural gas distribution services 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 2002, approximately 65% of Arkla's total throughput was attributable to retail sales of natural gas and approximately 35% was attributable to transportation services.

- Entex. Entex provides natural gas distribution services in over 500 communities in Louisiana, Mississippi and Texas. The largest metropolitan area served by Entex is Houston. In 2002, approximately 95% of Entex's total throughput was attributable to retail sales of natural gas and approximately 5% was attributable to transportation services.

- Minnegasco. Minnegasco provides natural gas distribution services in over 240 communities in Minnesota. The largest metropolitan area served by Minnegasco is Minneapolis. In 2002, approximately 93% of Minnegasco's total throughput was attributable to retail sales of natural gas and approximately 7% was attributable to transportation services. Additionally, Minnegasco provides heating, ventilating and air conditioning (HVAC) equipment and appliance repair services, HVAC and hearth equipment sales and home security monitoring which are unregulated services.

The demand for intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers is seasonal. In 2002, approximately 60% 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.

### COMMERCIAL AND INDUSTRIAL SALES

CERC's commercial and industrial sales group (C&I group) 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 the C&I group are not subject to rate regulation. Subsidiaries making up the C&I group typically enter into fixed-volume forward sales commitments with customers with contract lengths typically ranging from one day to three years. Such sales are generally made on a monthly index price basis, but are also made on daily index and fixed price bases. In the case of fixed price commitments for delivery in future periods, the C&I group is exposed to risks resulting from changes in market prices of natural gas during the term of the contract. The C&I group engages in hedging activities with unaffiliated third parties in order to mitigate this risk. In 2002, approximately 94% of the C&I group's total throughput was attributable to natural gas sales; the remainder was attributable to transportation services that the C&I group provides for affiliates and third parties. For more information on the C&I group'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.

SUPPLY AND TRANSPORTATION

Arkla. In 2002, Arkla purchased approximately 56% of its natural gas supply pursuant to third-party term contracts with terms ranging from three months to one year, 29% of its natural gas supply from Reliant Energy Services, Inc. (Reliant Energy Services), a subsidiary of Reliant Resources and our former affiliate, under a contract expiring in March 2003 and 15% on the spot market. Arkla's major third-party natural gas suppliers in 2002 included Oneok Gas Marketing Company, BP Energy Company, Aquila Energy Marketing and Cross Timbers Energy Services. Arkla transports substantially all of its natural gas supplies under contracts with our pipeline subsidiaries.

Entex. In 2002, 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 natural gas suppliers in 2002 included AEP Gas Marketing, Kinder Morgan Texas Pipeline, L.P., Gulf Energy Marketing, Island Fuel Trading and Entergy Koch Trading. Entex transports its natural gas supplies on both interstate and intrastate pipelines under long-term contracts with terms varying from one to five years.

Minnegasco. In 2002, Minnegasco purchased approximately 74% of its natural gas supply pursuant to term contracts, with terms varying from five months to ten years, with more than 20 different suppliers. Minnegasco purchased the remaining 26% on the daily or spot market. Most of the natural gas volumes under long-term contracts are committed under terms providing for delivery during the winter heating season, which extends from November through March. Minnegasco purchased approximately 60% of its natural gas requirements from three third-party suppliers in 2002: Tenaska Marketing Ventures, BP Canada Energy Marketing and Mirant Americas Energy Marketing. Purchases from Reliant Energy Services represented 10% of Minnegasco's total natural gas purchases in 2002. 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 through 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.

Although available natural gas supplies have exceeded demand for several years, currently supply and demand appear to be more balanced. CERC has sufficient supplies and pipeline capacity under contract to meet its firm customer requirements. However, from time to time, it is possible for limited service disruptions to occur 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.

ASSETS

As of December 31, 2002, CERC owned approximately 61,000 linear miles of gas distribution mains, 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 markets and sell and/or transport natural gas directly to commercial and industrial customers.

## PIPELINES AND GATHERING

Our Pipelines and Gathering business segment operates two interstate natural gas pipelines as well as gas gathering facilities and also provides pipeline services. Our 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. Our gathering and pipeline services operations are conducted by a wholly owned gas gathering subsidiary and a wholly owned pipeline services subsidiary. Through our gas gathering subsidiary, we provide natural gas gathering and related services, including related liquids extraction and other well operating services. Through our pipeline services subsidiary, we provide pipeline project management and facility operation services to affiliates and third parties.

In 2002, approximately 27% of our total operating revenues from pipelines and gathering was attributable to services provided to Arkla, and approximately 11% 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. An additional 8% of our operating revenues from pipelines and gathering was attributable to the transportation of gas marketed by Reliant Energy Services. 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. An agreement to extend the existing service relationship with Laclede for a five-year period was entered into in February 2002.

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 64.3 Bcf. We also own a 10% interest, with Gulf South Pipeline Company, LP, in the Bistineau storage facility with 73.8 Bcf of working gas capacity 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 more than 300 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 our Latin America operations, office buildings and other real estate used in our business operations, district cooling in the central business district in downtown Houston, energy management services and other corporate operations which support all of our business operations.

In February 2003, we sold our interest in Argener, a cogeneration facility in Argentina, for $23.1 million. The carrying value of this investment was approximately $11 million as of December 31, 2002.

## REGULATION

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

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

We are 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 resulting corporate structure.

As a registered public utility holding company, we and our subsidiaries 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 generally required to obtain approval from the SEC under the 1935 Act.

Prior to the Restructuring, we and Reliant Energy obtained an order from the SEC that authorized the Restructuring transactions, including the Reliant Resources Distribution, and granted us certain authority with respect to system financing, dividends and other matters. The financing authority granted by that order will expire on June 30, 2003, and we must obtain a further order from the SEC under the 1935 Act, related, among other things, to the financing activities of us and our subsidiaries subsequent to June 30, 2003.

In a July 2002 order, the SEC limited the aggregate amount of external borrowings of Texas Genco, CenterPoint Houston and CERC to $500 million, $3.55 billion and $2.7 billion, respectively. The ability of each of Texas Genco, CenterPoint Houston and CERC to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. In addition, the order restricts our ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for those dividends. Under these restrictions, we, Texas Genco, CenterPoint Houston and CERC are permitted to pay dividends in excess of the respective current or retained earnings in an amount up to $200 million, $100 million, $200 million and $100 million, respectively.

In 2002 CERC obtained authority from each state in which such authority was required to restructure CERC in a manner that would allow us to claim an exemption from registration under the 1935 Act. We have concluded that restructuring CERC would not be beneficial to us and have elected to remain a registered holding company under the 1935 Act. Based on that conclusion, we believe we will be required to form a service company to provide centralized services to our various operating subsidiaries, and we must obtain SEC approval for the formation of that company. Service companies typically are required for registered public utility holding companies, but the SEC granted us a temporary exemption from that requirement in its July 2002 order.

FEDERAL ENERGY REGULATORY COMMISSION

The transportation and sale or resale of natural gas in interstate commerce is subject to regulation by the Federal Energy Regulatory Commission (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.

In February 2000, the FERC issued Order No. 637, which introduced several measures to increase competition for interstate pipeline transportation services. Order No. 637 authorizes interstate pipelines to propose term-differentiated and peak/off-peak rates, and requires pipelines to make tariff filings to expand pipeline service options for customers. Both natural gas pipeline subsidiaries made two Order No. 637 compliance filings in 2000, and both obtained uncontested settlements filed with the FERC in 2001. In 2002, the FERC issued orders accepting both settlements, subject to certain modifications. The FERC has denied requests for rehearing and clarification of the orders and has accepted, with modification, the compliance tariff filed under one of the orders and ordered additional revised tariff sheets to be filed under the other order.

CenterPoint Houston is not a "public utility" under the Federal Power Act and therefore is not generally regulated by the FERC, except in limited circumstances. Texas Genco is not a "public utility" under the Federal Power Act and its sales are all within ERCOT; Texas Genco therefore is not regulated by the FERC.

STATE AND LOCAL REGULATION

Electric Operations -- 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 Texas in order to allow and encourage retail competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in August 2001, and retail electric competition for all other customers began in January 2002.

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 from the incorporated municipalities in its service territory. These franchises give CenterPoint Houston the right to operate 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. None of these franchises expires before 2007.

Historically, Reliant Energy paid the incorporated municipalities in its service territory a franchise fee based on a formula that was usually a percentage of gross receipts received from electricity sales for consumption within each municipality. CenterPoint Houston has become responsible for Reliant Energy's

obligations under these franchise arrangements although the method for calculating such fees was changed by the Texas electric restructuring law effective January 1, 2002. We expect the franchise fees payable to remain consistent with the historical fees paid by Reliant Energy.

For additional information regarding the Texas electric restructuring law, retail competition in Texas and its application to our operations and structure, please read "Our Business -- Overview -- The Texas Electric Restructuring Law" and "Our Business -- Electric Generation" above.

Transmission and Distribution Rates. 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 are generally based on amounts of energy delivered. 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. None of CERC's material franchises expires before 2005. We expect 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 are subject to traditional cost-of-service regulation at rates regulated by the relevant state public service commissions and, in Texas, by the Railroad Commission of Texas (Railroad Commission) and municipalities CERC serves.

Arkansas Rate Case. In November 2001, Arkla filed a rate request in Arkansas seeking rates to yield approximately $47 million in additional annual gross revenue. In August 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) which is expected to result in an increase in base rates of approximately $32 million annually. In addition, the APSC approved a gas main replacement surcharge which is expected to provide $2 million of additional gross revenue in 2003 and additional amounts in subsequent years. The new rates included in the final settlement were effective with all bills rendered on and after September 21, 2002.

Oklahoma Rate Case. In May 2002, Arkla filed a request in Oklahoma to increase its base rates by $13.7 million annually. In December 2002, a settlement was approved by the Oklahoma Corporation Commission which is expected to result in an increase in base rates of approximately $7.3 million annually. The new rates included in the final settlement were effective with all bills rendered on and after December 29, 2002.

City of Tyler, Texas, Gas Costs Review. By letter to Entex dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from $2.8 million to $39.2 million for gas purchased by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission. Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint Petition requests 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. 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 and that the city has no legal or factual support for the statements made in its letter.

NUCLEAR REGULATORY COMMISSION

Texas Genco is subject to regulation by the 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 a nuclear decommissioning trust. The beneficial ownership in the nuclear decommissioning trust is held by Texas Genco, as the 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. We are contractually obligated to indemnify Texas Genco from and against any obligations relating to the decommissioning not otherwise satisfied through collections by CenterPoint Houston.

DEPARTMENT OF TRANSPORTATION

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

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While we anticipate that increased capital and operating expenses will be required to comply with the legislation, we will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

## ENVIRONMENTAL MATTERS

GENERAL ENVIRONMENTAL ISSUES

We are subject to numerous federal, state and local requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements relate to a broad range of our activities, including the discharge of pollutants into air, water, and soil; the proper handling of solid, hazardous and toxic materials; and waste, noise, and safety and health standards applicable to the workplace. In order to comply with these requirements, we will spend substantial amounts from time to time to construct, modify and retrofit equipment, acquire air emission allowances for operation of our facilities, and to clean up or decommission disposal or fuel storage areas and other locations as necessary.

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, or 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.

We are not aware of any liabilities under CERCLA that would have a material adverse effect on us, our financial position, results of operations or cash flows.

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. As part of this process, standards for NOx emissions, a product of the combustion process associated with power generation and natural gas compression, are being developed or have been finalized. The Texas Commission on Environmental Quality standards require reduction of emissions from Texas Genco's power generating units and some of our natural gas compression facilities. As of December 31, 2002, Texas Genco had invested $551 million for NOx emission controls, and it is planning to make expenditures of at least $131 million in the years 2003 through 2005, with possible additional expenditures after 2005. NOx control estimates for 2006 and 2007 have not been finalized. The Texas Utility Commission has initially approved Texas Genco's NOx emission reduction plan in the amount of $699 million as the most cost-effective alternative in achieving compliance with applicable air quality standards for these generation facilities. Texas Genco is required to fund NOx reduction projects for pipelines in East Texas at a cost of $16.2 million, which is included in the amounts described above.

The Environmental Protection Agency (EPA) has announced its determination to regulate hazardous air pollutants, including mercury, from coal-fired and oil-fired steam electric generating units under Section 112 of the Clean Air Act. The EPA plans to develop Maximum Achievable Control Technology (MACT) standards for these types of units as well as for turbines, engines and industrial boilers. The rulemaking for coal and oil-fired steam electric generating units must be completed by December 2004. Compliance with the rules will be required within three years thereafter. The MACT standards that will be applicable to the Texas Genco units cannot be predicted at this time and may adversely impact Texas Genco's operations. The rulemaking for turbines is expected to be complete in August 2003, and for engines and industrial boilers in early February 2004. Based on the rules currently proposed, management does not anticipate a materially adverse impact in interstate pipeline operations or Texas Genco's operations.

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. Since this withdrawal, Congress has 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.

The EPA is conducting a nationwide investigation regarding the historical compliance of coal-fueled electric generating stations with various permitting requirements of the Clean Air Act. Specifically, the EPA and the United States Department of Justice have initiated formal enforcement actions and litigation against

several other utility companies that operate these stations, alleging that these companies modified their facilities without proper pre-construction permit authority. To date, Texas Genco has not received requests for information related to work activities conducted at its facilities. The EPA has not filed an enforcement action or initiated litigation in connection with Texas Genco facilities. Nevertheless, any litigation, if pursued successfully by the EPA, could accelerate the timing of emission reductions currently contemplated for the facilities and result in the imposition of penalties.

In February 2001, the United States Supreme Court upheld previously adopted EPA ambient air quality standards for fine particulate matter and ozone. While attaining these new standards may ultimately require expenditures for air quality control system upgrades for our facilities, regulations establishing required controls are not expected until after 2005. Consequently, it is not possible to determine the impact on our operations at this time.

In July 2002, the White House sent to Congress a bill proposing the Clear Skies Act of 2002. The Act is designed to achieve long-term reductions of multiple pollutants produced from fossil fuel-fired power plants. The Act targets reductions averaging 70% for sulfur dioxide, NOx and mercury emissions. If approved by the United States Congress, the Act 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 like Texas Genco would be affected by the adoption of this program, or other legislation currently pending in the United States Congress addressing similar issues. To comply with such programs, Texas Genco and other regulated entities could pursue a variety of strategies including the installation of pollution controls, the purchase of emission allowances or the curtailment of operations.

WATER ISSUES

In July 2000, the EPA issued final rules for the implementation of the total maximum daily load (TMDL) program. The goal of the TMDL program is to restore waters designated as impaired by identifying and restricting the loading of pollutants contributing to the impairment. While we are not aware of any of our facilities being directly affected by the current TMDL developments, there is the potential that the establishment of TMDLs may eventually result in more stringent discharge limits in our plant discharge permits. Such limits could require our facilities to install additional water treatment facilities or equipment, modify operational practices or implement other water quality improvement measures. In October 2001, the EPA signed a final rule delaying the effective date of the TMDL rule until April 30, 2003. In December 2002, the EPA published a proposed rulemaking that would withdraw the July 2000 rule.

In April 2002, the EPA proposed rules under Section 316(b) of the Clean Water Act relating to the design and operation of cooling water intake structures. This proposal is the second of three current phases of rulemaking dealing with Section 316(b) and generally would affect existing facilities that use significant quantities of cooling water. Under the amended court deadline, the EPA is to issue final rules for these Phase II facilities by February 2004. While the requirements of the final rule cannot be predicted at this time, significant capital expenditures by Texas Genco could be required. We anticipate that substantial comments and, if necessary, litigation will be filed by affected parties to attempt to achieve an acceptable final regulation.

The EPA and the State of Texas periodically update water quality standards in response to new toxicological data and the development of enhanced analytical techniques that allow lower detection levels. The lowering of water quality criteria for parameters such as arsenic, mercury and selenium could affect generating facility discharge limitations and require our facilities to install additional treatment equipment.

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. 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 position, results of operations or cash flows.

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 it neither owned or operated, and for which CERC believes it has no liability.

At December 31, 2002, CERC had accrued $19 million for remediation of the Minnesota sites. At December 31, 2002, the estimated range of possible remediation costs 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 an environmental expense tracker mechanism in its rates in Minnesota. CERC has collected $12 million at December 31, 2002 to be used for future environmental remediation.

CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Hydrocarbon Contamination. In August 2001, a number of Louisiana residents who live near the Wilcox Aquifer filed suit in the 1st Judicial District Court, Caddo Parish, Louisiana against CERC and others. The suit alleges that CERC and the other defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by the defendants and is the sole or primary drinking water aquifer in the area. The monetary damages sought are unspecified. In April 2002, a separate suit with identical allegations against the same parties was filed in the same court. Additionally, in January 2003, a third suit with similar allegations was filed against the same parties in the 26th Judicial District Court, Bossier Parish, Louisiana.

Mercury Contamination. Like similar companies, our pipeline and natural gas 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 around the meters with elemental mercury. We have found this type of contamination in the past, and we have conducted remediation at sites found to be contaminated. Although we are not aware of additional specific 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 cost of any remediation of these sites will not be material to our financial position, results of operations or cash flows.

## EMPLOYEES

As of December 31, 2002, we had 12,019 full-time employees. The following table sets forth the number of our employees by business segment:

| BUSINESS SEGMENT | NUMBER |
|---|---|
| Electric Transmission & Distribution | 3,286 |
| Electric Generation | 1,639 |
| Natural Gas Distribution | 4,797 |
| Pipelines and Gathering | 631 |
| Other Operations | 1,666 |
| Total | 12,019 |

The number of our employees who were represented by unions or other collective bargaining groups as of December 31, 2002 include (i) Electric Transmission & Distribution, 1,549; (ii) Electric Generation, 1,102; (iii) Natural Gas Distribution, 1,552; and (iv) Other Operations, 314. Collective bargaining agreements covering the Electric Transmission & Distribution, Electric Generation and some Natural Gas Distribution employees expire in 2003.

## EXECUTIVE OFFICERS
## (AS OF MARCH 1, 2003)

| NAME | AGE | TITLE |
|---|---|---|
| David M. McClanahan | 53 | Director, President and Chief Executive Officer |
| Scott E. Rozzell | 53 | Executive Vice President, General Counsel and Corporate Secretary |
| Stephen C. Schaeffer | 55 | Executive Vice President and Group President, Gas Distribution and Sales |
| Gary L. Whitlock | 53 | Executive Vice President and Chief Financial Officer |
| James S. Brian | 55 | Senior Vice President and Chief Accounting Officer |
| Thomas R. Standish | 53 | President and Chief Operating Officer, CenterPoint Houston |
| David G. Tees | 58 | 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 Office of Reliant Energy's Delivery Group from April 1999 until October 2000. 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 Reliant 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, American Gas Association and Interstate Natural Gas Association of America.

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 Reliant 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 Reliant 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 Reliant Energy since 1983.

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 Reliant Energy since 1993.

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 presently 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

### RISK FACTORS ASSOCIATED WITH FINANCIAL CONDITION AND OTHER RISKS

#### 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 a result of several events occurring in 2001 and 2002, including the September 11, 2001 terrorist attacks, the bankruptcy of Enron Corp., the downgrading of our credit ratings and the credit ratings of several energy companies, the general downturn in the utility industry and the unusual volatility in the U.S. financial markets, the availability and cost of capital for our business have been adversely affected. If we are unable to obtain external financing to meet our future capital requirements on terms that are acceptable to us, our financial condition and future results of operations could be materially adversely affected. As of December 31, 2002, we had $11.1 billion of outstanding indebtedness and trust preferred securities, including $1.0 billion of debt that must be refinanced in 2003, after giving effect to the amendment and extension of our $3.85 billion credit facility in February 2003. In addition, the capital constraints 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 or severely restrict or prohibit distributions from our subsidiaries. The success of our future financing efforts may depend, at least in part, on:

- 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.

As of December 31, 2002, our CenterPoint Houston subsidiary had $1.8 billion of general 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 $900 million of additional general mortgage bonds could be issued on the basis of property additions as of December 31, 2002, CenterPoint Houston has agreed contractually to limit incremental secured debt to $300 million. In addition, we are 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 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 MAKE PAYMENTS ON ANY OF OUR DEBT SECURITIES, 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 under any debt securities and our other obligations. In general, these subsidiaries are separate and distinct legal entities and will have no obligation to pay any amounts due on our debt securities or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. In the case of medium-term notes, which are in the aggregate principal amount of $150 million and mature in April 2003, if we were to become the subject of a voluntary or involuntary bankruptcy proceeding, the trustee for the medium-term notes could seek the payment of an amount equal to the principal amount of the medium-term notes from CenterPoint Houston under the first mortgage bonds that CenterPoint Houston issued as collateral for the medium-term notes. 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. For a discussion of restrictions under the 1935 Act, please read "Regulation -- Public Utility Holding Company Act of 1935" below.

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.

THE ISSUANCE OF WARRANTS PURSUANT TO THE TERMS OF OUR AMENDED BANK FACILITY COULD RESULT IN SUBSTANTIAL DILUTION TO OUR SHAREHOLDERS.

Subject to SEC approval under the 1935 Act, we have agreed to provide the bank syndicate for our $3.85 billion bank credit facility warrants to purchase up to 10% of our common stock. The exercise price of these warrants will be the greater of $6.56 per share or 110% of the closing price on the New York Stock Exchange on the date the warrants are issued. The exercise of these warrants could cause substantial dilution to our shareholders. The warrants would not be exercisable for a year after issuance but would remain outstanding for four years. We have the right to cause some or all of the warrants to be extinguished by making certain prepayments under the bank facility during 2003. To the extent that we reduce the bank facility by up to $400 million on or before May 28, 2003, up to half of the warrants will be extinguished on a basis proportionate to the reduction in the credit facility. To the extent such warrants are not extinguished on or before May 28, 2003, they will vest and become exercisable in accordance with their terms. Whether or not we are able to extinguish warrants on or before May 28, 2003, the remaining 50% of the warrants will be extinguished, again on a proportionate basis, if we reduce the bank facility by up to $400 million by the end of 2003. Because of current financial market conditions and uncertainties regarding such conditions over the balance of the year, there can be no assurance that we will be able to fund the $800 million prepayments in 2003 in order to extinguish the warrants or to do so on favorable terms. If SEC approval of our issuance of the warrants is not obtained by May 28, 2003, we will become obligated to provide the banks with equivalent cash compensation over the term that the warrants would have been exercisable to the extent they are not otherwise extinguished. For more information, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- "Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Long-Term Debt" in Item 7 of this report.

OUR AMENDED BANK FACILITY IMPOSES RESTRICTIONS ON OUR ABILITY TO PAY DIVIDENDS.

Under the terms of our bank facility as amended in February 2003, we agreed that our quarterly common stock dividend will not exceed $0.10 per share. If we have not reduced the bank facility by a total of at least $400 million by the end of 2003, of which at least $200 million has come from the issuance of capital stock or securities linked to capital stock (such as convertible debt), the maximum dividend payable during 2004 and for the balance of the term of the facility is subject to an additional test. Under that test the maximum permitted quarterly dividend will be the lesser of (i) $0.10 per share or (ii) 12.5% of our net income per share for the 12 months ended on the last day of the previous quarter. There can be no assurance that we will be able to fund the $400 million in 2003 in order avoid the further limitation on our common stock dividends. For more information, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- "Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Long-Term Debt" in Item 7 of this report.

IF WE ARE UNABLE TO OBTAIN AN EXTENSION OF OUR FINANCING ORDER UNDER THE 1935 ACT, WE WILL NOT BE ABLE TO ENGAGE IN FINANCING TRANSACTIONS AFTER JUNE 30, 2003.

In connection with our registration as a public utility holding company under the 1935 Act, the SEC issued a financing order which authorizes us to enter into a wide range of financing transactions. This financing order expires on June 30, 2003. If we are unable to obtain an extension of the financing order, we would generally be unable to engage in any financing transactions, including the refinancing of existing obligations after June 30, 2003.

WE COULD INCUR LIABILITIES ASSOCIATED WITH BUSINESSES AND ASSETS OF RELIANT RESOURCES.

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 CenterPoint Energy and its subsidiaries, including CenterPoint Houston and CERC, 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 business 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 and in circumstances in which we were not released from the liability in connection with the transfer, we could be responsible for satisfying the liability.

Reliant Resources has reported that it is facing large maturities of debt over the next several months, and its securities ratings are now below investment grade. If Reliant Resources is 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.

As described in Note 13(c) to our consolidated financial statements, 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 Reliant Energy's liability as a controlling shareholder of Reliant Resources. We could incur liability if claims in one or more of these lawsuits were successfully asserted against us and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed to us with respect to those claims.

OUR HISTORICAL FINANCIAL RESULTS ARE NOT NECESSARILY REPRESENTATIVE OF OUR EXPECTED FUTURE RESULTS.

We have limited experience operating in a deregulated electricity market in which our transmission and distribution business is subject to rate regulation while our generation business is not. The financial information we have included in this report does not necessarily reflect what our financial position, results of operations and cash flows would have been prior to 2002 had we conducted those businesses separately rather than as an integrated electric utility during the periods presented.

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 have insurance covering certain of our facilities, including property damage insurance and public liability insurance in amounts that we consider appropriate. Where we have such insurance policies in place, they 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 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. The costs of our insurance coverage have increased significantly in recent months and may continue to increase in the future.

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 $9.3 billion as of December 31, 2002. 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 its transmission and distribution properties without negative impact on our results of operations, financial condition and cash flows.

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

As of December 31, 2002, we had $5.6 billion of outstanding floating-rate debt. Because of capital constraints impacting our business at the time some of this floating-rate debt was entered into, the interest rates are substantially above our historical borrowing rates. 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. Any increase in short-term interest rates would result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SUBJECT TO RISKS THAT ARE BEYOND OUR CONTROL, INCLUDING BUT NOT LIMITED TO FUTURE TERRORIST ATTACKS OR RELATED ACTS OF WAR.

The cost of repairing damage to our operating subsidiaries' facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events, in excess of reserves established for such repairs, may adversely impact our results of operations, financial condition and cash flows. The occurrence or risk of occurrence of future terrorist activity may impact our results of operations, financial condition and cash flows in unpredictable ways. These actions could also result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, our electric transmission and distribution, electric generation, natural gas distribution and pipeline and gathering facilities could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues and margins and limit our future growth prospects. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

RISK FACTORS AFFECTING THE RESULTS OF OUR ELECTRIC TRANSMISSION & DISTRIBUTION BUSINESS

CENTERPOINT HOUSTON MAY NOT BE SUCCESSFUL IN RECOVERING THE FULL VALUE OF ITS STRANDED COSTS AND REGULATORY ASSETS RELATED TO GENERATION.

CenterPoint Houston is entitled to recover its stranded costs (the excess of regulatory net book value of generation assets, as defined by the Texas electric restructuring law, over the market value of those assets) and its regulatory assets related to generation. CenterPoint Houston expects to make a filing in January 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 amount of stranded costs;
- differences in the prices achieved in the state mandated auctions of Texas Genco's generation capacity and Texas Utility Commission estimates;
- fuel over- or under-recovery;
- the "price to beat" clawback; and
- other regulatory assets associated with our generation business that were not previously recovered through the issuance of securitization bonds by a subsidiary.

CenterPoint Houston will be required to establish and support the amounts of these costs in order to recover them. CenterPoint Houston expects these costs to be substantial. We cannot assure you that

CenterPoint Houston will be able to successfully establish and support its estimates of the value of these costs. For more information about the true-up proceeding, please read "Our Business -- Electric Transmission & Distribution -- Stranded Costs and Regulatory Assets Recovery" above and Note 4(a) to our consolidated financial statements.

In addition, CenterPoint Houston's $1.3 billion collateralized term loan matures on November 11, 2005 and is expected to be repaid or refinanced with the proceeds from the recovery of these costs. To the extent CenterPoint Houston has not received the proceeds by November 11, 2005, CenterPoint Houston's ability to repay or refinance its $1.3 billion term loan will be adversely affected.

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 31 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 timely to it. Any delay or default in payment could adversely affect CenterPoint Houston's cash flows, financial condition and results of operations. CenterPoint Houston's receivables balance from retail electric providers at December 31, 2002 was $85 million. Approximately 72% of CenterPoint Houston's receivables from retail electric providers at December 31, 2002 was owed by subsidiaries of Reliant Resources. Our financial condition may be adversely affected if Reliant Resources is unable to meet its obligations to CenterPoint Houston.

Reliant Resources, through its subsidiaries, is CenterPoint Houston's largest customer. Pursuant to the Texas electric restructuring law, Reliant Resources may be obligated to make a large "price to beat" clawback payment to CenterPoint Houston in 2004. CenterPoint Houston expects the clawback, if any, to be applied against any stranded cost recovery to which CenterPoint Houston is entitled or, if no stranded costs are recoverable, to be refunded to retail electric providers. Also, as discussed in "Risk Factors Associated with Financial Condition and Other Risks," Reliant Resources is obligated to indemnify CenterPoint Houston for other potential liabilities. Reliant Resources has reported that it is facing large maturities of its debt over the next year and thus its ability to satisfy its obligations to CenterPoint Houston cannot be assured.

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 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.

CENTERPOINT HOUSTON IS OPERATING IN A RELATIVELY NEW MARKET ENVIRONMENT IN WHICH IT AND OTHERS HAVE LITTLE OPERATING EXPERIENCE.

The competitive electric market in Texas became fully operational in January 2002. Neither CenterPoint Houston nor any of the Texas Utility Commission, ERCOT or other market participants has any significant operating history under the market framework created by the Texas electric restructuring law. Some operational difficulties were encountered in the pilot program conducted in 2001 and continue to be experienced now. These difficulties include delays in the switching of some customers from one retail electric provider to another. These difficulties create uncertainty as to the amount of transmission and distribution

charges owed by each retail electric provider, which may cause payment of those amounts to be delayed. While to date these difficulties have not been material, these operating difficulties could become material or structural changes adopted to address these difficulties could materially adversely affect its results of operations, financial condition and cash flows.

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 their customers. 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 transmission and distribution 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 each 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.

TECHNOLOGICAL CHANGE MAY MAKE ALTERNATIVE ENERGY SOURCES MORE ATTRACTIVE AND MAY ADVERSELY AFFECT CENTERPOINT HOUSTON'S REVENUES AND RESULTS OF OPERATIONS.

The continuous process of technological development may result in the introduction to retail customers of economically attractive alternatives to purchasing electricity through CenterPoint Houston's distribution facilities. Manufacturers of self-generation facilities continue to develop smaller-scale, more-fuel-efficient generating units that can be cost-effective options for some retail customers with smaller electric energy requirements. Any reduction in the amount of electric energy CenterPoint Houston distributes as a result of these technologies may have an adverse impact on its results of operations, financial condition and cash flows in the future.

RISK FACTORS AFFECTING THE RESULTS OF 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 the State of 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 Limestone and W. A. Parish facilities and its interest in the South Texas Project. 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 exceeded peak demand (reserve margin) in the ERCOT market has exceeded 20% since 2001, and the Texas Utility Commission and the ERCOT ISO have forecasted the reserve margin for 2003 to continue to exceed 20%. A market consulting firm specializing in the power industry has published a report that predicts there will be a surplus of generating capacity in the ERCOT market for the next several years. The commencement of commercial operation of new facilities in the ERCOT region will 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 is obligated to sell substantially all of its capacity and related ancillary services through 2003 pursuant to the capacity auctions more fully described under "Our Business -- Electric Generation" above. In these auctions, Texas Genco sells 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, Texas Genco could be required to obtain replacement power from third parties in the open market to satisfy its firm commitments that could result in significant additional costs. In addition, an unexpected outage at one of Texas Genco's

lower cost facilities could require it to run one of its higher cost plants in order to satisfy its obligations even though the energy payments for the dispatched power are based on the cost at the lower-cost facility.

Texas Genco sells capacity entitlements in state mandated auctions and in its other contractually mandated auctions. The mechanics, regulations and agreements governing Texas Genco's capacity auctions are complex, and the auction process in which Texas Genco sells entitlements to its capacity is relatively new. The state mandated auctions require, among other things, Texas Genco's capacity entitlements to be sold in pre-determined amounts. The characteristics of the capacity entitlements Texas Genco sells in state mandated auctions are defined by rules adopted by the Texas Utility Commission and, therefore, cannot be changed to respond to market demands or operational requirements without approval by the Texas Utility Commission.

IF THE ERCOT MARKET DOES NOT FUNCTION IN THE MANNER CONTEMPLATED BY THE TEXAS ELECTRIC RESTRUCTURING LAW, TEXAS GENCO'S BUSINESS PROSPECTS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY IMPACTED.

The initiatives under the Texas electric restructuring law have had a significant impact on the nature of the electric power industry in Texas and the manner in which participants in the ERCOT market conduct their business. These changes are ongoing, and we cannot predict the future development of the ERCOT market or the ultimate effect that this changing regulatory environment will have on Texas Genco's business. Some restructured markets in other states have recently experienced supply problems and extreme price volatility. If the ERCOT market does not function as planned once the deregulation initiatives called for by the Texas electric restructuring law have taken their full effect, Texas Genco's results of operations, financial condition and cash flows could be adversely affected. In addition, any market failures could lead to revisions or reinterpretations of the Texas electric restructuring law, the adoption of new laws and regulations applicable to Texas Genco or its facilities and other future changes in laws and regulations that may have a detrimental effect on Texas Genco's business.

As part of the transition to retail competition in Texas, the ERCOT market has changed from operating with multiple control areas, each managed by one of the utilities in the state, to a single control area managed by the ERCOT ISO. The ERCOT ISO is responsible for maintaining reliable operations of the bulk electric power supply system in the new combined control area. If the ERCOT ISO is unable to successfully manage these functions, the ERCOT market may not operate properly and Texas Genco's results of operations could be adversely affected. In addition, the ERCOT ISO may impose or the Texas Utility Commission may require price limitations, bidding rules and other mechanisms that could impact wholesale prices in the ERCOT market and the outcomes of Texas Genco's capacity auctions.

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 reduced earnings.

Texas Genco employs experienced personnel to maintain and operate its facilities and carries insurance to mitigate the effects of some of the operating risks described above. Texas Genco's insurance policies, however, are subject to certain limits and deductibles and do not include business interruption coverage. Should one or more of the events described above occur, revenues from Texas Genco's operations may be significantly reduced or its costs of operations may significantly increase.

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 our wholly owned subsidiary, CenterPoint Houston, and on transmission and distribution systems owned 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 is currently organized into four congestion zones, referred to as the North, South, West and Houston zones. These congestion zones are determined by physical constraints on the ERCOT transmission system that make it difficult or impossible at times to move power from a zone on one side of the constraint to the zone on the other side of the constraint. All but two of Texas Genco's facilities are located in the Houston congestion zone. Texas Genco's Limestone facility is located in the North congestion zone and the South Texas Project is located in the South congestion zone. Texas Genco sells a portion of the entitlements offered in its state mandated auctions to customers located in congestion zones other than the Houston zone. Transmission congestion between these zones could impair Texas Genco's ability to schedule power for transmission across zonal boundaries, which are defined by the ERCOT ISO, thereby inhibiting its efforts to match its facility scheduled outputs with its customer scheduled requirements.

The ERCOT ISO has instituted rules that directly assign congestion costs to the parties causing the congestion. Therefore, power generators participating in the ERCOT market could be liable for the congestion costs associated with transferring power between zones. Texas Genco schedules its anticipated requirements based on its own forecasted needs, which rely in part on demand forecasts made by its customers. These forecasts may prove to be inaccurate. Texas Genco could be deemed responsible for congestion costs if it schedules delivery of power between congestion zones during times when the ERCOT ISO expects congestion to occur between the zones. If Texas Genco is liable for congestion costs, its financial results could be adversely affected. For more information about the ERCOT market, please read "Our Business -- Overview -- ERCOT Market Framework" above.

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. Under Texas Genco's capacity auctions, it sells firm entitlements to capacity and ancillary services.

Therefore, any disruption in the delivery of fuel could prevent Texas Genco from operating its facilities to meet its auction commitments, which could adversely affect its results of operations, financial condition and cash flows.

Delivery of natural gas to each of Texas Genco's natural gas-fired facilities typically depends on the natural gas pipelines or distributors for that location. As a result, Texas Genco is subject to the risk that a natural gas pipeline or distributor may suffer disruptions or curtailments in its ability to deliver natural gas to it or that the amounts of natural gas Texas Genco requests are curtailed. These disruptions or curtailments could adversely affect Texas Genco's ability to operate its natural gas-fired generating facilities. Texas Genco leases gas storage facilities capable of storing approximately 6.3 billion cubic feet of natural gas, of which 4.2 billion cubic feet is working capacity.

Texas Genco purchases coal from a limited number of suppliers. Generally, Texas Genco seeks to maintain average coal reserves sufficient to operate its coal-fired facilities for 30 days. Texas Genco also has long-term rail transportation contracts with two rail transportation companies to transport coal to its coal-fired facilities. Any extended disruption in Texas Genco's coal supply, including those caused by transportation disruptions, adverse weather conditions, labor relations or environmental regulations affecting Texas Genco's coal suppliers, could adversely affect its ability to operate its coal-fired facilities. Texas Genco is also exposed to the risk that suppliers that have agreed to provide it with fuel could breach their obligations. Should these suppliers fail to perform, Texas Genco may be forced to enter into alternative arrangements at then-current market prices. As a result, Texas Genco's results of operations, financial condition and cash flows could be adversely affected.

TO DATE, TEXAS GENCO HAS SOLD A SUBSTANTIAL PORTION OF ITS AUCTIONED CAPACITY ENTITLEMENTS TO A SINGLE CUSTOMER, RELIANT RESOURCES. ACCORDINGLY, TEXAS GENCO'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY AFFECTED IF RELIANT RESOURCES DECLINED TO PARTICIPATE IN TEXAS GENCO'S FUTURE AUCTIONS OR FAILED TO MAKE PAYMENTS WHEN DUE UNDER RELIANT RESOURCES' PURCHASED ENTITLEMENTS.

By participating in Texas Genco's contractually mandated auctions, subsidiaries of Reliant Resources purchased entitlements to 63% of the aggregate 2002 capacity and 58% of the aggregate 2003 capacity that Texas Genco has sold to date through its capacity auctions. Reliant Resources made these purchases either through the exercise of its contractual rights to purchase 50% of the entitlements Texas Genco auctions in its contractually mandated auctions or through the submission of bids. In the event Reliant Resources declined to participate in Texas Genco's future auctions or failed to make payments when due, Texas Genco's results of operations, financial condition and cash flows could be adversely affected. In this regard, Reliant Resources has reported that it is facing large maturities of debt over the next year, and its securities ratings are now below investment grade.

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:

- 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. 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 did occur, it could have a material adverse effect on Texas Genco's results of operations, financial condition and cash flows.

CONTRACTUAL RESTRICTIONS ON THE OPERATION OF TEXAS GENCO'S BUSINESS MAY LIMIT ITS ABILITY TO TAKE ACTIONS AVAILABLE TO OTHER COMPANIES THAT ARE NOT SUBJECT TO SIMILAR RESTRICTIONS.

Effective December 31, 2000, Reliant Resources and Reliant Energy entered into a master separation agreement, that now governs the rights and obligations of us and Reliant Resources in connection with the business separation plan of Reliant Energy adopted in response to the Texas electric restructuring law. Reliant Resources also has an option to purchase the shares of Texas Genco stock owned by us that is exercisable in January 2004. Texas Genco has agreed to comply with certain restrictions governing its operations as contemplated by the master separation agreement and option agreement. These restrictions limit Texas Genco's ability to:

- merge or consolidate with another entity;

- sell assets;

- enter into long-term agreements and commitments for the purchase of fuel or the purchase or sale of power outside the ordinary course of business;

- engage in other businesses;

- construct or acquire new generation plants or capacity;

- engage in hedging transactions;

- encumber Texas Genco's assets;

- issue additional equity securities;

- pay special dividends; and

- make certain loans, investments or advances to, or engage in certain transactions with, Texas Genco's affiliates.

TEXAS GENCO MAY NOT HAVE ACCESS TO SUFFICIENT CAPITAL IN THE AMOUNTS AND AT THE TIMES NEEDED TO FINANCE ITS BUSINESS.

To date, Texas Genco's capital has been provided by internally generated cash flows and borrowings and capital contributions from CenterPoint Energy. We can give no assurances that Texas Genco's current and future capital structure, operating performance, financial condition and cash flows will permit it to access the capital markets or to obtain other financing as needed to meet its working capital requirements and projected future capital expenditures on favorable terms. Texas Genco's projected future capital expenditures are substantial. Texas Genco's ability to secure third party credit lines or other debt financing may be adversely impacted by the factors described in this section, including the nature of its business, which may lead to volatility in its financial results and cash flows. CenterPoint Energy has agreed to lend funds to Texas Genco from time to time upon Texas Genco's request until the earlier of the closing date on which Reliant Resources acquires Texas Genco common stock from CenterPoint Energy pursuant to the Reliant Resources option or the expiration of the Reliant Resources option. In the event CenterPoint Energy were to experience liquidity problems or otherwise failed to perform, Texas Genco may be unable to obtain third party financing.

In addition, Texas Genco's ability to raise capital is restricted under its agreements with CenterPoint Energy. These restrictions limit Texas Genco's ability to:

- issue additional equity securities;

- encumber its assets; or

- incur indebtedness, except to satisfy requirements for operating and maintenance expenditures and other capital expenditures contemplated under its agreements with CenterPoint Energy, to meet its working capital needs, or to refinance indebtedness incurred for the foregoing purposes.

In connection with CenterPoint Energy's registration as a public utility holding company under the 1935 Act, the SEC has limited the aggregate amount of Texas Genco's external borrowings to $500 million. In addition, the order issued to CenterPoint Energy under the 1935 Act restricts Texas Genco's ability to pay dividends out of capital accounts. Under these restrictions, Texas Genco is permitted to pay dividends out of its current or retained earnings, and it may also pay dividends in an amount of up to $100 million in excess of its current or retained earnings.

TEXAS GENCO'S OPERATIONS ARE SUBJECT TO EXTENSIVE REGULATION. IF TEXAS GENCO FAILS TO COMPLY WITH APPLICABLE REGULATIONS OR 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.

If Texas Genco fails to comply with regulatory requirements that apply to its operations, regulatory agencies could seek to impose civil, administrative and/or criminal liabilities or 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.

TEXAS GENCO'S COSTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS ARE SIGNIFICANT AND THE COST OF COMPLIANCE WITH NEW ENVIRONMENTAL LAWS AND ITS EXPOSURE TO POTENTIAL LIABILITIES ASSOCIATED WITH THE ENVIRONMENTAL CONDITION OF ITS FACILITIES COULD ADVERSELY AFFECT ITS PROFITABILITY.

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, it could be subject to civil or criminal liability and fines. 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 occurs, 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.

CHANGES IN TECHNOLOGY MAY MAKE TEXAS GENCO'S POWER GENERATION FACILITIES LESS COMPETITIVE, WHICH COULD ADVERSELY IMPACT THEIR VALUE AND THE RESULTS OF TEXAS GENCO'S OPERATIONS.

A significant portion of Texas Genco's generation facilities were constructed many years ago and rely on older technologies. Some of Texas Genco's competitors may have newer generation facilities and technologies that allow them to produce and sell power more efficiently, which could adversely affect Texas Genco's results of operations, financial condition and cash flows. In addition, research and development activities are ongoing to improve alternate technologies to produce electricity, including fuel cells, microturbines, windmills and photovoltaic (solar) cells. It is possible that advances in these or other technologies will reduce the current costs of electricity production to a level that is below that of Texas Genco's generation facilities. If this occurs, Texas Genco's generation facilities will be less competitive and the value of its power plants could be significantly impaired. Also, electricity demand could be reduced by increased conservation efforts and advances in technology that could likewise significantly reduce the value of Texas Genco's power generation facilities.

RISK FACTORS AFFECTING THE RESULTS OF OUR NATURAL GAS DISTRIBUTION AND PIPELINES AND GATHERING BUSINESSES

OUR NATURAL GAS DISTRIBUTION BUSINESS MUST COMPETE WITH ALTERNATIVE ENERGY SOURCES.

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 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.

OUR NATURAL GAS DISTRIBUTION BUSINESS IS SUBJECT TO FLUCTUATIONS IN NATURAL GAS PRICING LEVELS.

CERC is subject to risk associated with upward price movements of natural gas. High 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 consumers in CERC's service territory.

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.

OUR PIPELINES AND GATHERING BUSINESSES MUST COMPETE DIRECTLY WITH OTHERS IN THE TRANSPORTATION AND STORAGE OF NATURAL GAS AND INDIRECTLY WITH ALTERNATIVE FORMS OF ENERGY.

Our two interstate pipelines and our 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.

IF WE FAIL TO EXTEND CONTRACTS WITH TWO OF OUR SIGNIFICANT INTERSTATE PIPELINES' CUSTOMERS, IT COULD HAVE AN ADVERSE IMPACT ON CERC'S OPERATIONS.

Contracts with two of our interstate pipelines' significant customers, Arkla and Laclede, 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, it could have an adverse effect on CERC's results of operations, financial condition and cash flows.

OUR INTERSTATE PIPELINES ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

Our 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 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.

## 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, see "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 4 and 13 to our consolidated financial statements.

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 2002.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

As of February 25, 2003, our common stock was held of record by approximately 67,308 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 sales 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 $1.50 per share in 2001 and $1.07 per share in 2002.

| | MARKET PRICE | | DIVIDEND |
|---|---|---|---|
| | HIGH | LOW | DECLARED PER SHARE |
| 2001 | | | |
| First Quarter | $0.375 | January 11 | |
| | $32.44 | March 30 | |
| | $45.25 | Second Quarter | |
| | $0.375 | May 1 | |
| | $50.02 | June 26 | |
| | $30.50 | Third Quarter | |
| | $0.375 | July 10 | |
| | $32.70 | September 27 | |
| | $26.07 | Fourth Quarter | |
| | (1) | October 16 | |
| | $28.88 | December 17 | |
| | $23.64 | | |

| | MARKET PRICE | | DIVIDEND |
|---|---|---|---|
| | 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 (2) | July 8 | |
| | $17.00 | July 24 | |
| | $ 5.40 | Fourth Quarter | |
| | $0.16 | October 3 | |
| | $ 9.00(3) | October 22 | |
| | $ 5.65(3) | | |

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(1) The quarterly dividend of $0.375 per share normally declared in the fourth quarter for payment in the following first quarter was declared on February 8, 2002 and paid in March 2002.

(2) The reduction in the quarterly dividend to $0.16 reflects the Restructuring of CenterPoint Energy and the Reliant Resources Distribution.

(3) 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.

The closing market price of our common stock on December 31, 2002 was $8.01 per share. On February 28, 2003, our board of directors declared a quarterly dividend of $0.10 per share of our outstanding common stock, payable on March 31, 2003 to shareholders of record as of the close of business March 12, 2003. This quarterly dividend is the maximum allowed under our amended $3.85 billion bank facility.

Under the terms of our amended $3.85 billion bank facility, we agreed that our quarterly common stock dividend will not exceed $0.10 per share. If we have not reduced the bank facility by a total of at least $400 million by the end of 2003, of which at least $200 million has come from the issuance of capital stock or securities linked to capital stock (such as convertible debt), the maximum dividend payable during 2004 and for the balance of the term of the facility is subject to an additional test. Under that test the maximum permitted quarterly dividend will be the lesser of (i) $0.10 per share or (ii) 12.5% of our net income per share for the 12 months ended on the last day of the previous quarter.

In addition to the limitations imposed by our bank facility, 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.

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.

The selected financial data presented below reflect certain reclassifications necessary to present Reliant Resources as discontinued operations as a result of the distribution of 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) and the retroactive effects of the adoption of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144), as it relates to the Company's Latin America operations. The selected financial data also gives effect to the Restructuring. For additional information regarding the Reliant Resources Distribution and our investments in Latin America, please read Note 2 to our consolidated financial statements.

| YEAR ENDED DECEMBER 31, | 1998(1) | 1999(2) | 2000(3) | 2001(4) | 2002(5) |
|---|---|---|---|---|---|
| | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | | | |
| Revenues | $ 7,591 | $ 7,601 | $10,374 | $10,656 | $ 7,922 |
| Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting change | (164) | 1,642 | 222 | 446 | 386 |
| Income from discontinued operations, net of tax | 23 | 23 | 225 | 475 | 82 |
| Loss on disposal of discontinued operations | -- | -- | -- | -- | (4,371) |
| Extraordinary items, net of tax | -- | (183) | -- | -- | (17) |
| Cumulative effect of accounting change, net of tax | -- | -- | -- | 59 | -- |
| Net income (loss) attributable to common shareholders | $ (141) | $ 1,482 | $ 447 | $ 980 | $(3,920) |
| Basic earnings (loss) per common share: | | | | | |
| Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting change | $ (0.58) | $ 5.76 | $ 0.78 | $ 1.54 | $ 1.30 |
| Income from discontinued operations, net of tax | 0.08 | 0.08 | 0.79 | 1.64 | 0.27 |
| Loss on disposal of discontinued operations | -- | -- | -- | -- | (14.67) |
| Extraordinary items, net of tax | -- | (0.64) | -- | -- | (0.06) |
| Cumulative effect of accounting change, net of tax | -- | -- | -- | 0.20 | -- |
| Basic earnings (loss) per common share | $ (0.50) | $ 5.20 | $ 1.57 | $ 3.38 | $(13.16) |
| Diluted earnings (loss) per common share: | | | | | |
| Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting change | $ (0.58) | $ 5.74 | $ 0.77 | $ 1.53 | $ 1.29 |
| Income from discontinued operations, net of tax | 0.08 | 0.08 | 0.79 | 1.62 | 0.27 |
| Loss on disposal of discontinued operations | -- | -- | -- | -- | (14.58) |
| Extraordinary items, net of tax | -- | (0.64) | -- | -- | (0.06) |
| Cumulative effect of accounting change, net of tax | -- | -- | -- | 0.20 | -- |
| Diluted earnings (loss) per common share | $ (0.50) | $ 5.18 | $ 1.56 | $ 3.35 | $(13.08) |
| Cash dividends paid per common share | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.50 | $ 1.07 |
| Dividend payout ratio from continuing operations | -- | 26% | 192% | 97% | 82% |
| Return from continuing operations on average common equity | (3.6)% | 30.4% | 4.1% | 8.3% | 9.1% |
| Ratio of earnings from continuing operations to fixed charges | -- | 5.41 | 1.75 | 2.05 | 1.76 |

| YEAR ENDED DECEMBER 31, | 1998(1) | 1999(2) | 2000(3) | 2001(4) | 2002(5) |
|---|---|---|---|---|---|
| (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | | | | |
| At year-end: | | | | | |
| Book value per common share | $ 15.16 | $ 18.70 | $ 19.10 | $ 22.77 | $ 4.74 |
| Market price per common share | $ 32.06 | $ 22.88 | $ 43.31 | $ 26.52 | $ 8.01 |
| Market price as a percent of book value | 211% | 122% | 227% | 116% | 169% |
| Total assets, excluding assets of discontinued operations | $18,301 | $22,772 | $21,127 | $18,967 | $19,634 |
| Total assets | $19,959 | $28,658 | $35,225 | $31,266 | $19,634 |
| Short-term borrowings | $ 1,813 | $ 3,015 | $ 4,886 | $ 3,529 | $ 347 |
| Long-term debt obligations, including current maturities | $ 7,198 | $ 8,883 | $ 5,759 | $ 5,557 | $10,005 |
| Trust preferred securities | $ 342 | $ 705 | $ 705 | $ 706 | $ 706 |
| Cumulative preferred stock | $ 10 | $ 10 | $ 10 | $ -- | $ -- |
| Capitalization: | | | | | |
| Common stock equity | 36% | 36% | 46% | 52% | 12% |
| Trust preferred securities | 3% | 5% | 6% | 5% | 6% |
| Long-term debt, including current maturities | 61% | 59% | 48% | 43% | 82% |
| Capital expenditures, excluding discontinued operations | $ 714 | $ 879 | $ 922 | $ 1,227 | $ 854 |

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(1) 1998 net income includes a non-cash, unrealized loss on our indexed debt securities of $764 million (after-tax), or $2.69 loss per basic and diluted share. For additional information on the indexed debt securities, please read Note 7 to our consolidated financial statements. Fixed charges exceeded earnings by $225 million in 1998.

(2) 1999 net income includes an aggregate non-cash, unrealized gain on our indexed debt securities and our Time Warner, Inc. (now AOL Time Warner Inc.) 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 AOL 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. For additional information regarding the impairment, please read Note 4 to our consolidated financial statements.

(3) 2000 net income includes an aggregate non-cash loss on our indexed debt securities and our AOL Time Warner investment of $67 million (after-tax), or $0.24 loss per basic share and $0.23 loss per diluted share. 2000 net income also includes a $226 million (after-tax) charge (net of a tax benefit of $122 million), or $0.78 loss per basic share and $0.77 loss per diluted share, to reflect the loss on disposal of our Latin America investments. For additional information on the indexed debt securities and AOL Time Warner investment, please read Note 7 to our consolidated financial statements. For additional information regarding our investments in Latin America, please read Note 2 to our consolidated financial statements.

(4) 2001 net income includes the following: (i) 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) and (ii) an impairment of our Latin America operations ($51 million after-tax, or $0.17 loss 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. For additional information regarding our investments in Latin America, please read Note 2 to our consolidated financial statements.

(5) The extraordinary item in 2002 is a loss related to the early extinguishment of debt ($17 million after-tax, or $0.06 loss per basic and diluted share). For additional information related to the extraordinary item, please read Note 9 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

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 wholly owned operating subsidiaries own and operate electric generation plants, electric transmission and distribution facilities, natural gas distribution facilities and natural gas pipelines. We are subject to regulation as a "registered holding company" under the Public Utility Holding Company Act of 1935 (1935 Act). At December 31, 2002, our wholly owned subsidiaries included:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in our electric transmission and distribution business in the Texas Gulf Coast area;

- Texas Genco Holdings, Inc. (Texas Genco), which owns and operates our Texas generating plants; 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 distributed our 83%-ownership interest in Reliant Resources, Inc. (Reliant Resources) to our shareholders on September 30, 2002 (the Reliant Resources Distribution).

We distributed approximately 19% of the outstanding common stock of Texas Genco to our shareholders on January 6, 2003.

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. Our reportable business segments include the following:

- Electric Transmission & Distribution;

- Electric Generation;

- Natural Gas Distribution;

- Pipelines and Gathering; and

- Other Operations.

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. Our transmission and distribution services remain subject to rate regulation.

Beginning January 1, 2002, the basis of business segment reporting has changed for our Texas electric operations. 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. The Texas generation operations of Reliant Energy HL&P are now 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 now reported separately in the Electric Transmission & Distribution business segment. In 2001, Latin America was a separate business segment, but is now reported in the Other Operations business segment. Reportable business segments from 2001 have been restated to conform to the 2002 presentation.

For business segment reporting information, please read Notes 1 and 17 to our consolidated financial statements.

The consolidated financial statements have been prepared to reflect the effects of the Reliant Resources Distribution on the CenterPoint Energy financial statements. The consolidated financial statements present the Reliant Resources businesses (previously reported as the Wholesale Energy, European Energy and Retail Energy business segments 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). 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, 2002.

As a result of the Reliant Resources Distribution, CenterPoint Energy recorded a non-cash loss on disposal of discontinued operations of $4.3 billion in the third quarter of 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.

As of December 31, 2001 the Latin America business operations were no longer reported as discontinued operations and were presented as a single line item in continuing operations within the Statement of Consolidated Operations and as a single line item on the Consolidated Balance Sheet in accordance with Emerging Issues Task Force Issue No. 90-6, "Accounting for Certain Events, Not Addressed in Issue No. 87-11 Relating to an Acquired Operating Unit to Be Sold." Effective January 1, 2002, we adopted SFAS No. 144, which does not permit this single line presentation for assets held and used, such as our Latin America investments. Certain reclassifications have been made to our consolidated financial statements to show the retroactive effects of adoption of SFAS No. 144.

In February 2003, the Company sold its interest in Argener, a cogeneration facility in Argentina, for $23.1 million. The carrying value of this investment was approximately $11 million as of December 31, 2002.

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

CONSOLIDATED RESULTS OF OPERATIONS

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| Revenues | $10,374 | $10,656 | $ 7,922 |
| Operating Expenses | (8,987) | (9,412) | (6,593) |
| Operating Income | 1,387 | 1,244 | 1,329 |
| Loss from Equity Investments in Unconsolidated Subsidiaries | (29) | -- | -- |
| Loss on AOL Time Warner Investment | (205) | (70) | (500) |
| Gain on Indexed Debt Securities | 102 | 58 | 480 |
| Impairment of Latin America equity investments | (131) | (4) | -- |
| Loss on Disposal of Latin America equity investments | (176) | -- | -- |
| Interest Expense and Distribution on Trust Preferred Securities | (564) | (607) | (738) |
| Other Income, net | 72 | 54 | 23 |
| Income From Continuing Operations Before Income Taxes, Extraordinary Item, Cumulative Effect of Accounting Change and Preferred Dividends | 456 | 675 | 594 |
| Income Tax Expense | (234) | (228) | (208) |
| Income From Continuing Operations Before Extraordinary Item, Cumulative Effect of Accounting Change and Preferred Dividends | 222 | 447 | 386 |
| Income From Discontinued Operations, net of tax | 225 | 475 | 82 |
| Loss on Disposal of Discontinued Operations | -- | -- | (4,371) |
| Extraordinary Item, net of tax | -- | -- | (17) |
| Cumulative Effect of Accounting Change, net of tax | -- | 59 | -- |
| Preferred Dividends | -- | (1) | -- |
| Net Income (Loss) Attributable to Common Shareholders | $ 447 | $ 980 | $(3,920) |
| Basic Earnings Per Share: Income From Continuing Operations Before Extraordinary Item and Cumulative Effect of Accounting Change | $ 0.78 | $ 1.54 | $ 1.30 |
| Income From Discontinued Operations, net of tax | 0.79 | 1.64 | 0.27 |
| Loss on Disposal of Discontinued Operations | -- | -- | (14.67) |
| Extraordinary Item, net of tax | -- | -- | (0.06) |
| Cumulative Effect of Accounting Change, net of tax | -- | 0.20 | -- |
| Net Income (Loss) Attributable to Common Shareholders | $ 1.57 | $ 3.38 | $(13.16) |
| Diluted Earnings Per Share: Income From Continuing Operations Before Extraordinary Item and Cumulative Effect of Accounting Change | $ 0.77 | $ 1.53 | $ 1.29 |
| Income From Discontinued Operations, net of tax | 0.79 | 1.62 | 0.27 |
| Loss on Disposal of Discontinued Operations | -- | -- | (14.58) |
| Extraordinary Item, net of tax | -- | -- | (0.06) |
| Cumulative Effect of Accounting Change, net of tax | -- | 0.20 | -- |
| Net Income (Loss) Attributable to Common Shareholders | $ 1.56 | $ 3.35 | $(13.08) |

The following discussion of consolidated results of operations and results of operations by business segment is based on earnings from continuing operations before interest expense, distribution on trust preferred securities, income taxes, extraordinary item and cumulative effect of accounting change (EBIT). EBIT, as defined, is shown because it is a financial measure we use to evaluate the performance of our business segments and we believe it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. We expect that some analysts and investors will want to review EBIT when evaluating our company. EBIT is not defined under accounting principles generally accepted in the United States (GAAP), should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Additionally, our computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion. We consider operating income to be a comparable measure under GAAP. We believe the difference between operating income and EBIT on both a consolidated and business segment basis is not material. We have provided a reconciliation of consolidated operating income to EBIT and EBIT to net income below as well as in the individual business segment discussion that follows.

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| | | | (IN MILLIONS) |
| RECONCILIATION OF OPERATING INCOME TO EBIT AND EBIT TO NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS: | | | |
| Operating income | $1,387 | $1,244 | $ 1,329 |
| Loss from equity investments in unconsolidated subsidiaries | (29) | -- | -- |
| Loss on AOL Time Warner investment | (205) | (70) | (500) |
| Gain on indexed debt securities | 102 | 58 | 480 |
| Impairment of Latin America equity investments | (131) | (4) | -- |
| Loss on disposal of Latin America equity investments | (176) | -- | -- |
| Other income, net | 72 | 54 | 23 |
| EBIT | 1,020 | 1,282 | 1,332 |
| Interest expense and distribution on trust preferred securities | (564) | (607) | (738) |
| Income tax expense | (234) | (228) | (208) |
| Income from continuing operations before income taxes, extraordinary item, cumulative effect of accounting change and preferred dividends | 222 | 447 | 386 |
| Income from discontinued operations, net of tax | 225 | 475 | 82 |
| Loss on disposal of discontinued operations | -- | -- | (4,371) |
| Extraordinary item, net of tax | -- | -- | (17) |
| Cumulative effect of accounting change, net of tax | -- | 59 | -- |
| Preferred dividends | -- | (1) | -- |
| Net income (loss) attributable to common shareholders | $ 447 | $ 980 | $(3,920) |

2002 COMPARED TO 2001

Income from Continuing Operations. We reported income from continuing operations before the cumulative effect of accounting change, extraordinary item, and preferred dividends of $386 million ($1.29 per diluted share) for 2002 compared to $447 million ($1.53 per diluted share) for 2001. Effective January 1, 2002, we discontinued amortizing goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangibles" (SFAS No. 142). During 2001, we recognized $49 million of goodwill amortization expense. The $61 million decrease in income from continuing operations before the cumulative effect of accounting change,

extraordinary item and preferred dividends for the year ended December 31, 2002 as compared to the same period in 2001 was primarily due to the following:

- a $160 million decrease in EBIT from our Electric business segments, reflecting the movement of a portion of this business to Reliant Resources' Retail Energy business segment and reduced rates of return on these regulated operations effective January 2002;

- a $61 million increase in EBIT from our Natural Gas Distribution business segment;

- a $20 million increase in EBIT from our Pipelines and Gathering business segment;

- a $142 million increase in EBIT from our Other Operations business segment;

- a $131 million increase in interest expense due to higher borrowing costs; and

- a $20 million decrease in income tax expense.

Income Tax Expense. The effective tax rates for 2002 and 2001 were 35.0% and 33.8%, respectively. The increase in the effective tax rate for 2002 compared to 2001 was primarily due to an increase in state taxes, a reduced benefit from the amortization of investment tax credits and a higher effective tax rate related to our Latin America operations, offset by the discontinuance of goodwill amortization in accordance with SFAS No. 142.

Extraordinary Item. The 2002 results reflect a $17 million after-tax loss resulting from the early extinguishment of debt related to CenterPoint Houston's $850 million term loan and the repurchase of $175 million of CenterPoint Energy's pollution control bonds.

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.

2001 COMPARED TO 2000

Income From Continuing Operations. We reported income from continuing operations of $447 million ($1.53 per diluted share) for 2001, before a cumulative effect of accounting change of $59 million, net of tax, related to the adoption of SFAS No. 133, compared to $222 million ($0.77 per diluted share) for 2000.

The increase in income from continuing operations of $225 million was primarily due to the following:

- a $348 million decrease in loss before income and taxes from our Other Operations business segment, primarily due to a $269 million decrease in losses/impairments related to our Latin America operations and a $91 million decrease in a non-cash loss on our AOL Time Warner investment and our related indexed debt securities in 2001 as compared to 2000; and

- a $27 million increase in EBIT from our Natural Gas Distribution segment.

The above items were partially offset by:

- a $102 million decrease in EBIT from our Electric business segments primarily due to the impact of milder weather, reduced rates charged to certain governmental agencies as mandated by the Texas electric restructuring law, fees paid for the early termination of an accounts receivable factoring agreement and higher benefit expenses; and

- an increase in net interest expense of $43 million primarily related to interest rate swaps entered into in 2001 and the issuance of the Series 2001-1 Transition Bonds in 2001.

Income Tax Expense. The effective tax rates for 2001 and 2000 were 33.8% and 51.3%, respectively. The decrease in the effective tax rate in 2001 compared to 2000 was primarily due to non-recurring increased tax expense arising from the sale of our Latin America investments, including the write-off of deferred tax

assets related to the Latin America business segment in 2000 and a decrease in state taxes in 2001 compared to 2000.

AOL TIME WARNER INVESTMENT AND INDEXED DEBT SECURITIES

In 2002, holders of approximately 16% of the 17.2 million 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) originally issued exercised their right to exchange their ZENS for cash, resulting in aggregate cash payments by CenterPoint Energy of approximately $45 million.

One of our subsidiaries owns shares of AOL TW common stock (AOL 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, we received net proceeds of approximately $43 million from the liquidation of approximately 4.1 million shares of AOL TW Common at an average price of $10.56 per share. We now hold 21.6 million shares of AOL TW Common which are classified as trading securities under SFAS No. 115 and are expected to be held to facilitate our ability to meet our obligation under the ZENS.

For additional information regarding our investment in AOL TW, our indexed debt securities and the effect of adoption of SFAS No. 133 on January 1, 2001 on our ZENS obligation, please read Note 7 to our consolidated financial statements.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents EBIT (in millions) for each of our business segments for 2000, 2001 and 2002. Some amounts from the previous years have been reclassified to conform to the 2002 presentation of the financial statements. These reclassifications do not affect consolidated net income.

EBIT BY BUSINESS SEGMENT

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| (IN MILLIONS) | | | |
| Electric Transmission & Distribution | $ 953 | $ 906 | $1,118 |
| Electric Generation | 331 | 267 | (130) |
| Electric Eliminations | (34) | (25) | -- |
| Total Electric Business Segments | 1,250 | 1,148 | 988 |
| Natural Gas Distribution | 122 | 149 | 210 |
| Pipelines and Gathering | 137 | 138 | 158 |
| Other Operations | | | |
| | (485) | (137) | 5 |
| Eliminations | | | |
| | (4) | (16) | (29) |
| Total Consolidated EBIT | $1,020 | $1,282 | $1,332 |

ELECTRIC BUSINESS SEGMENTS

Beginning in 2002, we are reporting two new business segments for what was the former Electric Operations business segment:

- Electric Transmission & Distribution; and

- Electric Generation.

The Electric Transmission & Distribution business segment reports results from two sources. This business segment includes the regulated electric transmission and distribution operations as well as impacts of

generation-related stranded costs recoverable by the regulated utility. The previously regulated generation operations in Texas are being reported in the new Electric Generation business segment.

As a result of the implementation of deregulation and the corresponding new business segments, the regulated transmission and distribution utility recovers the cost of its service through an energy delivery charge, and not as a component of the prior bundled rate, which included energy and delivery charges. The design of the new energy delivery rate differs from the prior bundled rate. The winter/summer rate differential for residential customers has been eliminated and the energy component of the rate structure for commercial and industrial customers has been removed, which will tend to lessen some of the pronounced seasonal variation of revenues which has been experienced in prior periods.

Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of Reliant Energy HL&P through the date of their first meter reading in 2002. Operations during this transition period are reflected in the Electric Transmission & Distribution business segment.

The new Electric Transmission & Distribution business segment, CenterPoint Houston, reported EBIT of $1.1 billion for 2002, consisting of EBIT of $421 million for the regulated electric transmission and distribution business, including retail sales during the transition period as discussed above, and non-cash EBIT of $697 million of Excess Cost Over Market (ECOM) regulatory assets associated with costs recorded pursuant to the Texas electric restructuring law as explained below. Operating revenues were $1.5 billion, excluding ECOM, and purchased power costs were $66 million in 2002. The purchased power costs relate to operation of the regulated utility during the transition period discussed above.

In the Electric Transmission & Distribution business segment, 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.

The new Electric Generation business segment, Texas Genco, is comprised of over 14,000 megawatts of electric generation located entirely in the state of Texas. This business segment reported a loss before interest and taxes of $130 million for 2002, primarily due to low natural gas prices and ample generating capacity in Texas, which created a weak price environment when the capacity auctions described below were conducted in late 2001 and early 2002. Operating revenues were $1.5 billion and fuel and purchased power costs were $1.1 billion in 2002.

Under the Texas electric restructuring law, each power generator that is unbundled from an integrated electric utility in Texas has an obligation to conduct state mandated capacity auctions of 15% of its capacity. In addition, under a master separation agreement between CenterPoint Energy and Reliant Resources, Texas Genco is contractually obligated to auction all capacity in excess of the state mandated capacity auctions. The auctions conducted periodically between September 2001 and January 2003 were consummated at prices below those used in the ECOM model by the Texas Utility Commission. Under the Texas electric restructuring law, a regulated utility, in our case, CenterPoint Houston, may recover in a regulatory proceeding scheduled for 2004 any difference between market prices received through the state mandated auctions and the Texas Utility Commission's earlier estimates of those market prices. This difference, recorded as a regulatory asset, produced $697 million of EBIT in 2002.

The following tables provide summary data of our Electric Transmission & Distribution and Electric Generation business segments for 2002 and our Electric Operations business segment for 2000 and 2001 (in millions, except throughput, power sales and electric sales data):

| YEAR ENDED DECEMBER 31, 2002 | ELECTRIC TRANSMISSION & DISTRIBUTION | ELECTRIC GENERATION | ELIMINATIONS | TOTAL |
|---|---|---|---|---|
| | | (IN MILLIONS) | | |
| Operating Revenues: Electric revenues | $ 1,525 | $ 1,541 | $ (48) | $3,018 |
| ECOM true-up | 697 | -- | -- | 697 |
| Total operating revenues | 2,222 | 1,541 | (48) | 3,715 |
| Operating Expenses: Fuel and purchased power | 66 | 1,083 | (48) | 1,101 |
| Operation and maintenance | 575 | 391 | -- | 966 |
| Depreciation and amortization | 271 | 157 | -- | 428 |
| Taxes other than income taxes | 213 | 43 | -- | 256 |
| Total operating expenses | 1,125 | 1,674 | (48) | 2,751 |
| Operating Income (Loss) | 1,097 | (133) | -- | 964 |
| Other Income, net | 21 | 3 | -- | 24 |
| Earnings Before Interest and Income Taxes | $ 1,118 | $ (130) | $ -- | $ 988 |
| Throughput (in gigawatt-hours (GWh)): | | | | |
| Residential | 23,025 | | | |
| Commercial | 18,377 | | | |
| Industrial | 28,027 | | | |
| Other | 156 | | | |
| Total | 69,585 | | | |
| Generation Power Sales (in GWh) | 51,463 | | | |

| YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| Operating Revenues | $ 5,494 | $ 5,511 | $3,715 |
| Operating Expenses: | | | |
| Fuel and purchased power | 2,397 | 2,527 | 1,101 |
| Operation and maintenance | 978 | 1,052 | 966 |
| Depreciation and amortization | 507 | 453 | 428 |
| Taxes other than income taxes | 382 | 376 | 256 |
| Total operating expenses | 4,264 | 4,408 | 2,751 |
| Operating Income | 1,230 | 1,103 | 964 |
| Other Income, net | 20 | 45 | 24 |
| Earnings Before Interest and Income Taxes | $ 1,250 | $ 1,148 | $ 988 |
| Electric Sales (in (GWh)): | | | |
| Residential | 22,727 | 21,371 | |
| Commercial | 17,594 | 17,967 | |
| Industrial | 33,249 | 31,059 | |
| Other | 1,724 | 928 | |
| Total | 75,294 | 71,325 | |

2002 Compared to 2001. During 2001, our Electric Operations business segment reflected the regulated electric utility business, including generation, transmission and distribution, and retail electric sales. As of January 1, 2002, with the opening of the Texas market to full retail electric competition, generation and retail sales are no longer subject to cost of service regulation. Retail electric sales involve the sale of electricity and related services to end users of electricity and were included as part of the bundled regulated service prior to 2002. Beginning in January 2002, our operations no longer include retail electricity sales. Accordingly, there are no meaningful comparisons for these business segments against prior periods.

Operation and maintenance expenses for the Electric Transmission & Distribution and Electric Generation segments decreased by $86 million in 2002 compared to those of the Electric Operations business segment in 2001. The decrease was primarily due to:

- a $77 million decrease in factoring expense as a result of the termination of an agreement under which the former Electric Operations business segment had sold its customer accounts receivable;

- a $22 million decrease due to fewer plant outages in 2002;

- a $10 million decrease in transmission cost of service; and

- a $16 million decrease in transmission line losses in 2002 as this is now a cost of retail electric providers.

These decreases were partially offset by a $40 million increase in benefits expense, including severance costs of $23 million in connection with the voluntary early retirement program resulting from the mothballing of generating capacity by Texas Genco and the reduction in work force by CenterPoint Houston in 2002.

In June 1998, the Texas Utility Commission issued an order approving a transition to competition plan (Transition Plan) filed by Reliant Energy in December 1997. In order to reduce Reliant Energy's exposure to potential stranded costs related to generation assets, the Transition Plan permitted the redirection of depreciation expense to generation assets that Reliant Energy otherwise would apply to transmission, distribution and general plant assets. In addition, the Transition Plan provided that all earnings above a stated overall annual rate of return on invested capital be used to recover Reliant Energy's investment in generation

assets. Reliant Energy implemented the Transition Plan effective January 1, 1998. For further discussion of the Transition Plan, please read Note 4(a) to our consolidated financial statements.

Depreciation and amortization decreased $25 million in 2002, compared to 2001. The decrease was primarily due to a decrease in amortization of the book impairment regulatory asset ($281 million) recorded in June 1999, which was fully amortized in December 2001, offset by depreciation expense recorded in 2002 as a result of the discontinuance of redirection of depreciation expense related to electric transmission and distribution assets ($217 million) and increased amortization related to transition property associated with the transition bonds issued in November 2001 ($35 million). For further discussion related to the impairment recorded in June 1999, please read Note 4(a) to our consolidated financial statements.

Taxes other than income taxes decreased $120 million compared to 2001. The decrease was primarily due to lower property taxes due to lower tax valuations of generation assets ($10 million), lower gross receipts taxes ($64 million), which became the responsibility of the retail electric providers upon deregulation, and lower franchise taxes ($46 million).

Other income, net decreased $21 million in 2002 compared to 2001. The decrease was primarily due to a $37 million decrease in interest income from under-recovery of fuel in 2002 as compared to 2001, partially offset by a $19 million increase in interest income from affiliated parties.

2001 Compared to 2000. Our Electric Operations business segment's EBIT for 2001 decreased $102 million compared to 2000. The decrease was primarily due to milder weather, decreased customer demand, increased contract services and benefit expenses and a charge recorded in the fourth quarter of 2001 resulting from the early termination of an accounts receivable factoring agreement. The decrease was also due to the implementation of the pilot program for Texas deregulation in August 2001, reduced rates for certain governmental agencies and increased administrative expenses related to the separation of our regulated and unregulated businesses. These decreases were partially offset by decreased amortization expense and customer growth.

Operating revenues increased $17 million in 2001. Base revenues decreased $119 million in 2001 due to decreased customer demand as a result of the effect of milder weather compared to 2000 and decreased customer usage on a weather normalized basis. The weather impact represented approximately $84 million of the decrease in base revenues in 2001 as compared to 2000. This decrease was offset by increased reconcilable fuel revenue of $136 million. The 6% increase in reconcilable fuel revenue in 2001 resulted primarily from increased fuel costs as discussed below. The Texas Utility Commission provides for recovery of certain fuel and purchased power costs through a fixed fuel factor included in electric rates. Revenues collected through this factor are adjusted monthly to equal expenses; therefore, these revenues and expenses have no effect on earnings unless fuel costs are subsequently determined not to be recoverable. The adjusted over/under recovery of fuel costs is recorded in our Consolidated Balance Sheets as regulatory liabilities or regulatory assets, respectively.

Fuel and purchased power expenses in 2001 increased by $130 million, or 5%, over 2000 expenses. This increase is due to increased purchased power volume related to the load balancing requirements associated with ERCOT adapting to a single control area, with a slightly higher cost for purchased power ($44.26 and $44.42 per megawatt hour in 2000 and 2001, respectively). The purchased power increase was partially offset by the decline in the volume of natural gas used at a slightly higher rate ($3.98 and $4.23 per million British thermal units in 2000 and 2001, respectively).

Operation and maintenance expenses increased $74 million in 2001 compared to 2000 primarily due to the following items:

- a $32 million increase in benefits expense primarily driven by medical and pension costs;

- a $16 million increase in contract services due to additional major and solid fuel outages at our generating plants in 2001 compared to shorter, routine outages in 2000;

- an $11 million increase in administrative expenses related to the separation of our regulated and unregulated businesses; and

- a $20 million charge recorded in the fourth quarter of 2001 resulting from the early termination of an accounts receivable factoring agreement.

Depreciation and amortization expense decreased $54 million primarily due to a decrease in amortization of the book impairment regulatory asset recorded in June 1999 and decreased amortization expense due to regulatory assets related to cancelled projects being fully amortized in June 2000, partially offset by accelerated amortization of certain regulatory assets related to energy conservation management as required by the Texas Utility Commission.

Other income, net increased $25 million in 2001 compared to 2000. The increase was primarily due to an increase in interest income from under-recovery of fuel in 2001 compared to 2000.

NATURAL GAS DISTRIBUTION

Our Natural Gas Distribution business segment's operations consist of intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. This business segment's operations also include non-rate regulated natural gas sales to and transportation services for commercial and industrial customers in the six states listed above as well as several other Midwestern states.

The following table provides summary data of our Natural Gas Distribution business segment for 2000, 2001 and 2002 (in millions, except throughput data):

| YEAR ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| Operating Revenues | $4,504 | $4,742 | $3,960 |
| Operating Expenses: | | | |
| Natural gas | 3,590 | 3,814 | 2,995 |
| Operation and maintenance | 553 | 541 | 539 |
| Depreciation and amortization | 145 | 147 | 126 |
| Taxes other than income taxes | 98 | 110 | 102 |
| Total operating expenses | 4,386 | 4,612 | 3,762 |
| Operating Income | 118 | 130 | 198 |
| Other Income, net | 4 | 19 | 12 |
| Earnings Before Interest and Income Taxes | $ 122 | $ 149 | $ 210 |
| Throughput (in billion cubic feet (Bcf)): | | | |
| Residential and commercial sales | 320 | 310 | 324 |
| Industrial sales | 57 | 50 | 47 |
| Transportation | 50 | 49 | 57 |
| Non-rate regulated commercial and industrial | 565 | 445 | 471 |
| Total Throughput | 992 | 854 | 899 |

Generally, the utility operations of our Natural Gas Distribution business segment are allowed to flow through the cost of natural gas to our customers through purchased gas adjustment provisions in tariffs adopted pursuant to regulations of the states in which they operate. Differences between actual gas costs and the amount collected from customers are deferred on the balance sheet so that there is no material impact on EBIT.

2002 Compared to 2001. Our Natural Gas Distribution business segment's EBIT increased $61 million for the year ended December 31, 2002 as compared to the same period in 2001. Operating margins (revenues less fuel costs) in 2002 were $37 million higher than in 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.

Operation and maintenance expenses decreased $2 million in 2002 as compared to 2001 primarily due to a reduction in bad debt expense in 2002 as a result of improved collections and lower gas prices, offset by higher benefits expense and administrative expenses.

Depreciation and amortization expense decreased approximately $21 million for the year ended December 31, 2002 primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 3(d) to our consolidated financial statements. Goodwill amortization was $31 million for the year ended December 31, 2001. This was partially offset by an increase in depreciation expense due to an increased asset base.

Taxes other than income taxes decreased $8 million for the year ended December 31, 2002 as compared to the same period in 2001, due primarily to reduced franchise fees as a result of decreased revenues.

2001 Compared to 2000. Our Natural Gas Distribution business segment's EBIT increased $27 million in 2001 from 2000. Operating margins (revenues less fuel costs) in 2001 were $14 million higher than in 2000 primarily due to increased volumes in the first quarter of 2001 due to the effect of colder weather, partially offset by changes in estimates of unbilled revenues and recoverability of deferred gas accounts and other items.

Operation and maintenance expenses decreased $12 million in 2001 as compared to 2000 primarily due to expenses totaling approximately $31 million incurred in 2000 in connection with exiting certain non-rate regulated natural gas business activities outside our established market areas offset by the following items:

- increased bad debt expense due to higher natural gas prices in the first quarter of 2001; and

- higher employee benefit costs.

Other income, net increased $15 million in 2001 compared to 2000. The increase was primarily due to a $12 million increase in interest income from affiliated parties.

PIPELINES AND GATHERING

Our Pipelines and Gathering business segment operates two interstate natural gas pipelines and provides gathering and pipeline services.

The following table provides summary data of our Pipelines and Gathering business segment for 2000, 2001 and 2002 (in millions, except throughput data):

| YEAR ENDED DECEMBER 31, | 2002 | 2001 | 2000 |
|---|---|---|---|
| Revenues | $ 384 | $ 415 | $ 374 |
| Operating Expenses: | | | |
| Natural gas | 76 | 79 | 32 |
| Operation and maintenance | 100 | 121 | 130 |
| Depreciation and amortization | 56 | 58 | 41 |
| Taxes other than income taxes | 15 | 20 | 18 |
| Total operating expenses | 247 | 278 | 221 |
| Operating Income | 137 | 137 | 153 |
| Other Income, net | -- | 1 | 5 |
| Earnings Before Interest and Income Taxes | $ 137 | $ 138 | $ 158 |
| Throughput (Bcf): | | | |
| Natural gas sales | 14 | 18 | 14 |
| Transportation | 845 | 819 | 845 |
| Gathering | 288 | 300 | 287 |
| Elimination(1) | (12) | (9) | (9) |
| Total Throughput | 1,135 | 1,128 | 1,137 |

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(1) Elimination of volumes both transported and sold.

2002 Compared to 2001. Our Pipelines and Gathering business segment's EBIT increased $20 million in 2002 from 2001 as discussed below.

Operation and maintenance expenses increased $9 million for the year ended December 31, 2002 compared to 2001 primarily due to project work consisting of construction management, material acquisition, engineering, project planning and other services as well as increased employee benefit costs. Project work expenses are offset by revenues billed for these services.

Depreciation and amortization expense decreased $17 million in 2002 as compared to 2001 primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 3(d) to our consolidated financial statements.

Other income increased $4 million in 2002 as compared to 2001 primarily due to interest accrued on a fuel-related sales tax refund.

2001 Compared to 2000. Our Pipelines and Gathering business segment's EBIT for 2001 was consistent with 2000 results. Increased gas gathering and processing revenues were offset by increased operating expenses associated with a rate case which began in 2001, higher employee benefit costs and increased franchise taxes.

OTHER OPERATIONS

Our Other Operations business segment consists primarily of our Latin America operations, office buildings and other real estate used in our business operations, district cooling in the central business district in downtown Houston, energy management services and other corporate operations which support all of our business operations.

The following table shows EBIT of our Other Operations business segment for the 2000, 2001 and 2002:

| YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|
| 2000 | 2001 | 2002 | |
| $ 97 | $ 101 | $ 32 | Operating Revenues |
| (127) | 15 | | Other Expense, net |
| (387) | (10) | (10) | Earnings (Loss) Before Interest and Income Taxes |
| $(485) | $(137) | $ 5 | |

2002 Compared to 2001. Our Other Operations business segment's EBIT increased by $142 million in 2002 compared to 2001. The increase was primarily due to a $79 million pre-tax decrease in losses/ impairments related to our Latin America investments, reductions in unallocated corporate costs of $34 million and reductions in corporate accruals, primarily benefits, of $27 million.

2001 Compared to 2000. Other Operations' loss before interest and taxes decreased by $348 million in 2001 compared to 2000. This decrease was primarily due to a $269 million pre-tax decrease in losses/ impairments related to our Latin America investments in 2000 and a $91 million pre-tax decrease in a non-cash loss on our AOL TW investment and related indexed debt securities in 2001 as compared to 2000.

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 for each of the years in the two year period ended December 31, 2001 and for the nine months ended September 30, 2002. We also recorded a $4.4 billion non-cash loss on disposal of these discontinued operations. 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.

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.

## 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 numerous factors including:

- 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:
  - approval of stranded costs;
  - allowed rates of return;
  - rate structures;

  - recovery of investments; and

  - operation and construction of facilities;

- non-payment for our services due to financial distress of our customers, including Reliant Resources;

- the successful and timely completion of our capital projects;

- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;

- changes in business strategy or development plans;

- the timing and extent of changes in commodity prices, particularly natural gas;

- changes in interest rates or rates of inflation;

- unanticipated changes in operating expenses and capital expenditures;

- weather variations and other natural phenomena;

- 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;

- legal and administrative proceedings and settlements;

- changes in tax laws;

- inability of various counterparties to meet their obligations with respect to our financial instruments;

- any lack of effectiveness of our disclosure controls and procedures;

- changes in technology;

- significant changes in our relationship with our employees, including the availability of qualified personnel and the potential adverse effects if labor disputes or grievances were to occur;

- significant changes in critical accounting policies;

- acts of terrorism or war, including any direct or indirect effect on our business resulting from terrorist attacks such as occurred on September 11, 2001 or any similar incidents or responses to those incidents;

- the availability and price of insurance;

- the outcome of the pending securities lawsuits against us, Reliant Energy and Reliant Resources;

- the outcome of the Securities and Exchange Commission investigation relating to the treatment in our consolidated financial statements of certain activities of Reliant Resources;

- the ability of Reliant Resources to satisfy its indemnity obligations to us;

- the reliability of the systems, procedures and other infrastructure necessary to operate the retail electric business in our service territory, including the systems owned and operated by the ERCOT ISO;

- political, legal, regulatory and economic conditions and developments in the United States; and

- other factors discussed in Item 1 of this report under "Risk Factors."

## LIQUIDITY AND CAPITAL RESOURCES

### HISTORICAL CASH FLOWS

The net cash provided by/used in operating, investing and financing activities for 2000, 2001 and 2002 is as follows (in millions):

| YEAR ENDED DECEMBER 31, | | |
|---|---|---|
| -- 2000 | 2001 | 2002 |
| ------ | ------- | ----- |
| Cash provided by (used in): | | |
| Operating activities | $ 986 | $ 1,762 |
| $ 303 | | |
| Investing activities | (230) | (1,151) |
| (755) | | |
| Financing activities | 1,354 | (1,044) |
| 723 | | |

### CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operations in 2002 decreased $1.5 billion compared to 2001. This decrease primarily resulted from a $1.0 billion increase in net regulatory assets and liabilities due primarily to refunds of excess mitigation credits to ratepayers in 2002 ($224 million) and an increase in non-cash revenue related to the ECOM true-up, which resulted in a $697 million increase in regulatory assets in 2002, as well as $156 million paid in connection with the settlement of forward-starting interest rate swaps with an aggregate notional amount of $1.5 billion. Other changes in working capital also contributed to this decrease.

Net cash provided by operations in 2001 increased $776 million compared to 2000. This increase primarily resulted from:

- significant reductions in accounts receivable, partially offset by reductions in accounts payable, during 2001 compared to 2000 as a result of higher natural gas prices experienced in late 2000; and

- an increase in recovered fuel costs by our Electric business segments.

This increase was partially offset by other changes in working capital.

### CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased $396 million during 2002 compared to 2001 due primarily to decreased environmental-related capital expenditures in our electric business segments.

Net cash used in investing activities increased $921 million during 2001 compared to 2000. This increase was primarily due to additional capital expenditures in 2001 of $305 million primarily related to our Electric business segments, offset by net proceeds of $729 million received in 2000 from the sale of our Latin America assets, net of investments and advances.

### CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

Cash flows provided by financing activities increased $1.8 billion in 2002 compared to 2001, primarily due to an increase in short-term borrowings of $668 million as compared to a decrease in short-term borrowings of $1.4 billion in 2001.

Cash flows used in financing activities increased $2.4 billion in 2001 compared to 2000, primarily due to a decline in short term borrowings, partially offset by an increase in proceeds from long-term debt.

### FUTURE SOURCES AND USES OF CASH

We believe that our borrowing capability combined with cash flows from operations will be sufficient to meet the operational capital and debt service needs of our businesses for the next twelve months.

Our liquidity and capital requirements will be affected by:

- capital expenditures;

- debt service requirements;

- various regulatory actions; and

- working capital requirements.

The following table sets forth our capital requirements for 2002, and estimates of our capital requirements for 2003 through 2007 (in millions):

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| - | ---- | ---- | Electric Transmission & Distribution | $261 | $258 |
| $300 | $300 | $295 | $300 | Electric Generation (with nuclear fuel)(1) | 280 |
| 150 | 96 | 68 | 51 | 64 | Natural Gas Distribution |
| 196 | 204 | 216 | 213 | 210 | 210 |
| Pipelines and Gathering | 70 | 60 | 63 | 48 | 44 |
| 42 | Other Operations | 47 | 12 | 25 | 21 |
| 15 | 9 | ---- | ---- | ---- | ---- |
| ---- | ---- | Total | $854 | $684 | $700 |
| $650 | $615 | $625 | ==== | ==== | ==== |
| ==== | ==== | ==== | | | |

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(1) It is anticipated that Reliant Resources will purchase the majority interest in Texas Genco held by CenterPoint Energy in early 2004 pursuant to the terms of an option that Reliant Resources holds or that this interest or individual generating assets will otherwise be sold to one or more other parties.

The following table sets forth estimates of our contractual obligations to make future payments for 2003 through 2007 and thereafter (in millions):

| 2008 AND THEREAFTER | CONTRACTUAL OBLIGATIONS TOTAL | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| - | --- | ------- | ------ | ---- | ------ | -- |
| -- | ---- | ---------- | Long-term debt(1) | $ 9,985 | $ 703 | $ 42 |
| $5,574 | $206 | $ 66 | $3,394 | Capital leases | 20 | 3 |
| 5 | 5 | 4 | 2 | 1 | Short-term borrowing, including credit facilities | 347 |
| 347 | -- | -- | -- | -- | -- | Trust preferred securities |
| 706 | -- | -- | -- | -- | -- | 706 Operating lease payments(2) |
| 263 | 31 | 28 | 26 | 24 | 23 | 131 Non-trading derivative liabilities |
| 27 | 26 | 1 | -- | -- | -- | -- Other commodity commitments(3) |
| 1,410 | 292 | 165 | 169 | 174 | 167 | 443 |
| --- | ---- | ------ | ---- | ------ | ---- | ---- |
| ------ | Total contractual cash obligations | $12,758 | $1,402 | $241 | $5,774 | $408 |
| $258 | $4,675 | ======= | ====== | ==== | ====== | ==== |
| ==== | ====== | | | | | |

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(1) On February 28, 2003, CenterPoint Energy extended the termination date of its $3.85 billion credit facility to June 30, 2005 as discussed further below. As a result of this extension, the $3.85 billion credit facility has been classified as long-term debt as of December 31, 2002 in the Consolidated Balance Sheet.

(2) For a discussion of operating leases, please read Note 13(b) to our consolidated financial statements.

(3) For a discussion of other commodity commitments, please read Note 13(a) to our consolidated financial statements.

Long-Term Debt. Our long-term debt consists of our obligations and obligations of our subsidiaries, including transition bonds issued by an indirect wholly owned subsidiary (transition bonds).

On February 28, 2003, we reached agreement with a syndicate of banks on a second amendment to our $3.85 billion bank facility (the "Second Amendment"). Under the Second Amendment, the maturity date of the bank facility was extended from October 2003 to June 30, 2005, and the $1.2 billion in mandatory prepayments that would have been required this year (including $600 million due on February 28, 2003) were

eliminated. The facility consists of a $2.35 billion term loan and a $1.5 billion revolver. The revolver was fully drawn as of February 28, 2003. Borrowings bear interest based on the London interbank offered rate (LIBOR) under a pricing grid tied to our credit rating. At our current credit ratings, the pricing for loans remains the same. The drawn cost for the facility at our current ratings is LIBOR plus 450 basis points. We have agreed to pay the banks an extension fee of 75 basis points on the amounts outstanding under the bank facility on October 9, 2003. We also paid $41 million in fees that were due on February 28, 2003, along with $20 million in fees that had been due on June 30, 2003.

In addition, the interest rates will be increased by 25 basis points beginning May 28, 2003 if we do not grant the banks a security interest in our 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco requires approval from the SEC under the 1935 Act, which is currently being sought. That security interest would be released when we sell Texas Genco, which is expected to occur in 2004. Proceeds from the sale will be used to reduce the bank facility.

Also under the Second Amendment, on or before May 28, 2003, we expect to grant to the banks warrants to purchase up to 10%, on a fully diluted basis, of our common stock at a price equal to the greater of $6.56 per share or 110% of the closing price on the New York Stock Exchange on the date the warrants are issued. The warrants would not be exercisable for a year after issuance but would remain outstanding for four years; provided, that if we reduce the bank facility during 2003 by specified amounts, the warrants will be extinguished. To the extent that we reduce the bank facility by up to $400 million on or before May 28, 2003, up to half of the warrants will be extinguished on a basis proportionate to the reduction in the credit facility. To the extent such warrants are not extinguished on or before May 28, 2003, they will vest and become exercisable in accordance with their terms. Whether or not we are able to extinguish warrants on or before May 28, 2003, the remaining 50% of the warrants will be extinguished, again on a proportionate basis, if we reduce the bank facility by up to $400 million by the end of 2003. We plan to eliminate the warrants entirely before they vest by accessing the capital markets to fund the total payments of $800 million during 2003; however, because of current financial market conditions and uncertainties regarding such conditions over the balance of the year, there can be no assurance that we will be able to extinguish the warrants or to do so on favorable terms.

The warrants and the underlying common stock would be registered with the SEC and could be exercised either through the payment of the purchase price or on a "cashless" basis under which we would issue a number of shares equal to the difference between the then-current market price and the warrant exercise price. Issuance of the warrants is also subject to obtaining SEC approval under the 1935 Act, which is currently being sought. If that approval is not obtained on or before May 28, 2003, we will provide the banks equivalent cash compensation over the term that our warrants would have been exercisable to the extent they are not otherwise extinguished.

In the Second Amendment, we also agreed that our quarterly common stock dividend will not exceed $0.10 per share. If we have not reduced the bank facility by a total of at least $400 million by the end of 2003, of which at least $200 million has come from the issuance of capital stock or securities linked to capital stock (such as convertible debt), the maximum dividend payable during 2004 and for the balance of the term of the facility is subject to an additional test. Under that test the maximum permitted quarterly dividend will be the lesser of (i) $0.10 per share or (ii) 12.5% of our net income per share for the 12 months ended on the last day of the previous quarter.

The Second Amendment provides that proceeds from capital stock or indebtedness issued or incurred by us must be applied (subject to a $200 million basket for CERC and another $250 million basket for borrowings by us and other limited exceptions) to repay bank loans and reduce the bank facility. Similarly, cash proceeds from the sale of assets of more than $30 million or, if less, a group of sales aggregating more than $100 million, must be applied to repay bank loans and reduce the bank facility, except that proceeds of up to $120 million can be reinvested in our businesses.

On November 12, 2002, CenterPoint Houston entered into a $1.3 billion collateralized term loan maturing November 2005. The interest rate on the loan is LIBOR plus 9.75%, subject to a minimum rate of 12.75%. The loan is secured by CenterPoint Houston's general mortgage bonds. Proceeds from the loan were

used (1) to repay CenterPoint Houston's $850 million term loan, (2) to repay $300 million of debt that matured on November 15, 2002, (3) to purchase $100 million of pollution control bonds on December 2, 2002, and (4) to pay costs of issuance. The loan agreement contains various business and financial covenants, including a covenant restricting CenterPoint Houston's debt, excluding transition bonds, as a percent of its total capitalization to 68%. The loan agreement also limits incremental secured debt that may be issued by CenterPoint Houston to $300 million.

One of our indirect finance subsidiaries, CenterPoint Energy Transition Bond Company, LLC, has $736 million aggregate principal amount of outstanding transition bonds that were issued in 2001 in accordance with the Texas electric restructuring law. Classes of the transition bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015 and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. The transition bonds are secured by "transition property," as defined in the Texas electric restructuring law, which includes the irrevocable right to recover, through non-bypassable transition charges payable by retail electric customers, qualified costs provided in the Texas electric restructuring law. The transition bonds are reported as our long-term debt, although the holders of the transition bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the transition bond company. CenterPoint Houston has no payment obligations with respect to the transition bonds except to remit collections of transition charges as set forth in a servicing agreement between CenterPoint Houston and the transition bond company and in an intercreditor agreement among CenterPoint Houston, our indirect transition bond subsidiary and other parties.

We purchased $175 million principal amount of outstanding pollution control bonds in the fourth quarter of 2002 at 100% of their principal amount. If market conditions permit, we expect to remarket the $175 million principal amount of pollution control bonds in the first half of 2003.

Long-term debt maturities in 2003 include $150 million principal amount of medium-term notes maturing in April 2003 and $16.6 million principal amount of pollution control bonds maturing in December 2003. In addition, CERC Corp. has $500 million principal amount of Term Enhanced Remarketable Securities that must be repaid or remarketed in November 2003.

We have $840 million of outstanding ZENS that may be exchanged for cash at any time. Holders of ZENS submitted for exchange are entitled to receive a cash payment equal to 95% of the market value of the reference shares of AOL TW Common. There are 1.5 reference shares of AOL TW Common for each of the 17.2 million ZENS units originally issued (of which approximately 16% were exchanged for cash of approximately $45 million in 2002). The exchange market value is calculated using the average closing price per share of AOL TW Common on the New York Stock Exchange on one or more trading days following the notice date for the exchange. One of our subsidiaries owns the reference shares of AOL TW Common and generally liquidates such holdings to the extent of ZENS exchanged. Cash proceeds from such liquidations are used to fund ZENS exchanged for cash. Although proceeds from the sale of AOL TW Common offset the cash paid on exchanges, ZENS exchanges result in a cash outflow because of our current tax obligations. Current tax obligations in 2002 increased by $58 million as a result of the 2002 exchanges of ZENS having a principal amount of $160 million and the related sale of 4.1 million shares of AOL TW Common.

CenterPoint Houston has issued approximately $1.2 billion aggregate principal amount of first mortgage bonds and approximately $1.8 billion aggregate principal amount of general mortgage bonds, of which approximately $1.1 billion combined aggregate principal amount of first mortgage bonds and general mortgage bonds collateralizes debt of CenterPoint Energy. The general mortgage bonds are issued under the General Mortgage Indenture dated as of October 10, 2002. The lien of the general mortgage indenture is junior to that of the Mortgage, pursuant to which the first mortgage bonds are issued. The aggregate amount of additional general mortgage bonds and first mortgage bonds that could be issued is approximately $900 million based on estimates of the value of property encumbered by the General Mortgage, the cost of such property and the 70% bonding ratio contained in the General Mortgage. The issuance of additional first mortgage and general mortgage bonds is currently contractually limited to an additional $300 million of general mortgage bonds.

Short-Term Debt and Receivables Facility. During 2003, the following bank and receivables facilities are scheduled to terminate on the dates indicated.

| BORROWER/ SELLER | AMOUNT OF FACILITY | TERMINATION DATE | TYPE OF FACILITY |
|---|---|---|---|
| | (IN MILLIONS) | | |
| CERC Corp. | $350 | March 31, 2003 | Revolver |
| CERC Corp. | 150 | November 14, 2003 | Receivables |
| CenterPoint Houston | 75 | April 30, 2003 | Revolver |
| Total | $575 | | |

As of December 31, 2002, there was $347 million borrowed under CERC's $350 million revolving credit facility. On February 28, 2003, CERC executed a commitment letter with a major bank for a $350 million, 180-day bridge facility, which is subject to the satisfation of various closing conditions. This facility will be available for repaying borrowings under CERC's existing $350 million revolving credit facility that expires on March 31, 2003 in the event sufficient proceeds are not raised in the capital markets to repay such borrowings on or before March 31, 2003. Final terms for the bridge facility have not been established, but it is anticipated that the rates for borrowings under the facility will be LIBOR plus 450 basis points. CERC paid a commitment fee of 25 basis points on the commitment amount and will be required to pay a facility fee of 75 basis points on the amount funded and an additional 100 basis points on the amount funded and outstanding for more than two months. In connection with this facility, CERC expects to provide the lender with collateral in the form of a security interest in the stock it owns in its interstate natural gas pipeline subsidiaries.

On December 31, 2002, CERC Corp. had received proceeds from the sale of receivables of approximately $107 million under its $150 million receivables facility and its $350 million bank facility was fully drawn or utilized in the form of letters of credit. Advances under the $150 million receivables facility are not recorded as a financing because the facility provides for the sale of receivables to third parties as discussed in Note 3(i) to the consolidated financial statements.

In February 2003, CenterPoint Houston obtained a $75 million revolving credit facility that terminates on April 30, 2003. A condition precedent to utilizing the facility is that security in the form of general mortgage bonds must be delivered to the lender. Rates for borrowings under this facility, including the facility fee, will be LIBOR plus 250 basis points.

On December 31, 2002, we had $265 million of temporary investments.

Refunds to CenterPoint Houston Customers. An order issued by the Texas Utility Commission on October 3, 2001 established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that CenterPoint Houston had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets (an amount equal to earnings above a stated overall rate of return on rate base that was used to recover our investment in generation assets) as provided under the 1998 transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston is 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. Per the October 3, 2001 order, CenterPoint Houston recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. CenterPoint Houston began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven-year period. The annual refund of excess earnings is approximately $237 million. Under the Texas electric restructuring law, a final settlement of these stranded costs will occur in 2004.

Cash Requirements in 2003. 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 2003 include the following:

- $167 million of maturing long-term debt;

- approximately $684 million of capital expenditures;

- an estimated $237 million which we are obligated to return to customers as a result of the Texas Utility Commission's findings of over-mitigation of stranded costs;

- remarketing or refinancing of $500 million of CERC Corp. debt, plus the possible payment of option termination costs (currently estimated to be $61 million) as discussed in "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Risk" in Item 7A;

- payments expected to aggregate $350 million in connection with the termination of bank facilities unless replacement facilities or extensions are arranged; and

- dividend payments on CenterPoint Energy common stock.

We expect to meet our capital requirements through cash flows from operations, short-term borrowings and proceeds from debt and/or equity offerings. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from short-term borrowings, including the renewal, extension or replacement of existing bank facilities, and anticipated sales of securities in the capital markets will be sufficient to meet our cash needs. However, disruptions in our ability to access the capital markets on a timely basis could adversely affect our liquidity. Limits on our ability to issue secured debt, as described in this report, may adversely affect our ability to issue debt securities. In addition, the recent cost of our secured debt issuances has been very high. A similar cost with regard to additional issuances could significantly impact our debt service. Please read "Risk Factors -- Risk Factors Associated with Financial Condition and Other Risks -- 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" in Item 1 of this report.

At December 31, 2002, CenterPoint Energy had a shelf registration statement for 15 million shares of common stock and CERC Corp. had a shelf registration statement covering $50 million of debt securities. The amount of any debt security or any security having equity characteristics that we can issue, whether registered or unregistered, or whether debt is secured or unsecured, is expected to be affected by the market's perception of our creditworthiness, general market conditions and factors affecting our industry. Proceeds from the sales of securities are expected to be used primarily to refinance debt.

Principal Factors Affecting Cash Requirements in 2004 and 2005. We anticipate selling our 81% ownership interest in Texas Genco in 2004. Should Reliant Resources decline to exercise its option to purchase our interest in Texas Genco, we will explore other alternatives to monetize Texas Genco's assets, including possible sale of our ownership interest in Texas Genco or of its individual generating assets, which may significantly affect the timing of any cash proceeds. Proceeds from that sale, plus proceeds from the securitization in 2004 or 2005 of stranded costs related to generating assets of Texas Genco and generation related regulatory assets, are expected to aggregate in excess of $5 billion.

We expect to issue securitization bonds in 2004 or 2005 to monetize and recover the balance of stranded costs relating to electric generation assets and other qualified costs as determined in the 2004 true-up proceeding. The issuance will be done pursuant to a financing order to be issued by the Texas Utility Commission. As with the debt of our existing transition bond company, payments on these new securitization bonds would also be made from funds obtained through non-bypassable charges assessed to retail electric customers required to take delivery service from CenterPoint Houston. The holders of the securitization bonds would not have recourse to any of our assets or revenues, and our creditors would not have recourse to any assets or revenues of the entity issuing the securitization bonds. All or a portion of the proceeds from the issuance of securitization bonds remaining after repayment of CenterPoint Houston's $1.3 billion collateralized term loan are expected to be utilized to retire other existing debt.

Impact on Liquidity of a Downgrade in Credit Ratings. As of March 4, 2003, 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 RATING OUTLOOK(1) | S&P RATING OUTLOOK(2) | FITCH RATING OUTLOOK(3) | COMPANY/INSTRUMENT |
|---|---|---|---|
| Ba1 | Negative | BBB- | Stable | CenterPoint Energy Senior Unsecured Debt |
| Ba1 | Negative | BBB- | Stable | CenterPoint Houston Senior Secured Debt (First Mortgage Bonds) |
| Baa2 | Stable | BBB | Stable | BBB+ Negative CERC Corp. Senior Debt |
| Ba1 | Negative | BBB | Stable | BBB Negative |

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(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. A "stable outlook" from Moody's indicates that Moody's does not expect to put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

(2) A "stable" outlook from S&P indicates that the rating is not likely to change over the intermediate to longer term.

(3) A "negative" outlook from Fitch encompasses a one- to two-year horizon as to the likely rating direction.

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 facility fees and borrowing costs under our existing bank credit facilities. 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.

Our bank facilities contain "material adverse change" clauses that could impact our ability to make new borrowings under these facilities. The "material adverse change" clauses in most of our bank facilities 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.

The $150 million receivables facility of CERC Corp. requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Receivables would cease to be sold in the event a credit rating fell below the threshold.

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 AOL 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 holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the AOL TW Common that we own or from other sources. We own shares of AOL TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and AOL TW Common become current tax obligations when ZENS are exchanged and AOL TW Common is sold.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary of CERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. 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 March 4, 2003, the senior unsecured debt of CERC Corp. was rated BBB by S&P and Ba1 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to CenterPoint Energy Gas Resources Corp. by counterparties could aggregate $25 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Under our bank facility, a payment default by us or any of our significant subsidiaries on any indebtedness exceeding $50 million will cause a default.

Pension Plan. As discussed in Note 11 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. During 2001, we contributed from treasury stock $107 million of CenterPoint Energy common stock to the plan. No contributions were made to the plan during 2002.

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.

Plan assets used to satisfy pension obligations have been adversely impacted by the recent decline in equity market values. However, based on current estimates, we will not be required to make pension contributions until 2005.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," (SFAS 87) 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.

In 2000, we recorded a pension benefit of $39 million. Pension costs were $39 million and $35 million for 2001 and 2002, respectively. Included in the net pension benefit 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.

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, 2002, the expected long-term rate of return on plan assets was changed from 9.5% to 9.0%. The change in the assumption was developed by reviewing the plan's targeted asset allocation and asset class return expectations. We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance plan assets as appropriate.

As of December 31, 2002, the projected benefit obligation was calculated assuming a discount rate of 6.75%, which is a .5% decline from the 7.25% discount rate assumed in 2001. 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 2003 is estimated to be $90 million based on an expected return on plan assets of 9.0% and a discount rate of 6.75% as of December 31, 2002. If the expected return assumption was lowered by .5% (from 9.0% to 8.5%), 2003 pension expense would increase by approximately $5 million. Similarly, if the discount rate was lowered by .5% (from 6.75% to 6.25%), this assumption change would increase our projected benefit obligation, pension liabilities and 2003 pension expense by approximately $98 million, $88 million and $8 million, respectively. In addition, the assumption change would result in an additional charge to comprehensive income during 2002 of $57 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. Recording a minimum liability adjustment did not affect our results of operations during 2002 nor our ability to meet any financial covenants related to our debt facilities.

Future changes in plan asset returns, assumed discount rates and various other factors related to the pension 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:

- the need to provide cash collateral in connection with certain contracts;

- acceleration of payment dates on certain gas supply contracts under certain circumstances;

- increases in fees and interest expense in connection with debt refinancings;

- various regulatory actions; and

- the ability of Reliant Resources and its subsidiaries to satisfy its obligations as a principal customer of CenterPoint Houston and Texas Genco and in respect of its indemnity obligations to us.

Money Pool. We have a "money pool" through which we and 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. The money pool's net funding requirements are expected to be met with bank loans. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act.

Capitalization. Factors affecting our capitalization include:

- covenants in our and our subsidiaries' bank facilities and other borrowing agreements; and

- limitations imposed on us as a registered public utility holding company.

The bank facilities of CenterPoint Houston and CERC Corp. restrict debt as a percentage of total capitalization. Our $3.85 billion credit agreement limits dividend payments as described above, contains a debt to earnings before interest, taxes, depreciation and amortization (EBITDA) covenant, an EBITDA to interest covenant and restrictions on the use of proceeds from debt issuances and asset sales.

In connection with our registration as a public utility holding company under the 1935 Act, the SEC has placed the following limitations on our external debt:

- the aggregate amount of CenterPoint Houston's external borrowings has been limited to $3.55 billion;

- the aggregate amount of CERC Corp.'s external borrowings has been limited to $2.7 billion; and

- the aggregate amount of Texas Genco's external borrowings has been limited to $500 million.

Additionally, the SEC has placed limitations on our dividends and the dividends of our subsidiaries that require common equity as a percentage of total capitalization for CenterPoint Houston, CERC Corp. and Texas Genco to be at least 30% after the payment of such dividends. The order issued by the SEC that

authorizes our financing program expires on June 30, 2003, and we must seek a new financing order before that date. Any new order may contain restrictions or authorizations different from those described above.

## OFF BALANCE SHEET FINANCING

In connection with the November 2002 amendment and extension of CERC Corp.'s $150 million receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by CERC. This transaction is 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 our Consolidated Balance Sheets. For additional information regarding this transaction, please read Note 3(i) to our consolidated financial statements.

## 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. 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. Regulatory assets reflected in our Consolidated Balance Sheets aggregated $3.3 billion and $4.0 billion as of December 31, 2001 and 2002, respectively. Significant accounting estimates embedded within the application of SFAS No. 71 with respect to our Electric Transmission & Distribution business segment relate to $2.0 billion of recoverable electric generation plant mitigation assets (stranded costs) and $697 million of ECOM true-up. The stranded costs are comprised of $1.1 billion of previously recorded accelerated depreciation and $841 million of previously redirected depreciation. 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 all or a portion of these regulatory assets. Regulatory assets related to ECOM true-up represent the regulatory assets associated with costs incurred as a result of mandated capacity auctions conducted beginning in 2002 by our Electric Generation business being consummated at market-based prices that have been substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. Any significant changes in our estimate of our regulatory asset associated with ECOM true-up could have a significant effect on our financial condition and results of operations. Additionally, any significant changes in our estimated stranded costs or ECOM true-up recovery could significantly affect our liquidity subsequent to the final true-up proceedings conducted by the Texas Utility Commission which are expected to conclude in late 2004.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets recorded in our Consolidated Balance Sheets primarily consist of property, plant and equipment (PP&E). Net PP&E comprises $11.4 billion or 58% of our total assets as of December 31, 2002. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. We evaluate our PP&E for impairment whenever indicators of impairment exist. Accounting standards require that if the sum of the undiscounted expected future cash flows from a company's asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset.

As a result of the distribution of approximately 19% of Texas Genco's common stock to our shareholders on January 6, 2003, we re-evaluated our electric generation assets for impairment as of December 31, 2002. This analysis required us to make long-term estimates of future cash receipts associated with the operation or sale of these electric generation assets and related cash outflows. These forecasts require assumptions about demand for electricity within the ERCOT market, future ERCOT market conditions, commodity prices and regulatory developments. As of December 31, 2002, no impairment had been indicated because the estimated cash flows associated with the operations of their assets exceeded their carrying value. However the effects of competition within the ERCOT market, the results of our capacity auctions, and the timing and extent of changes in commodity prices, particularly natural gas prices, could have a significant effect on our future cash flows and therefore affect any future determination of asset impairment.

IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

We evaluate our goodwill and other indefinite-lived intangible assets for impairment at least annually and more frequently when indicators of impairment exist. Accounting standards require that if the fair value of a reporting unit is less than its carrying value, including goodwill, a charge for impairment of goodwill must be recognized. To measure the amount of the impairment loss, we would compare the implied fair value of the reporting unit's goodwill with its carrying value.

We recorded goodwill associated with the acquisition of our Natural Gas Distribution and Pipelines and Gathering operations in 1997. We reviewed our goodwill for impairment as of January 1, 2002. We computed the fair value of the Natural Gas Distribution and the Pipelines and Gathering operations as the sum of the discounted estimated net future cash flows applicable to each of these operations. We determined that the fair value for each of the Natural Gas Distribution operations and the Pipelines and Gathering operations exceeded their corresponding carrying value, including unallocated goodwill. We also concluded that no interim impairment indicators existed subsequent to this initial evaluation. As of December 31, 2002 we had recorded $1.7 billion of goodwill. Future evaluations of the carrying value of goodwill could be significantly impacted by our estimates of cash flows associated with our Natural Gas Distribution and Pipelines and Gathering operations, regulatory matters, and estimated operating costs.

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. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of December 31, 2001 were $33 million related to our Electric Operations business segment and $269 million related to our Natural Gas Distribution business segment. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of December 31, 2002 were $70 million related to our Electric Transmission & Distribution business segment and $284 million related to our Natural Gas Distribution business segment.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. We adopted the provisions of the statement that apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have any impact on our historical results of operations or financial position.

In June 2001, the FASB issued 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 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. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. We adopted SFAS No. 143 on January 1, 2003.

We have completed an assessment of the applicability and implications of SFAS No. 143. As a result of the assessment, we have identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations at the Jewett mine supplying the Limestone electric generation facility. Nuclear decommissioning and the lignite mine have recorded liabilities under our previous method of accounting. Liabilities recorded for estimated decommissioning obligations were $138 million and $140 million at December 31, 2001 and 2002, respectively. Liabilities recorded for estimated lignite mine reclamation costs were $28 million and $40 million at December 31, 2001 and 2002, respectively. We have also identified other asset retirement obligations that cannot be calculated because the assets associated with the retirement obligations have an indeterminate life.

We used an expected cash flow approach to measure our asset retirement obligations under SFAS No. 143. The following amounts represent our asset retirement obligations on a pro-forma basis as if we had adopted SFAS No. 143 as of the respective dates:

| DECEMBER 31, | 2001 | 2002 |
|---|---|---|
| | (IN MILLIONS) | |
| Nuclear decommissioning | $178 | $187 |
| Jewett lignite mine | 2 | 4 |
| Total | $180 | $191 |

The net difference between the amounts determined under SFAS No. 143 and our previous method of accounting for estimated nuclear decommissioning costs of $16 million will be recorded as a liability. The net difference between the amounts determined under SFAS No. 143 and our previous method of accounting for estimated mine reclamation costs of $37 million will be recorded as a cumulative effect of accounting change.

Our rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2002, these previously recognized removal costs of $618 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. Our non-rate regulated businesses have also previously recognized removal costs as a component of depreciation expense. Upon adoption of SFAS No. 143, we will reverse $115 million of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change.

In August 2001, the FASB issued SFAS No. 144. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 was effective for fiscal years beginning after December 15, 2001, with early adoption encouraged. SFAS No. 144 did not materially change the methods we use to measure impairment losses on long-lived assets, but may result in additional future dispositions being reported as discontinued operations than was previously permitted. Adoption of SFAS No. 144 also resulted in the retroactive reclassification of our Latin America operations as discussed in Note 2 to our consolidated financial statements. We adopted SFAS No. 144 on January 1, 2002.

In April 2002, the 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. We have applied this guidance prospectively as it relates to lease accounting and will apply the accounting provisions related to debt extinguishment in 2003. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented shall be reclassified.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. We will apply the provisions of SFAS No. 146 to all exit, or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 is not expected to materially affect our consolidated financial statements. We have adopted the additional disclosure provisions of FIN 45 in our consolidated financial statements as of December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure -- an Amendment of SFAS No. 123" (SFAS No. 148). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No.148 are effective for fiscal years ending after December 15, 2002. We currently account for our stock-based compensation awards to employees and directors under the accounting prescribed by APB Opinion No. 25 and provide the disclosures required by SFAS No. 123. We will continue to account for our stock-based compensation awards to employees and directors under the accounting prescribed by APB Opinion No. 25 and have adopted the additional disclosure provisions of SFAS No. 148 in our consolidated financial statements as of December 31, 2002.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (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. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect the adoption of FIN 46 to have a material impact on our results of operations and financial condition.

See Note 5 to our consolidated financial statements for a discussion of our adoption of SFAS No. 133 on January 1, 2001 and adoption of subsequent cleared guidance. See Note 3(d) to our consolidated financial statements for a discussion of our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets."

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 seek to manage these risk exposures through the implementation of our risk management policies and framework. We seek to 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 the ZENS that subject us to the risk of loss associated with movements in market interest rates. We utilize interest rate swaps in order to hedge portions of our floating-rate debt and to hedge a portion of the interest rate applicable to future offerings of long-term debt.

Our floating-rate obligations aggregated $3.1 billion and $5.5 billion at December 31, 2001 and 2002, respectively. If the floating interest rates were to increase by 10% from December 31, 2002 rates, our combined interest expense would increase by a total of $3.3 million each month in which such increase continued.

At December 31, 2001 and 2002, we had outstanding fixed-rate debt (excluding indexed debt securities) and trust preferred securities aggregating $6.1 billion and $5.4 billion, respectively, in principal amount and having a fair value of $6.1 billion and $5.4 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 Notes 9 and 10 to our consolidated financial statements). However, the fair value of these instruments would increase by approximately $260 million if interest rates were to decline by 10% from their levels at December 31, 2002. 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.

As discussed in Note 13(f) to our consolidated financial statements, we contributed $14.8 million in each of 2000 and 2001 to a trust established to fund our share of the decommissioning costs for the South Texas

Project. In 2002, we contributed $2.9 million to this trust. The securities held by the trust for decommissioning costs had an estimated fair value of $163 million as of December 31, 2002, of which approximately 49% 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, 2002, the decrease in fair value of the fixed-rate debt securities would be approximately $1.0 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 our 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 9(b) to our consolidated financial statements, CERC Corp.'s $500 million aggregate principal amount of 6 3/8% Term Enhanced Remarketable Securities (TERM Notes) include an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate in 2003 is below 5.66%. At December 31, 2002, we could terminate the option at a cost of $61 million. A decrease of 10% in the December 31, 2002 level of interest rates would increase the cost of terminating the option by approximately $17 million.

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 $104 million at December 31, 2002 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 $15 million if interest rates were to decline by 10% from levels at December 31, 2002. Changes in the fair value of the derivative component, $225 million at December 31, 2002, 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, 2002 levels, the fair value of the derivative component would increase by approximately $4 million, which would be recorded as an unrealized loss in our Statements of Consolidated Operations.

As of December 31, 2002, we had interest rate swaps having an aggregate notional amount of $750 million to fix the interest rate applicable to floating rate debt. At December 31, 2002, the swaps relating to floating rate debt could be terminated at a cost of $16 million. The swaps relating to short-term debt do not qualify as cash flow hedges under SFAS No. 133, and are 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, 2002 level of interest rates would increase the cost of terminating the swaps outstanding at December 31, 2002 by approximately $1 million.

During 2002, we settled our forward-starting interest rate swaps having an aggregate notional amount of $1.5 billion at a cost of $156 million.

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 AOL 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, 2002 market value of AOL 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," we contribute to a trust established to fund our share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of December 31, 2002. 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, 2002, the resulting loss in fair value of these securities would be approximately $8 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. An increase of 10% in the market prices of energy commodities from their December 31, 2001 levels would have decreased the fair value of our Non-Trading Energy Derivatives by $14 million. 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.

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. During 2002, we recognized a $0.9 million loss as a result of the discontinuance of a cash flow hedge because it was no longer probable that the forecasted transaction would occur.

We have established a Risk Oversight Committee, comprised of corporate and business segment officers, that oversees all 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, | | | |
|---|---|---|---|
| | 2000 | 2001 | 2002 |
| | (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | |
| REVENUES | $10,374,202 | $10,656,357 | $ 7,922,498 |
| EXPENSES: | | | |
| Fuel and cost of gas sold | 5,270,937 | 5,142,040 | 3,895,365 |
| Purchased power | 755,924 | 1,223,437 | 94,749 |
| Operation and maintenance | 1,702,209 | 1,786,269 | 1,599,023 |
| Depreciation and amortization | 726,467 | 671,349 | 615,770 |
| Taxes other than income taxes | 490,366 | 514,044 | 388,155 |
| Impairment of Latin America assets | 40,711 | 75,342 | -- |
| Total | 8,986,614 | 9,412,481 | 6,593,062 |
| OPERATING INCOME | 1,387,588 | 1,243,876 | 1,329,436 |
| OTHER INCOME (EXPENSE): | | | |
| Unrealized loss on AOL Time Warner investment | (204,969) | (70,215) | (499,704) |
| Unrealized gain on indexed debt securities | 101,851 | 58,033 | 480,027 |
| Loss from equity investments in unconsolidated subsidiaries | (28,813) | -- | -- |
| Impairment of Latin America equity investments | (130,842) | (4,093) | -- |
| Loss on disposal of Latin America equity investments | (176,400) | -- | -- |
| Interest expense | (509,974) | (551,534) | (682,700) |
| Distribution on trust preferred securities | (54,358) | (55,598) | (55,545) |
| Other, net | 72,155 | 54,708 | 22,795 |
| Total | (931,350) | (568,699) | (735,127) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY ITEM, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS | 456,238 | 675,177 | 594,309 |
| INCOME TAX EXPENSE | 234,196 | 228,252 | 208,026 |
| INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS | 222,042 | 446,925 | 386,283 |
| INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX | 225,458 | 475,078 | 82,157 |
| LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS | -- | -- | (4,371,464) |
| EXTRAORDINARY ITEM, NET OF TAX OF $9,267 | -- | -- | (17,210) |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX | -- | 58,556 | -- |
| INCOME (LOSS) BEFORE PREFERRED DIVIDENDS | 447,500 | 980,559 | (3,920,234) |
| PREFERRED DIVIDENDS | 389 | 858 | -- |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS | $ 447,111 | $ 979,701 | $(3,920,234) |
| BASIC EARNINGS PER SHARE: | | | |
| Income from Continuing Operations Before Extraordinary Item and Cumulative Effect of Accounting Change | $ 0.78 | $ 1.54 | $ 1.30 |
| Income from Discontinued Operations, net of tax | 0.79 | 1.64 | 0.27 |
| Loss on disposal of Discontinued Operations | -- | -- | (14.67) |
| Extraordinary Item, net of tax | -- | -- | (0.06) |
| Cumulative Effect of Accounting Change, net of tax | -- | 0.20 | -- |
| Net Income (Loss) Attributable to Common Shareholders | $ 1.57 | $ 3.38 | $ (13.16) |
| DILUTED EARNINGS PER SHARE: | | | |
| Income from Continuing Operations Before Extraordinary Item and Cumulative Effect of Accounting Change | $ 0.77 | $ 1.53 | $ 1.29 |
| Income from Discontinued Operations, net of tax | 0.79 | 1.62 | 0.27 |
| Loss on disposal of Discontinued Operations | -- | -- | (14.58) |
| Extraordinary Item, net of tax | -- | -- | (0.06) |
| Cumulative Effect of Accounting Change, net of tax | -- | 0.20 | -- |
| Net Income (Loss) Attributable to Common Shareholders | $ 1.56 | $ 3.35 | $ (13.08) |

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

| YEAR ENDED DECEMBER 31, | | |
|---|---|---|
| | 2000 | 2001 | 2002 |
| | (IN THOUSANDS OF DOLLARS) | | |
| Net income (loss) attributable to common shareholders..... | $447,111 | $ 979,701 | $(3,920,234) |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments (net of tax of $40,862, $13 and $291)..... | 75,887 | (24) | (540) |
| Additional minimum pension liability adjustment (net of tax of $9,918, $6,873 and $223,060)..... | (18,419) | 12,764 | (414,254) |
| Cumulative effect of adoption of SFAS No. 133 (net of tax of $20,511)..... | -- | 38,092 | -- |
| Net deferred loss from cash flow hedges (net of tax of $23,794 and $25,192)..... | -- | (15,549) | (69,615) |
| Reclassification of deferred loss (gain) from cash flow hedges realized in net income (net of tax of $18,978 and $13,539)..... | -- | (59,055) | 39,705 |
| Other comprehensive income (loss) from discontinued operations (net of tax of $7,078, $84,563 and $87,078)..... | 13,144 | (157,045) | 161,716 |
| Other comprehensive income (loss)..... | 70,612 | (180,817) | (282,988) |
| Comprehensive income (loss)..... | $517,723 | $ 798,884 | $(4,203,222) |

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| DECEMBER 31, 2001 | DECEMBER 31, 2002 |
|---|---|
| (IN THOUSANDS) | |
| ASSETS | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | $ 35,500 |
| $ 311,710 | |
| Investment in AOL Time Warner common stock | 826,609 |
| 283,486 | |
| Accounts receivable, net | 523,172 |
| 562,977 | |
| Accrued unbilled revenues | 302,879 |
| 354,497 | |
| Inventory | 405,638 |
| 351,816 | |
| Non-trading derivative assets | 6,996 |
| 27,275 | |
| Current assets of discontinued operations | 4,657,187 |
| -- | |
| Prepaid expense and other current assets | 34,539 |
| 71,367 | |
| Total current assets | 6,792,520 |
| 1,963,128 | |
| PROPERTY, PLANT AND EQUIPMENT, NET | 11,199,505 |
| 11,409,369 | |
| OTHER ASSETS: | |
| Goodwill, net | 1,740,510 |
| 1,740,510 | |
| Other intangibles, net | 62,294 |
| 65,880 | |
| Regulatory assets | 3,283,492 |
| 4,000,646 | |
| Non-trading derivative assets | 2,234 |
| 3,866 | |
| Non-current assets of discontinued operations | 7,642,276 |
| -- | |
| Other | 543,532 |
| 450,880 | |
| Total other assets | 13,274,338 |
| 6,261,782 | |
| TOTAL ASSETS | $31,266,363 |
| $19,634,279 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| CURRENT LIABILITIES: | |
| Short-term borrowings | $ 3,528,614 |
| $ 347,000 | |
| Current portion of long-term debt | 636,987 |
| 810,325 | |
| Indexed debt securities derivative | 730,225 |
| 224,881 | |
| Accounts payable | 526,758 |
| 623,457 | |
| Taxes accrued | 286,668 |
| 118,669 | |
| Interest accrued | 111,629 |
| 197,274 | |
| Non-trading derivative liabilities | 72,744 |
| 26,387 | |
| Regulatory liabilities | 154,783 |
| 168,173 | |
| Accumulated deferred income taxes, net | 322,186 |
| 285,275 | |
| Current liabilities of discontinued operations | 3,737,636 |
| -- | |
| Other | 346,846 |
| 288,547 | |
| Total current liabilities | 10,455,076 |
| 3,089,988 | |
| OTHER LIABILITIES: | |
| Accumulated deferred income taxes, net | 2,353,375 |
| 2,449,206 | |
| Unamortized investment tax credits | 247,407 |
| 230,037 | |
| Non-trading derivative liabilities | 9,825 |
| 873 | |
| Benefit obligations | 420,356 |
| 834,989 | |
| Regulatory liabilities | 1,210,888 |
| 959,421 | |
| Non-current liabilities of discontinued operations | 3,616,498 |
| -- | |
| Other | 589,534 |
| 747,355 | |
| Total other liabilities | 8,447,883 |
| 5,221,881 | |
| LONG-TERM DEBT | 4,919,737 |
| 9,194,320 | |
| COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 13) | |
| COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY | 705,744 |
| 706,140 | |
| -- | |
| SHAREHOLDERS' EQUITY | 6,737,923 |
| 1,421,950 | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $31,266,363 |
| $19,634,279 | |

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

YEAR ENDED DECEMBER 31, ---------- 2000 2001 2002 ---------- ---------- ---------- ---- (IN THOUSANDS) CASH FLOWS FROM OPERATING ACTIVITIES: Net income (loss) attributable to common shareholders..... $ 447,111 $ 979,701 $(3,920,234) Less: Income from discontinued operations, net of tax..... (225,458) (475,078) (82,157) Add: Loss on disposal of discontinued operations..... -- -- 4,371,464 ---------- ---------- ---------- Income from continuing operations and cumulative effect of accounting change, less extraordinary item..... 221,653 504,623 369,073 Adjustments to reconcile income from continuing operations to net cash provided by operating activities: Depreciation and amortization..... 726,467 671,349 615,770 Fuel-related amortization..... 44,645 29,410 12,729 Deferred income taxes..... (3,306) (132,719) 317,056 Investment tax credit..... (18,330) (18,330) (17,370) Cumulative effect of accounting change, net..... -- (58,556) -- Unrealized loss on AOL Time Warner investment..... 204,969 70,215 499,704 Unrealized gain on indexed debt securities..... (101,851) (58,033) (480,027) Undistributed losses of unconsolidated subsidiaries..... 41,482 -- -- Impairment of Latin America assets..... 40,711 75,342 -- Loss on impairment/disposal of Latin America equity investments..... 241,587 -- -- Extraordinary item..... -- -- 17,210 Changes in other assets and liabilities: Accounts receivable and unbilled revenues, net..... (1,030,765) 1,126,756 (243,865) Inventory..... (66,300) (15,550) 53,822 Accounts payable..... 1,055,105 (1,122,771) 96,699 Federal tax refund..... 86,155 -- -- Fuel cost over (under) recovery/surcharge..... (480,895) 422,672 250,191 Interest and taxes accrued..... (195,420) 258,549 (73,213) Net regulatory assets and liabilities..... (15,962) (49,523) (1,058,439) Non-trading derivatives, net..... -- 14,781 (108,478) Other current assets..... 22,008 (16,205) (36,828) Other current liabilities..... 158,593 (99,661) (86,566) Other assets..... (19,907) 90,700 263 Other liabilities..... 71,906 6,610 147,256 Other, net..... 3,944 62,828 27,966 ---------- ---------- ---------- Net cash provided by operating activities..... 986,489 1,762,487 302,953 ---------- ---------- ---------- CASH FLOWS FROM INVESTING ACTIVITIES: Capital expenditures..... (922,165) (1,227,175) (854,376) Proceeds from sale of AOL Time Warner investment..... -- -- 43,419 Investments in unconsolidated subsidiaries..... (60,799) -- -- Proceeds from sale of Latin America equity investments.... 790,166 -- -- Other, net..... (37,392) 76,559 55,995 ---------- ---------- ---------- --- Net cash used in investing activities..... (230,190) (1,150,616) (754,962) ---------- ---------- ---------- CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from long-term debt..... 329,475 1,296,779 1,320,723 Increase (decrease) in short-term borrowings, net..... 1,902,371 (1,356,162) 668,386 Payments of long-term debt..... (493,286) (632,116) (696,218) Debt issuance costs..... (8,684) (10,608) (196,830) Payment of common stock dividends..... (426,859) (433,918) (324,682) Proceeds from issuance of common stock, net..... 53,809 100,430 12,994 Purchase of treasury stock..... (27,306) -- -- 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..... 24,231 8,877 (16,525) ----------- ----------- --------- -- Net cash provided by (used in) financing activities..... 1,353,751 (1,043,720) 722,763 ----------- ----------- ---------- NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS..... (2,067,533) 365,278 5,456 ----------- ----------- ----------- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... 42,517 (66,571) 276,210 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... 59,554 102,071 35,500 ----------- --------- ----------- CASH AND CASH EQUIVALENTS AT END OF YEAR..... $ 102,071 $ 35,500 $ 311,710 =========== =========== =========== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash Payments: Interest..... $ 737,217 $ 534,812 $ 584,595 Income taxes..... 447,658 321,927 82,516

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

2000 2001 2002 ---------- ---------- ---------- ---------- SHARES AMOUNT SHARES AMOUNT SHARES AMOUNT ------- ---------- ------- ---------- ------- ---- ------- (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 97 9,740 -- -- Redemption of preferred stock..... -- -- (97) (9,740) -- -- ------- ---------- ------- ---------- ------- -------- --- Balance, end of year..... 97 9,740 -- -- -- -- ------- ---------- ------- ---------- ------- ----- ------ COMMON STOCK, $0.01 PAR VALUE; AUTHORIZED 1,000,000,000 SHARES Balance, beginning of year..... 297,612 2,976 299,914 2,999 302,944 3,029 Issuances related to benefit and investment plans..... 2,302 23 3,030 30 2,073 21 ------- ---------- ------- ---------- ------- ---------- Balance, end of year..... 299,914 2,999 302,944 3,029 305,017 3,050 ------- ---------- ------- -- -------- ------- ---------- ADDITIONAL PAID-IN-CAPITAL Balance, beginning of year..... -- 3,179,775 -- 3,254,191 -- 3,894,272 Issuances related to benefit and investment plans..... -- 74,424 -- 130,630 -- 11,866 Gain (loss) on issuance of subsidiaries' stock..... -- -- -- 509,499 -- (12,835) Distribution of Reliant Resources..... -- -- -- -- -- (847,200) Other..... -- (8) -- (48) -- (60) ------- ---------- ------- ------- --- ------- ---------- Balance, end of year..... -- 3,254,191 -- 3,894,272 -- 3,046,043 ------- ---------- ------- ----- ----- ------- ---------- TREASURY STOCK Balance, beginning of year..... (3,625) (93,296) (4,811) (120,856) -- -- Shares acquired..... (1,184) (27,306) -- -- -- -- Contribution to pension plan..... -- -- 4,512 113,336 -- -- Other..... (2) (254) 299 7,520 -- -- ------- ---------- ------- ---- ------ ------- ---------- Balance, end of year..... (4,811) (120,856) -- -- -- -- ------- ---------- ------- -------- -- ------- ---------- UNEARNED ESOP STOCK Balance, beginning of year..... (10,679) (199,226) (8,639) (161,158) (7,070) (131,888) Issuances related to benefit plan..... 2,040 38,068 1,569 29,270 2,154 53,839 ------- ---------- ------- ---------- ------ - ---------- Balance, end of year..... (8,639) (161,158) (7,070) (131,888) (4,916) (78,049) ------- ---- ------ ------- ---------- ------- ---------- RETAINED EARNINGS (DEFICIT) Balance, beginning of year..... 2,500,181 2,520,350 3,176,533 Net income (loss)..... 447,111 979,701 (3,920,234) Common stock dividends -- $1.50 per share in 2000, $1.125 per share in 2001 and $1.07 per share in 2002..... (426,942) (323,518) (318,382) -- -------- ---------- ---------- Balance, end of year..... 2,520,350 3,176,533 (1,062,083) ---------- ---------- ---------- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) Balance, beginning of year..... (93,818) (23,206) (204,023) ---------- ---------- ------- ---- Other comprehensive income (loss), net of tax: Foreign currency translation adjustments from continuing operations..... 75,887 (24) (540) Additional minimum pension liability adjustment..... (18,419) 12,764 (414,254) Cumulative effect of adoption of SFAS No. 133..... -- 38,092 -- Net deferred gain from cash flow hedges..... -- (15,549) (69,615) Reclassification of deferred loss (gain) from cash flow hedges realized in net income..... -- (59,055) 39,705 Other comprehensive income (loss) from discontinued operations..... 13,144 (157,045) 161,716 ---------- ---------- ---------- - Other comprehensive income (loss)..... 70,612 (180,817) (282,988) ---------- ---------- ---------- Balance, end

of year..... (23,206)
(204,023) (487,011) ---------- ---------- -----------
Total Shareholders' Equity.....
$5,482,060 $6,737,923 $ 1,421,950 ========== ==========
==========

See Notes to the Company's Consolidated Financial Statements

(1) BACKGROUND AND BASIS OF PRESENTATION

RESTRUCTURING

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. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001 (the Reliant Resources Offering). In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger pursuant to which the following steps occurred on August 31, 2002 (the Restructuring):

- CenterPoint Energy became the holding company for the Reliant Energy group of companies;

- Reliant Energy and its subsidiaries became subsidiaries of CenterPoint Energy; and

- Each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock.

On September 5, 2002, CenterPoint Energy announced that its board of directors had declared a distribution of 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). The Reliant Resources Distribution was made on September 30, 2002 to shareholders of record of CenterPoint Energy common stock as of the close of business on September 20, 2002.

CenterPoint Energy is the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. The Company's indirect wholly owned operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities, natural gas pipelines and electric generating plants. The Company is subject to regulation as a "registered holding company" under the Public Utility Holding Company Act of 1935 (1935 Act). As of December 31, 2002, the Company's indirect wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in Reliant Energy's former electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston;

- CenterPoint Energy Resources Corp. (CERC Corp., and together with its subsidiaries, CERC), formerly Reliant Energy Resources Corp. (RERC Corp., and, together with its subsidiaries, RERC), which owns gas distribution systems that together form one of the United States' largest natural gas distribution operations in terms of number of customers served. Through wholly owned subsidiaries, CERC owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services; and

- 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. The Company distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to the Company's shareholders on January 6, 2003. As a result of the distribution of Texas Genco common stock, CenterPoint Energy recorded an impairment charge of $396 million, which will be reflected as a regulatory asset representing stranded costs in the Consolidated Balance Sheet in the first quarter of 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 will record minority interest ownership in Texas Genco of $146 million in its Consolidated Balance Sheet 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 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 each of the two years in the period ended December 31, 2001 and for the nine months ended September 30, 2002 reflect these operations as discontinued operations.

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 has changed for the Company's electric operations. The Texas generation operations of CenterPoint Energy's former integrated electric utility, Reliant Energy HL&P (Texas Genco), are now 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 now 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 the Company's Latin America operations, office buildings and other real estate used in our business operations, district cooling in the central business district in downtown Houston, energy management services and other corporate operations which support all of the Company's business operations. Latin America operations primarily consist of an electric utility and an electric cogeneration plant located in Argentina.

In February 2003, the Company sold its interest in Argener, a cogeneration facility in Argentina, for $23.1 million. The carrying value of this investment was approximately $11 million as of December 31, 2002.

(2) RECLASSIFICATION OF FINANCIAL STATEMENTS

DISCONTINUED OPERATIONS

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 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 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. 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.

Reliant Resources' revenues for the years ended December 31, 2000 and 2001 and the nine months ended September 30, 2002 included in discontinued operations were $18.7 billion, $31.1 billion and $29.2 billion, respectively. Income from discontinued operations for the years ended December 31, 2000 and 2001 and the

nine months ended September 30, 2002 is reported net of income tax expense of $84.3 million, $271.6 million and $290.1 million, respectively. These amounts have not been restated to reflect Reliant Resources' adoption of Emerging Issues Task Force (EITF) Issue No. 02-3, "Recognition and Reporting Gains and Losses on Energy Trading Contracts under Issues No. 98-10 and 00-17" during the third quarter of 2002.

Reliant Resources' energy trading, marketing, power origination and risk management services activities and contracted sales of electricity to large commercial, industrial and institutional customers are accounted for under mark-to-market accounting. Under the mark-to-market method of accounting, financial instruments and contractual commitments are recorded at fair value in revenues upon contract execution. The net changes in their fair values are reported as revenues in the period of change. Trading and marketing revenues related to the physical sale of natural gas, electric power and other energy related commodities are recorded on a gross basis in the delivery period.

Reliant Resources' gains and losses related to financial instruments and contractual commitments qualifying and designated as hedges related to the sale of electric power and sales and purchases of natural gas are recognized in the same period as the settlement of the underlying physical transaction. These realized gains and losses are included in income from discontinued operations.

Summarized balance sheet information related to discontinued operations is as follows as of December 31, 2001:

DECEMBER 31, 2001 ---------- (IN MILLIONS) CURRENT ASSETS: Accounts and notes receivable, principally customer..... $ 1,182,140 Trading and marketing assets..... 1,611,393 Other current assets..... 1,863,654 ---------- Total current assets..... 4,657,187 ----- ------- PROPERTY, PLANT AND EQUIPMENT, NET..... 4,558,393 ---------- OTHER ASSETS: Goodwill..... 891,060 Other noncurrent assets..... 2,192,823 ----- ------- Total other assets..... 3,083,883 --- --------- TOTAL ASSETS..... 12,299,463 ---------- CURRENT LIABILITIES: Accounts payable, principally trade..... 1,002,326 Trading and marketing liabilities..... 1,478,336 Other current liabilities..... 1,256,974 ---------- Total current liabilities..... 3,737,636 ----- ------- OTHER LONG-TERM LIABILITIES..... 2,748,304 -- ---------- LONG-TERM DEBT..... 868,194 ---------- TOTAL LIABILITIES..... 7,354,134 ---------- NET ASSETS OF DISCONTINUED OPERATIONS..... $ 4,945,329 ==========

OTHER RECLASSIFICATIONS

Effective December 1, 2000, the Company's board of directors approved a plan to dispose of its Latin America operations through sales of its assets. Accordingly, in the Company's 2000 consolidated financial statements, the Company reported the results of its Latin America operations as discontinued operations in accordance with Accounting Principles Board (APB) Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB Opinion No. 30) for each of the three years in the period ended December 31, 2000.

In the fourth quarter of 2000, the Latin America business segment sold its investments in El Salvador, Colombia and Brazil for an aggregate $790 million in after-tax proceeds. The Company recorded a $242 million after-tax ($294 million pre-tax) loss in connection with the sale of these investments.

In the fourth quarter of 2000 and in the first quarter of 2001, the Company recorded additional after-tax impairments related to its Latin America operations of $89 million and $7 million ($95 million and $6 million pre-tax), respectively, based on the expected net realizable value of the businesses upon their disposition.

On December 20, 2001, negotiations for the sale of the remaining Latin America investments were terminated as a result of adverse economic developments in Argentina.

During December 2001, the Company concluded there were indicators of impairment related to the remaining assets in this business segment, and accordingly, an impairment evaluation was conducted at the end of the fourth quarter under the guidelines of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (SFAS No. 121). This evaluation resulted in an after-tax impairment charge of $43 million ($74 million pre-tax), representing the excess of book value over estimated net realizable value. The fair value of the remaining net assets was determined using a net discounted cash flows approach. The charge was included as a component of operating income with respect to consolidated subsidiaries and other income with respect to equity investments in unconsolidated subsidiaries. The impairment was primarily related to the economic deterioration in Argentina.

As of December 31, 2001 the Latin America business operations were no longer reported as discontinued operations and were presented as a single line item in continuing operations within the Statement of Consolidated Income and as a single line item on the Consolidated Balance Sheet in accordance with EITF Issue No. 90-6, "Accounting for Certain Events, Not Addressed in Issue No. 87-11 Relating to an Acquired Operating Unit to Be Sold". Effective January 1, 2002 the Company adopted SFAS No. 144 which does not permit this single line presentation for assets held and used, such as the Company's Latin America investments. Certain reclassifications have been made to the Company's consolidated financial statements to show the retroactive effects of adoption of SFAS No. 144.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) RECLASSIFICATIONS AND USE OF ESTIMATES

In addition to the items discussed in Note 2, some amounts from the previous years have been reclassified to conform to the 2002 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. 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.

(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) | 2001 | 2002 |
|---|---|---|---|
| | | (IN MILLIONS) | |
| Electric transmission & distribution | 5-75 | $ 6,211 | $ 5,960 |
| Electric generation | 5-60 | 9,356 | 9,610 |
| Natural gas distribution | 5-50 | 1,980 | 2,151 |
| Pipelines and gathering | 5-75 | 1,633 | 1,686 |
| Other property | 3-40 | 146 | 494 |
| Total | | 19,326 | 19,901 |
| Accumulated depreciation and amortization | | (8,126) | (8,492) |
| Property, plant and equipment, net | | $11,200 | $11,409 |

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.

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:

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| | (IN MILLIONS, EXCEPT PER SHARE) | | |
| Reported income from continuing operations before extraordinary item and cumulative effect of accounting change | $ 222 | $ 446 | $ 386 |
| Add: Goodwill amortization, net of tax | 50 | 49 | -- |
| Adjusted income from continuing operations before extraordinary item and cumulative effect of accounting change | $ 272 | $ 495 | $ 386 |
| Basic Earnings Per Share: | | | |
| Reported income from continuing operations before extraordinary item and cumulative effect of accounting change | $0.78 | $1.54 | $1.30 |
| Add: Goodwill amortization, net of tax | 0.18 | 0.17 | -- |
| Adjusted income from continuing operations before extraordinary item and cumulative effect of accounting change | $0.96 | $1.71 | $1.30 |
| Diluted Earnings Per Share: | | | |
| Reported income from continuing operations before extraordinary item and cumulative effect of accounting change | $0.77 | $1.53 | $1.29 |
| Add: Goodwill amortization, net of tax | 0.18 | 0.17 | -- |
| Adjusted income from continuing operations before extraordinary item and cumulative effect of accounting change | $0.95 | $1.70 | $1.29 |

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

| DECEMBER 31, 2001 | | | DECEMBER 31, 2002 | | |
|---|---|---|---|---|---|
| CARRYING AMOUNT | ACCUMULATED AMORTIZATION | | CARRYING AMOUNT | ACCUMULATED AMORTIZATION | |
| (IN MILLIONS) | | | | | |
| Land Use Rights | $59 | $(11) | $61 | $(12) | |
| Other | 16 | (2) | 19 | (2) | |
| Total | $75 | $(13) | $80 | $(14) | |

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, 2002. 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.

Amortization expense for other intangibles for 2000, 2001 and 2002 was $1.3 million, $1.2 million and $1.9 million, respectively. Estimated amortization expense for the five succeeding fiscal years is as follows (in millions):

| | |
|---|---|
| 2003 | $ 2 |
| 2004 | 2 |
| 2005 | 2 |
| 2006 | 2 |
| 2007 | 2 |
| Total | $10 |

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

| DECEMBER 31, 2001 AND 2002 | |
|---|---|
| Natural Gas Distribution | $1,085 |
| Pipelines and Gathering | 601 |
| Other Operations | 55 |
| Total | $1,741 |

The Company completed its review during the second quarter of 2002 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.

During the fourth quarter of 2001, the Reliant Resources Distribution was deemed to be a probable event. As Reliant Resources has an option to purchase the Company's 81% interest in its generation subsidiary, Texas Genco, in 2004 (see Note 4(b)), the Company was required to evaluate Texas Genco's assets for potential impairment in accordance with SFAS No. 121, due to an expected decrease in the number of years the Company expects to hold and operate these assets. As of December 31, 2001, no impairment had been indicated. As a result of the distribution of approximately 19% of Texas Genco's common stock to CenterPoint Energy's shareholders on January 6, 2003, the Company re-evaluated these assets for impairment as of December 31, 2002 in accordance with SFAS No. 144. As of December 31, 2002, no impairment had been indicated. The Company anticipates that future events, such as a change in the estimated holding period of Texas Genco's generation assets, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and will not be fully recoverable through the 2004 true-up proceeding calculations (see Note 4(a)).

The Texas electric restructuring law provides the Company recovery of the regulatory book value of its Texas generating assets for the amount the net regulatory book value exceeds the estimated market value. If the Company's 81% interest in Texas Genco is sold to Reliant Resources or to a third party in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset (see Note 3(e)), will occur to the extent the recorded book value of the Texas generating

assets exceeds the regulatory book value. As of December 31, 2002, the recorded book value was $649 million in excess of the regulatory book value. This amount declines each year as the recorded book value is depreciated and increases by the amount of capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4.

(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. For information regarding Texas Genco's discontinuance of the application of SFAS No. 71 in 1999 and the effect on its regulatory assets and the Texas electric restructuring law, see Note 4(a).

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2001 and 2002:

| DECEMBER 31, (IN MILLIONS) | 2001 | 2002 |
|---|---|---|
| Excess cost over market (ECOM) true-up | $ -- | $ 697 |
| Recoverable electric generation related regulatory assets, net | 160 | 100 |
| Securitized regulatory asset | 740 | 706 |
| Regulatory tax asset, net | 111 | 178 |
| Unamortized loss on reacquired debt | 62 | 58 |
| Recoverable electric generation plant mitigation | 1,967 | 2,051 |
| Excess mitigation liability | (1,126) | (969) |
| Other long-term assets/liabilities | 4 | 52 |
| Total | $ 1,918 | $2,873 |

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.

Through December 31, 2001, the Public Utility Commission of Texas (Texas Utility Commission) provided for the recovery of most of the Company's fuel and purchased power costs from customers through a fixed fuel factor included in electric rates. Included in the above table in recoverable electric generation related regulatory assets, net are $126 million and $66 million of net regulatory assets related to the recovery of fuel costs as of December 31, 2001 and 2002, respectively. For additional information regarding CenterPoint Houston's fuel filings, see Note 4(c).

Texas Genco sells, through auctions, entitlements to substantially all of its installed electric generation capacity, excluding reserves for planned and forced outages. In September, October and December 2001, and March, July, October and November 2002, Texas Genco conducted auctions as required by the Texas Utility Commission and by the master separation agreement with Reliant Resources.

The capacity auctions were consummated at market-based prices that are substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. The Texas electric restructuring law provides for the recovery in a "true-up" proceeding in 2004 of any difference between market power prices and the earlier estimates of those prices by the Texas Utility Commission, using the prices received in the auctions required by the Texas Utility Commission as the measure of market prices (ECOM

true-up). In 2002, CenterPoint Energy recorded approximately $697 million in non-cash revenue related to the cost recovery of the difference between the market power prices and the Texas Utility Commission's earlier estimates. For additional information regarding the capacity auctions and the related true-up proceeding, see Note 4(a).

In 2001, the Company monetized $738 million of regulatory assets in a securitization financing authorized by the Texas Utility Commission pursuant to the Texas electric restructuring law. The securitized regulatory assets are being amortized ratably as transition charges are collected over the life of the outstanding transition bonds. For additional information regarding the securitization financing, see Note 4(a).

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets and the related amortization during 2000 and 2001, see Notes 3(g) and 4(a).

(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 3(f) and 4(a) for additional discussion of these items.

The following table presents depreciation, goodwill amortization and other amortization expense for 2000, 2001 and 2002.

| YEAR ENDED DECEMBER 31, | | | |
|---|---|---|---|
| -- 2000 | 2001 | 2002 | ------ ------ ------ (IN MILLIONS) |
| Depreciation expense | $285 | $290 | $539 |
| Goodwill amortization expense | 50 | 49 | - |
| - Other amortization expense | 391 | 332 | 77 |
| ---- ---- ---- Total depreciation and amortization expense | $726 | $671 | $616 |
| | ==== | ==== | ==== |

(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 2000, 2001 and 2002, the Company capitalized interest and AFUDC related to debt of $11 million, $9 million and $12 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. Unremitted earnings from the Company's foreign operations are deemed to be permanently reinvested in foreign operations. For additional information regarding income taxes, see Note 12.

(I) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are net of an allowance for doubtful accounts of $46 million and $24 million at December 31, 2001 and 2002, respectively. The provision for doubtful accounts in the Company's Statements

of Consolidated Operations for 2000, 2001 and 2002 was $38 million, $59 million and $26 million, respectively.

During 2000 and 2001, substantially all of the customer accounts receivable of the Company's integrated electric utility were sold. Receivables aggregating $4.9 billion and $5.8 billion were sold in 2000 and 2001, respectively. In December 2001, the Company terminated the agreement under which it sold electric customer accounts receivable and recorded an early termination charge of $20 million in the Statements of Consolidated Operations. Proceeds for the repurchase of receivables, which occurred in January 2002, were obtained from a combination of bank loans and the sale of commercial paper. Net proceeds from the sale of accounts receivable were $523 million at December 31, 2001. Such proceeds were not reflected as debt in the Consolidated Balance Sheets.

In the first quarter of 2002, CERC reduced its trade receivables facility from $350 million to $150 million. During 2001 and 2002, CERC sold its customer accounts receivable and utilized $346 million of its $350 million receivables facility at December 31, 2001 and $107 million of its $150 million receivables facility at December 31, 2002. The amount of receivables sold will fluctuate based on the amount of receivables created by CERC.

In connection with CERC's November 2002 amendment and extension of its receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by CERC. This transaction is 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 Sheet.

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

| DECEMBER 31, | 2001 | 2002 |
|---|---|---|
| | (IN MILLIONS) | |
| Materials and supplies | $208 | $185 |
| Coal and lignite | 58 | 43 |
| Natural gas | 131 | 119 |
| Other | 9 | 5 |
| Total inventory | $406 | $352 |

(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, 2001 and 2002, the Company held debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of $169 million and $163 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, 2001 and 2002, the Company held an investment in AOL Time Warner Inc. (AOL TW) common stock (AOL TW Common), which was classified as a "trading" security. For information regarding the Company's investment in AOL TW Common, 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. Subject to SFAS No. 71, a corresponding regulatory asset is recorded in anticipation of recovery through the rate making process by subsidiaries that apply SFAS No. 71.

(M) FOREIGN CURRENCY ADJUSTMENTS

Local currencies are the functional currency of the Company's foreign operations. Foreign subsidiaries' assets and liabilities have been translated into U.S. dollars using the exchange rate in effect at the balance sheet date. Revenues, expenses, gains and losses have been translated using the weighted average exchange rate for each month prevailing during the periods reported. Cumulative adjustments resulting from translation have been recorded as a component of accumulated other comprehensive loss in shareholders' equity.

(N) 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 classified as long-term as they 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).

(O) NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. The Company adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have any impact on the Company's historical results of operations or financial position.

In June 2001, the FASB issued 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 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. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. The Company adopted SFAS No. 143 on January 1, 2003.

The Company has completed an assessment of the applicability and implications of SFAS No. 143. As a result of the assessment, the Company has identified retirement obligations for nuclear decommissioning at the South Texas Nuclear Project (South Texas Project) and for lignite mine operations at the Jewett mine supplying the Limestone electric generation facility. Nuclear decommissioning and the lignite mine have recorded liabilities under the Company's previous method of accounting. Liabilities recorded for estimated decommissioning obligations were $138 million and $140 million at December 31, 2001 and 2002, respectively. Liabilities recorded for estimated lignite mine reclamation costs were $28 million and $40 million at December 31, 2001 and 2002, respectively. The Company has also identified other asset retirement obligations that cannot be calculated because the assets associated with the retirement obligations have an indeterminate life.

The Company used an expected cash flow approach to measure its asset retirement obligations under SFAS No. 143. The following amounts represent the Company's asset retirement obligations on a pro-forma basis as if it had adopted SFAS No. 143 as of the respective dates:

| DECEMBER 31, | 2001 | 2002 |
|---|---|---|
| | (IN MILLIONS) | |
| Nuclear decommissioning | $178 | $187 |
| Jewett lignite mine | 2 | 4 |
| Total | $180 | $191 |

The net difference between the amounts determined under SFAS No. 143 and the Company's previous method of accounting for estimated nuclear decommissioning costs of $16 million will be recorded as a liability. The net difference between the amounts determined under SFAS No. 143 and the Company's previous method of accounting for estimated mine reclamation costs of $37 million will be recorded as a cumulative effect of accounting change.

The Company's rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2002, these previously recognized removal costs of $618 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. The Company's non-rate regulated businesses have also previously recognized removal costs as component of depreciation expense. Upon adoption of SFAS No. 143, the Company will reverse $115 million of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change.

In August 2001, the FASB issued SFAS No. 144. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 and APB Opinion No. 30, while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods used by the Company to measure impairment losses on long-lived assets but may result in more future dispositions being reported as discontinued operations than would previously have been permitted. The

Company adopted SFAS No. 144 on January 1, 2002. Adoption of SFAS No. 144 also resulted in the retroactive reclassification of the Company's Latin America operations as discussed in Note 2.

In April 2002, the 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 prospectively as it relates to lease accounting and will apply the accounting provision related to debt extinguishment in 2003. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented shall be reclassified.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. The Company will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 is not expected to materially affect the Company's consolidated financial statements. The Company has adopted the additional disclosure provisions of FIN 45 in its consolidated financial statements as of December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure -- an Amendment of SFAS No. 123" (SFAS No. 148). SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The Company currently accounts for its stock-based compensation awards to employees and directors under the accounting prescribed by APB Opinion No. 25 and provides the disclosures required by SFAS No. 123. The Company will continue to account for its stock-based

compensation awards to employees and directors under the accounting prescribed by APB Opinion No. 25 and has adopted the additional disclosure provisions of SFAS No. 148 in its consolidated financial statements as of December 31, 2002. (See Note 11).

In January 2003, the FASB issued FIN 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (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. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not expect the adoption of FIN 46 to have a material impact on its results of operations and financial condition.

See Note 5 for a discussion of the Company's adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) on January 1, 2001 and adoption of subsequent cleared guidance. See Note 3(d) for a discussion of the Company's adoption of SFAS No. 142 on January 1, 2002.

(4) REGULATORY MATTERS

(A) TEXAS ELECTRIC RESTRUCTURING LAW AND DISCONTINUANCE OF SFAS NO. 71 FOR ELECTRIC GENERATION OPERATIONS

In June 1999, the Texas legislature adopted the Texas electric restructuring law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in the third quarter of 2001, and retail electric competition for all other customers began in January 2002. In preparation for competition, the Company made significant changes in the electric utility operations it conducts through its former electric utility division, Reliant Energy HL&P (now CenterPoint Houston). In addition, the Texas Utility Commission issued a number of new rules and determinations in implementing the Texas electric restructuring law.

The Texas electric restructuring law defined the process for competition and created a transition period during which most utility rates were frozen at rates not in excess of their then-current levels. The Texas electric restructuring law provided for utilities to recover their generation related stranded costs and regulatory assets (as defined in the Texas electric restructuring law).

Unbundling. As of January 1, 2002, electric utilities in Texas such as CenterPoint Houston unbundled their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Texas electric restructuring law, the Company submitted a plan in January 2000 that was later amended and updated to accomplish the required separation (the business separation plan). The transmission and distribution business continues to be subject to cost-of-service rate regulation and is responsible for the delivery of electricity to retail customers. The Company transferred the Texas generation facilities that were formerly part of Reliant Energy HL&P (Texas generation business) to Texas Genco in connection with the Restructuring. As a result of these changes, the Company's Texas generation operations are no longer conducted as part of an integrated utility and comprise a new business segment, Electric Generation. Additionally, these operations will not be part of the Company's business if they are acquired in 2004 by Reliant Resources pursuant to an option agreement described below or they are otherwise sold.

Generation. Power generators began selling electric energy to wholesale purchasers, including retail electric providers, at unregulated prices on January 1, 2002. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility is required to sell at auction 15% of the output of its installed generating capacity. The first auction was held in September 2001 for power

delivered beginning January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Texas Utility Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial load in the electric utility's service area is being served by retail electric providers other than an affiliated or formerly affiliated retail electric provider. Texas Genco plans to auction all of its remaining capacity (less approximately 10% withheld to provide for unforeseen outages) during the time period prior to Reliant Resources' exercise of the Texas Genco Option discussed below. Pursuant to the business separation plan, Reliant Resources is entitled to purchase, at prices established in these auctions, 50% (but no less than 50%) of the remaining capacity, energy and ancillary services auctioned by Texas Genco. Sales to Reliant Resources represented approximately 66% of Texas Genco's total revenues in 2002.

Transmission and Distribution Rates. 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 are generally based on amounts of energy delivered. 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 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.

Stranded Costs. CenterPoint Houston will be entitled to recover its stranded costs (the excess of net regulatory book value of generation assets (as defined by the Texas electric restructuring law) over the market value of those assets) and its regulatory assets related to generation. The Texas electric restructuring law prescribes specific methods for determining the amount of stranded costs and the details for their recovery. During the transition period to deregulation (the Transition Period), which included 1998 and the first six months of 1999, and extending through the base rate freeze period from July 1999 through 2001, the Texas electric restructuring law provided that earnings above a stated overall annual rate of return on invested capital be used to recover the Company's investment in generation assets (Accelerated Depreciation). In addition, during the Transition Period, the redirection of depreciation expense to generation assets that CenterPoint Houston would otherwise apply to transmission, distribution and general plant assets was permitted for regulatory purposes (Redirected Depreciation). Please read the discussion of the accounting treatment for depreciation for financial reporting purposes below under "-- Accounting." The Company cannot predict the amount, if any, of these costs that may not be recovered.

In accordance with the Texas electric restructuring law, beginning on January 1, 2002, and ending December 31, 2003, any difference between market power prices received in the generation capacity auctions mandated by the Texas electric restructuring law and the Texas Utility Commission's earlier estimates of those prices will be included in the 2004 stranded cost true-up proceeding, as further discussed below. This component of the true-up is intended to ensure that neither the customers nor the Company is disadvantaged economically as a result of the two-year transition period by providing this pricing structure.

On October 24, 2001, CenterPoint Energy Transition Bond Company, LLC (Bond Company), a Delaware limited liability company and direct wholly owned subsidiary of CenterPoint Houston, issued $749 million aggregate principal amount of its Series 2001-1 Transition Bonds pursuant to a financing order of the Texas Utility Commission. Classes of the bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015, and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. Scheduled payments on the bonds are from 2002 through 2013. Net proceeds to the Bond Company from the issuance were $738 million. The Bond Company paid CenterPoint Houston

$738 million for the transition property. Proceeds were used for general corporate purposes, including the repayment of indebtedness.

The Transition Bonds are secured primarily by the "transition property," which includes the irrevocable right to recover, through non-bypassable transition charges payable by certain retail electric customers, the qualified costs of CenterPoint Houston authorized by the financing order. The holders of the Bond Company's bonds have no recourse to any assets or revenues of CenterPoint Houston, and the creditors of CenterPoint Houston have no recourse to any assets or revenues (including, without limitation, the transition charges) of the Bond Company. CenterPoint Houston has no payment obligations with respect to the Transition Bonds except to remit collections of transition charges as set forth in a servicing agreement between CenterPoint Houston and the Bond Company and in an intercreditor agreement among CenterPoint Houston, the Bond Company and other parties.

The non-bypassable transition charges are required by the financing order to be trued-up annually, effective November 1, for the term of the transition charge. CenterPoint Houston filed an annual true-up with the Texas Utility Commission on August 2, 2002 for transition charges that became effective November 1, 2002.

Costs associated with nuclear decommissioning will continue to be subject to cost-of-service rate regulation and are included in a charge to transmission and distribution customers. For further discussion of the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

True-Up Proceeding. The Texas electric restructuring law and current Texas Utility Commission implementation guidance provide for a true-up proceeding to be initiated in or after January 2004. The purpose of the true-up proceeding is to quantify and reconcile the amount of stranded costs, the capacity auction true-up, unreconciled fuel costs (see Note 3(e)), and other regulatory assets associated with CenterPoint Houston's former electric generating operations that were not previously securitized through the Transition Bonds. The 2004 true-up proceeding will result in either additional charges being assessed on or credits being issued to certain retail electric customers. The Company appealed the Texas Utility Commission's true-up rule on the basis that there are no negative stranded costs, that the Company should be allowed to collect interest on stranded costs, and that the premium on the partial stock valuation applies to only the equity of Texas Genco, not equity plus debt. The Texas court of appeals issued a decision on February 6, 2003 upholding the rule in part and reversing in part. The court ruled that there are no negative stranded costs and that the premium on the partial stock valuation applies only to equity. The court upheld the Texas Utility Commission's rule that interest on stranded costs begins upon the date of the final true-up order. On February 21, 2003, the Company filed a motion for rehearing on the issue that interest on amounts determined in the true-up proceeding should accrue from an earlier date . The Company has not accrued interest in its consolidated financial statements, but estimates that interest could be material. If the court of appeals denies the Company's motion, then the Company will have 45 days to appeal to the Texas Supreme Court. The Company has not decided what action, if any, it will take if the motion for rehearing is denied.

Accounting. Historically, the Company has applied the accounting policies established in SFAS No. 71. Effective June 30, 1999, the Company applied SFAS No. 101 to Texas Genco.

In 1999, the Company evaluated the effects that the Texas electric restructuring law would have on the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of $282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Texas electric restructuring law) will be recoverable. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. Pursuant to EITF Issue No. 97-4 "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements No. 71 and No. 101" (EITF No. 97-4), the remaining recoverable regulatory assets are now

associated with the transmission and distribution portion of the Company's electric utility business. For details regarding the Company's regulatory assets, see Note 3(e).

At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121 on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, the Company determined the fair value for each generating plant by estimating the net present value of future cash flows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. The Company determined that $797 million of electric generation assets were impaired in 1999. Of this amount, $745 million related to the South Texas Project and $52 million related to two gas-fired generation plants. The Texas electric restructuring law provides for recovery of this impairment through regulated cash flows during the transition period and through charges to transmission and distribution customers. As such, a regulatory asset was recorded for an amount equal to the impairment loss and was included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of $221 million during the six months ended December 31, 1999, $329 million in 2000 and $247 million in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, CenterPoint Houston must finalize and reconcile stranded costs (as defined by the Texas electric restructuring law) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Texas electric restructuring law) will be collected through future charges. Any overmitigation of stranded costs may be refunded by a reduction in future charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges.

In order to reduce potential exposure to stranded costs related to generation assets, CenterPoint Houston recognized Redirected Depreciation of $195 million and $99 million in 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. This redirection was in accordance with the Company's Transition Plan. Subsequent to June 30, 1999, Redirected Depreciation expense could no longer be recorded by the Company's electric generation business for financial reporting purposes as these operations are no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $99 million, $218 million and $230 million in depreciation expense, respectively, was redirected from transmission and distribution for regulatory and financial reporting purposes and was established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 2001, the cumulative amount of Redirected Depreciation for regulatory purposes was $841 million, prior to the effects of the October 3, 2001 order discussed below.

Additionally, as allowed by the Texas Utility Commission, in an effort to further reduce potential exposure to stranded costs related to generation assets, CenterPoint Houston recorded Accelerated Depreciation of $194 million and $104 million in 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. Accelerated Depreciation expense was recorded in accordance with the Company's Transition Plan during this period. Subsequent to June 30, 1999, Accelerated Depreciation expense could no longer be recorded by the Company's electric generation business for financial reporting purposes, as these operations are no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $179 million, $385 million and $264 million, respectively, of Accelerated Depreciation was recorded for regulatory reporting purposes, reducing the regulatory book value of the Company's electric generation assets.

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 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 overmitigated 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 3, 2001 Order, CenterPoint Houston was required to reverse the $841 million embedded regulatory asset related to Redirected Depreciation, thereby reducing the net book value of transmission and distribution assets. CenterPoint Houston was required to record a regulatory liability of $1.1 billion related to Accelerated Depreciation. The October 3, 2001 Order requires this amount to be refunded through excess mitigation credits to certain retail electric customers during a seven-year period which began in January 2002.

As of December 31, 2002, in contemplation of the 2004 true-up proceeding, CenterPoint Houston has recorded a regulatory asset of $2.0 billion representing the estimated future recovery of previously incurred stranded costs, which includes $1.1 billion of previously recorded Accelerated Depreciation plus Redirected Depreciation, both reversed in 2001. Offsetting this regulatory asset is a $969 million regulatory liability to refund the excess mitigation to ratepayers. This estimated recovery is based upon current projections of the market value of the Company's Texas generation assets to be covered by the 2004 true-up proceeding calculations. The regulatory liability reflects a current refund obligation arising from prior mitigation of stranded costs deemed excessive by the Texas Utility Commission. CenterPoint Houston began refunding excess mitigation credits with January 2002 bills. These credits are to be refunded over a seven-year period. Because accounting principles generally accepted in the United States of America require CenterPoint Houston to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs in the 2004 true-up proceeding 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. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the unrecoverable balance of such assets as a charge against earnings.

(B) AGREEMENTS RELATED TO TEXAS GENERATING ASSETS

Pursuant to the business separation plan, on January 6, 2003, the Company distributed approximately 19% of Texas Genco's 80 million outstanding shares of common stock to its shareholders in order to establish a public market value for shares of that stock which will be used in 2004 to calculate how much CenterPoint Houston will be able to recover as stranded costs. Reliant Resources has an option to purchase the Company's remaining 81% interest in Texas Genco (Texas Genco Option). The Texas Genco Option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the option will be the average daily closing price on the applicable national exchange for publicly held shares of common stock of Texas Genco for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, plus a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco's common stock equity. The exercise price is also subject to adjustment based on the difference between the cash dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's earnings during that period. Reliant Resources has agreed that if it exercises the Texas Genco Option and purchases the shares of Texas Genco common stock, Reliant Resources will also purchase all notes and other receivables from Texas Genco then held by CenterPoint Energy, at their principal amount plus accrued interest. Similarly, if Texas Genco holds notes or receivables from the Company, Reliant Resources will assume those obligations in exchange for a payment to Reliant Resources by the Company of an amount equal to the principal plus accrued interest. Exercise of the Texas Genco Option by Reliant Resources will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and United States Nuclear Regulatory Commission (NRC) license transfer approval.

Texas Genco is the beneficiary of the decommissioning trust that has 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 Note 6). CenterPoint Houston collects through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and pays the amounts to Texas Genco. Texas Genco in turn deposits these amounts into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust 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.

(C) CENTERPOINT HOUSTON REGULATORY FILINGS

CenterPoint Houston and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission on July 1, 2002. This final fuel reconciliation filing covers reconcilable fuel revenue, fuel expense and interest of approximately $8.5 billion incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance at July 31, 1997 as approved in CenterPoint Houston's last fuel reconciliation. On January 28, 2003, a settlement agreement was reached under which it was agreed that certain items totaling $24 million were written off during the fourth quarter of 2002 and items totaling $203 million will be carried forward for resolution by the Texas Utility Commission in late 2003 or early 2004.

(D) ARKLA RATE CASE

In November 2001, CenterPoint Energy Arkla (Arkla) filed a rate request in Arkansas seeking rates to yield approximately $47 million in additional annual gross revenue. In August 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) that is expected to result in an increase in base rates of approximately $32 million annually. In addition, the APSC approved a gas main replacement surcharge that is expected to provide $2 million of additional gross revenue in 2003 and additional amounts in subsequent years. The new rates included in the final settlement were effective with all bills rendered on and after September 21, 2002.

(E) OKLAHOMA RATE CASE

In May 2002, Arkla filed a request in Oklahoma to increase its base rates by $13.7 million annually. In December 2002, a settlement was approved by the Oklahoma Corporation Commission that is expected to result in an increase in base rates of approximately $7.3 million annually. The new rates included in the final settlement were effective with all bills rendered on and after December 29, 2002.

(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 adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately $88 million, $5 million, $53 million and $2 million, respectively, in the Company's Consolidated Balance Sheet.

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 2002, 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. During the year ended December 31, 2002, there was a $0.9 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur. 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 "Natural Gas and Purchased Power." 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, 2002, the Company expects $1 million in accumulated other comprehensive loss to be reclassified into net income during the next twelve months.

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, 2002, the Company had outstanding interest rate swaps with an aggregate notional amount of $750 million to fix the interest rate applicable to floating rate short-term debt. These swaps do not qualify as cash flow hedges under SFAS No. 133, and are 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. The Company has designated and accounted for the forward-interest rate swaps as a cash flow hedge of the Company's exposure to variability in future interest payments on fixed rate debt the Company anticipates issuing. Accordingly, the Company recorded the $156 million cost in other comprehensive income, which will be amortized into interest expense in the same period during which the forecasted interest payments affect earnings. The Company assesses and measures the hedging relationship on a quarterly basis by comparing the

critical terms of the forward starting interest rate swaps with the expected terms of the forecasted debt issuance as well as evaluating the probability of the underlying interest payments occurring. The Company reclassified approximately $36 million in 2002 as a result of interest payments it believes are no longer probable of occurring for certain periods.

(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, 2001 and 2002:

| DECEMBER 31, 2001 | | | DECEMBER 31, 2002 | | |
|---|---|---|---|---|---|
| INVESTMENT GRADE(1) | NON-TRADING DERIVATIVE ASSETS (2) | TOTAL | INVESTMENT GRADE(1) | NON-TRADING DERIVATIVE ASSETS (2) | TOTAL (3) |
| | | (IN MILLIONS) | | | |
| Energy marketers | $ 9 | $ 9 | $ 7 | $22 | |
| Financial institutions | -- | -- | 9 | 9 | |
| Total | $ 9 | $ 9 | $16 | $31 | |

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(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 $22 million non-trading derivative asset includes a $15 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, 2002, Reliant Energy Services did not have an Investment Grade rating.

(C) GENERAL POLICY.

The Company has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including the Company's trading, 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, 2001, the total utility plant in service and construction work in progress for the total South Texas Project was $5.8 billion and $120 million, respectively. As of December 31, 2002, the total utility plant in service and construction work in progress for the total South Texas Project was $5.8 billion and $158 million, respectively. As of December 31, 2001 and 2002, Texas Genco's investment in the South Texas Project was $316 million and $323 million, respectively, (net of $2.2 billion accumulated depreciation which includes an impairment loss recorded in 1999 of $745 million). For additional information regarding the impairment loss, see Note 4(a). As of December 31, 2001 and 2002, Texas Genco's investment in nuclear fuel was $35 million (net of $286 million amortization) and $42 million (net of $302 million amortization), respectively.

(7) INDEXED DEBT SECURITIES (ACES AND ZENS) AND AOL 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 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). Prior to the conversion, the Company's investment in the TW Preferred was accounted for under the cost method at a value of $990 million in the Company's Consolidated Balance Sheets. The TW Preferred which was redeemable after July 6, 2000, had an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), was entitled to annual dividends of $3.75 per share until July 6, 1999 and was convertible by the Company. Effective on the conversion date, the shares of TW Common were classified as trading securities under SFAS No. 115 and an unrealized gain was recorded in the amount of $2.4 billion ($1.5 billion after-tax) to reflect the cumulative appreciation in the fair value of the Company's investment in Time Warner securities. Unrealized gains and losses resulting from changes in the market value of the TW Common (now AOL TW Common) are recorded in the Company's Statements of Consolidated Operations.

(B) ACES

In July 1997, in order to monetize a portion of the cash value of its investment in TW Preferred, the Company issued 22.9 million of its unsecured 7% Automatic Common Exchange Securities (ACES) having an original principal amount of $1.052 billion and maturing July 1, 2000. The market value of ACES was indexed to the market value of TW Common. On the July 1, 2000 maturity date, the Company tendered 37.9 million shares of TW Common to fully settle its obligations in connection with its unsecured 7% ACES having a value of $2.9 billion.

(C) ZENS

On September 21, 1999, the Company issued approximately 17.2 million of its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of $1.0 billion. The principal amount per ZENS will increase each quarter to the extent that the sum of the quarterly cash dividends and the interest paid during a quarter on the reference shares attributable to one ZENS is less than $.045, so that the annual yield to investors is not less than 2.309%. At December 31, 2002, 14.4 million ZENS were outstanding. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to adjustment as discussed above) or an amount based on the then-current market value of AOL TW Common, or other securities distributed with respect to AOL TW Common

(1.5 shares of AOL TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has a principal amount of $58.25, and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in some cases) of the market value of the reference shares attributable to one ZENS. The Company pays interest on each ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the quarterly interest period on the reference shares attributable to each ZENS. Subject to some conditions, the Company has the right to defer interest payments from time to time on the ZENS for up to 20 consecutive quarterly periods. As of December 31, 2002, no interest payments on the ZENS had been deferred.

In 2002, holders of approximately 16% of the 17.2 million ZENS originally issued 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 AOL 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 AOL TW Common at an average price of $10.56 per share. The Company now holds 21.6 million shares of AOL 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.

Prior to January 1, 2001, an increase in the market value per share of TW Common above $58.25 (subject to some adjustments) resulted in an increase in the Company's liability for the ZENS. However, as the market value per share of TW Common declined below $58.25 (subject to some adjustments), the liability for the ZENS did not decline below the original principal amount. 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 AOL 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 ($1.0 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 and 2002, the Company recorded a loss of $70 million and $500 million, respectively, on the Company's investment in AOL TW Common. During 2001 and 2002, the Company recorded a gain of $58 million and $480 million, respectively, associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the AOL TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

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

| | DEBT INVESTMENT | DERIVATIVE ACES | AOL TW COMPONENT OF ZENS | COMPONENT OF ZENS |
|---|---|---|---|---|
| Balance at December 31, 1999 | $ 3,979 | $ 2,738 | $1,241 | $ -- |
| Loss (gain) on indexed debt securities | -- | 139 | (241) | -- |
| Loss on TW Common | (205) | -- | -- | -- |
| Settlement of ACES | (2,877) | (2,877) | -- | -- |
| 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 | -- | -- | -- | -- |
| Loss on AOL TW Common | (70) | -- | -- | -- |
| Balance at December 31, 2001 | 827 | -- | 123 | 730 |
| Accretion of debt component of ZENS | -- | -- | 1 | -- |
| Gain on indexed debt securities | -- | -- | -- | -- |
| Loss on AOL TW Common | (500) | -- | -- | -- |
| Liquidation of AOL TW Common | (43) | -- | -- | -- |
| Liquidation of ZENS, net of gain | -- | -- | (20) | (25) |
| Balance at December 31, 2002 | $ 284 | $ -- | $ 104 | $ 225 |

(8) EQUITY

(A) CAPITAL STOCK

Effective with the Restructuring, all outstanding shares of Reliant Energy no par value common stock were exchanged for shares of CenterPoint Energy common stock with a par value of $0.01 per share. The capital accounts of CenterPoint Energy have been restated as of December 31, 2000 and 2001 to give effect to the change in par value per share. CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, comprised 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) PREFERRED STOCK

On December 14, 2001, Reliant Energy redeemed all outstanding shares of its $4.00 Preferred Stock at $105 per share plus accrued dividends of $0.478 per share for a total redemption payment of $10.3 million. At December 31, 2001, Reliant Energy had 10,000,000 authorized shares of cumulative preferred stock, none of which was outstanding. At December 31, 2002, CenterPoint Energy had 20,000,000 authorized shares of preferred stock, none of which was outstanding.

(C) PREFERENCE STOCK

At December 31, 2001, Reliant Energy had 10,000,000 authorized shares of preference stock, none of which was outstanding for financial reporting purposes. At December 31, 2001, Reliant Energy had issued and outstanding shares of preference stock that were held by various financing subsidiaries of the Company to

support debt obligations of the subsidiaries to third party lenders. The aggregate amount of debt outstanding at these subsidiaries at December 31, 2001 was $2.9 billion. These shares of preference stock were cancelled in 2002 effective with the extinguishment of debt by the financing subsidiaries.

(D) 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.

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

| DECEMBER 31, 2001 | | DECEMBER 31, 2002 | |
|---|---|---|---|
| | LONG-TERM | | LONG-TERM |
| | CURRENT(1) | | CURRENT(1) |
| (IN MILLIONS) | | | |
| Short-term borrowings: | | | |
| Commercial paper and bank loans | $2,792 | $ 347 | |
| Receivables facility(2) | | 346 | |
| Other(3) | 391 | | |
| Total short-term borrowings | 3,529 | 347 | |
| Long-term debt: | | | |
| CenterPoint Energy: | | | |
| ZENS(4) | $ | $ 123 | $ |
| $ 104 Debentures 7.88% due 2002 | | 100 | |
| Medium-term notes and pollution control bonds 4.90% to 6.70% due 2003 to 2027(5)(8) | 547 | | 380 |
| 167 Pollution control bonds 4.70% to 5.95% due 2011 to 2030(6) | 1,046 | 100 | 871 |
| Bank loan due 2005(7) | | | 3,850 |
| CenterPoint Houston: | | | |
| First mortgage bonds 7.50% to 9.15% due 2021 to 2023(8) | 615 | | 615 |
| Series 2001-1 Transition Bonds 3.84% to 5.63% due 2002 to 2013(9) | 736 | 13 | 717 |
| 19 Term loan, LIBOR plus 9.75%, due 2005(10) | | | 1,310 |
| Debentures 7.40% due 2002 | | 300 | |
| CERC Corp.:(11) | | | |
| Convertible debentures 6.00% due 2012 | 82 | | 76 |
| Debentures 6.38% to 8.90% due 2003 to 2011 | 1,833 | | 1,331 |
| Other | 56 | 1 | 52 |
| Unamortized discount and premium | 5 | | (8) |
| Total long-term debt | 4,920 | 637 | 9,194 |
| Total borrowings | $4,920 | $4,166 | $9,194 |

- ---

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

(2) In the first quarter of 2002, CERC reduced its trade receivables facility from $350 million to $150 million. Advances under the receivables facility aggregating $196 million were repaid in January 2002 with proceeds from the issuance of commercial paper and from the liquidation of short-term investments. For further discussion of the receivables facility, see Note 3(i).

(3) The $391 million of other short-term borrowings at December 31, 2001 reflects a note payable to Reliant Resources, which was repaid in 2002.

(4) 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(c). 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.

(5) These series of debt are secured by first mortgage bonds of CenterPoint Houston.

(6) $527 million of these series of debt is secured by general mortgage bonds of CenterPoint Houston.

(7) On February 28, 2003, CenterPoint Energy amended and extended the termination date of its $3.85 billion credit facility to June 30, 2005 as discussed further below. As a result of this extension, the $3.85 billion credit facility has been classified as long-term debt as of December 31, 2002 in the Consolidated Balance Sheet.

(8) The December 31, 2001 debt balances have been reclassified to give effect to the Restructuring, which occurred on August 31, 2002.

(9) For further discussion of the securitization financing, see Note 4(a).

(10) London inter-bank offered rate (LIBOR) has a minimum rate of 3%. This term loan is secured by general mortgage bonds of CenterPoint Houston.

(11) 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 $9 million and $7 million at December 31, 2001 and 2002, respectively, which is being amortized over the respective remaining term of the related long-term debt.

During 2002, the Company recorded a $17 million after-tax extraordinary item related to a loss on the early extinguishment of debt related to CenterPoint Houston's $850 million term loan and the repurchase of $175 million of the Company's pollution control bonds.

(a) SHORT-TERM BORROWINGS

Credit Facilities. As of December 31, 2002, CenterPoint Energy and its subsidiaries had credit facilities that provided for an aggregate of $4.2 billion in committed credit. As of December 31, 2002, such credit facilities were fully utilized in the form of letters of credit aggregating $2.5 million and loans. The weighted average interest rate on short-term borrowings at December 31, 2001 and December 31, 2002 was 2.9% and 5.4%, respectively. These interest rates exclude facility fees and other fees paid in connection with the arrangement of the bank facilities. As of December 31, 2002, cash aggregating $265 million was invested in a money market fund.

In July 2002, the termination dates of facilities aggregating $4.7 billion were extended from July 12, 2002 to October 10, 2002. Upon the Restructuring, CenterPoint Energy became the borrower under facilities aggregating $4.3 billion, CenterPoint Houston remained the borrower under its $400 million facility and CERC Corp. remained both the borrower under its $350 million revolver and the seller under its $150 million receivables facility. The $150 million receivables facility is not recorded as a financing as it provides for the sale of receivables to third parties as discussed in Note 3(i) to the consolidated financial statements.

On October 10, 2002, the agreements relating to $4.3 billion of bank facilities at CenterPoint Energy and $400 million of bank facilities at CenterPoint Houston were amended and extended. On November 12, 2002, $850 million of bank facilities were terminated with the proceeds of CenterPoint Houston's $1.3 billion collateralized term loan as discussed below. The remaining $3.85 billion of CenterPoint Energy's outstanding bank facilities were originally scheduled to expire on October 9, 2003, with two $600 million mandatory principal reduction payments under the facilities due on or prior to June 30, 2003. On February 28, 2003, the $3.85 billion bank facility was amended and extended as discussed below. Accordingly, the $3.85 billion of outstanding bank loans as of December 31, 2002 have been reclassified as long-term debt in the Consolidated Balance Sheet.

As of December 31, 2002, there was $347 million borrowed under CERC's $350 million revolving credit facility. On February 28, 2003, CERC executed a commitment letter with a major bank for a $350 million, 180-day bridge facility, which is subject to the satisfaction of various closing conditions. This facility will be

available for repaying borrowings under CERC's existing $350 million revolving credit facility that expires on March 31, 2003 in the event sufficient proceeds are not raised in the capital markets to repay such borrowings on or before March 31, 2003. Final terms for the bridge facility have not been established, but it is anticipated that the rates for borrowings under the facility will be LIBOR plus 450 basis points. CERC paid a commitment fee of 25 basis points on the commitment amount and will be required to pay a facility fee of 75 basis points on the amount funded and an additional 100 basis points on the amount funded and outstanding for more than two months. In connection with this facility, CERC expects to provide the lender with collateral in the form of a security interest in the stock it owns in its interstate natural gas pipeline subsidiaries.

In February 2003, CenterPoint Houston obtained a $75 million revolving credit facility that terminates on April 30, 2003. A condition precedent to utilizing the facility is that security in the form of general mortgage bonds must be delivered to the lender. Rates for borrowings under this facility, including the facility fee, will be LIBOR plus 250 basis points.

The bank facilities contain various business and financial covenants. The borrowers are currently in compliance with the covenants under the applicable credit agreements.

At the beginning of 2002, commercial paper programs aggregated $5 billion. A reduction in the size of the commercial paper programs occurred in the third and fourth quarters of 2002 as revolving credit facilities were converted to term loan facilities. The maximum amount of each issuer's outstanding commercial paper was limited to the amount of its revolving credit facility less any direct loans or letters of credit obtained under its revolver. In October 2002, all commercial paper was repaid with proceeds from bank loans. The extent to which commercial paper is issued in lieu of bank loans depends, in part, on market conditions and the credit ratings of the commercial paper issuer. The commercial paper programs were terminated in December 2002.

(b) LONG-TERM DEBT

On February 28, 2003, the Company reached agreement with a syndicate of banks on a second amendment to its $3.85 billion bank facility (the "Second Amendment"). Under the Second Amendment, the maturity date of the bank facility was extended from October 2003 to June 30, 2005, and the $1.2 billion in mandatory prepayments that would have been required this year (including $600 million due on February 28, 2003) were eliminated. The facility consists of a $2.35 billion term loan and a $1.5 billion revolver. Borrowings bear interest based on LIBOR rates under a pricing grid tied to the Company's credit rating. At our current credit ratings, the pricing for loans remains the same. The drawn cost for the facility at our current ratings is LIBOR plus 450 basis points. The Company has agreed to pay the banks an extension fee of 75 basis points on the amounts outstanding under the bank facility on October 9, 2003. The Company also paid $41 million in fees that were due on February 28, 2003, along with $20 million in fees that had been due on June 30, 2003.

In addition, the interest rates will be increased by 25 basis points beginning May 28, 2003 if the Company does not grant the banks a security interest in our 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco requires approval from the Securities and Exchange Commission (SEC) under the 1935 Act, which is currently being sought. That security interest would be released when the Company sells Texas Genco, which is expected to occur in 2004. Proceeds from the sale will be used to reduce the bank facility.

Also under the Second Amendment, on or before May 28, 2003, the Company expects to grant to the banks warrants to purchase up to 10%, on a fully diluted basis, of our common stock at a price equal to the greater of $6.56 per share or 110% of the closing price on the New York Stock Exchange on the date the warrants are issued. The warrants would not be exercisable for a year after issuance but would remain outstanding for four years; provided, that if the Company reduces the bank facility during 2003 by specified amounts, the warrants will be extinguished. To the extent that the Company reduces the bank facility by up to

$400 million on or before May 28, 2003, up to half of the warrants will be extinguished on a basis proportionate to the reduction in the credit facility. To the extent such warrants are not extinguished on or before May 28, 2003, they will vest and become exercisable in accordance with their terms. Whether or not the Company is able to extinguish warrants on or before May 28, 2003, the remaining 50% of the warrants will be extinguished, again on a proportionate basis, if the Company reduces the bank facility by up to $400 million by the end of 2003. The Company plans to eliminate the warrants entirely before they vest by accessing the capital markets to fund the total payments of $800 million during 2003; however, because of current financial market conditions and uncertainties regarding such conditions over the balance of the year, there can be no assurance that the Company will be able to extinguish the warrants or to do so on favorable terms.

The warrants and the underlying common stock would be registered with the SEC and could be exercised either through the payment of the purchase price or on a "cashless" basis under which the Company would issue a number of shares equal to the difference between the then-current market price and the warrant exercise price. Issuance of the warrants is also subject to obtaining SEC approval under the 1935 Act, which is currently being sought. If that approval is not obtained on or before May 28, 2003, the Company will provide the banks equivalent cash compensation over the term that its warrants would have been exercisable to the extent they are not otherwise extinguished.

In the Second Amendment, the Company also agreed that its quarterly common stock dividend will not exceed $0.10 per share. If the Company has not reduced the bank facility by a total of at least $400 million by the end of 2003, of which at least $200 million has come from the issuance of capital stock or securities linked to capital stock (such as convertible debt), the maximum dividend payable during 2004 and for the balance of the term of the facility is subject to an additional test. Under that test the maximum permitted quarterly dividend will be the lesser of (i) $0.10 per share or (ii) 12.5% of the Company's net income per share for the 12 months ended on the last day of the previous quarter.

The Second Amendment provides that proceeds from capital stock or indebtedness issued or incurred by the Company must be applied (subject to a $200 million basket for CERC and another $250 million basket for borrowings by the Company and other limited exceptions) to repay bank loans and reduce the bank facility. Similarly, cash proceeds from the sale of assets of more than $30 million or, if less, a group of sales aggregating more than $100 million, must be applied to repay bank loans and reduce the bank facility, except that proceeds of up to $120 million can be reinvested in the Company's businesses.

On November 12, 2002, CenterPoint Houston entered into a $1.3 billion collateralized term loan maturing November 2005. The interest rate on the loan is LIBOR plus 9.75%, subject to a minimum rate of 12.75%. The loan is secured by CenterPoint Houston's general mortgage bonds. Proceeds from the loan were used to (1) repay CenterPoint Houston's $850 million term loan, (2) pay costs of issuance, (3) repay $300 million of debt that matured on November 15, 2002 and (4) to purchase $100 million of pollution control bonds on December 1, 2002. The loan agreement contains various business and financial covenants including a covenant restricting CenterPoint Houston's debt, excluding transition bonds, as a percent of its total capitalization to 68%. The loan agreement also limits incremental secured debt that may be issued by CenterPoint Houston to $300 million.

Maturities. The Company's maturities of long-term debt and sinking fund requirements, excluding the ZENS obligation, are $706 million in 2003 (of which $500 million may be remarketed by an option holder to a maturity of 2013), $47 million in 2004, $5.6 billion in 2005, $210 million in 2006 and $68 million in 2007. The 2003 and 2004 amounts are net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2002.

Liens. CenterPoint Houston's assets are subject to liens securing approximately $1.2 billion 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 2000, 2001 and 2002 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2003 is approximately $347 million, and the sinking fund requirement to be satisfied in 2003 is approximately $15 million. The Company expects CenterPoint Houston to meet these 2003 obligations by certification of property additions. CenterPoint Houston's assets are subject to liens securing approximately $1.8 billion of general mortgage bonds which are junior to the liens of the first mortgage bonds.

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

Purchase of Pollution Control Bonds. In the fourth quarter of 2002, the Company purchased $175 million of pollution control bonds issued on its behalf. The Company expects to remarket the bonds during the first half of 2003.

Purchase of Convertible Debentures. At December 31, 2001 and 2002, CERC Corp. had issued and outstanding $86 million and $79 million, respectively, aggregate principal amount ($82 million and $76 million, respectively, carrying amount) of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and, prior to the Restructuring, had the right at any time on or before the maturity date thereof to convert each $50 principal amount of Subordinated Debentures into 0.65 shares of Reliant Energy common stock and $14.24 in cash. After the Restructuring, but prior to the Reliant Resources Distribution, each $50 principal amount of Subordinated Debentures was convertible into 0.65 shares of CenterPoint Energy common stock and $14.24 in cash. The Reliant Resources Distribution and the Texas Genco stock distribution changed the conversion rights for each $50 principal amount of Subordinated Debentures as follows:

| SHARES OF CENTERPOINT ENERGY COMMON STOCK | DATE | EVENT | CASH |
|---|---|---|---|
| | October 1, 2002 | Distribution of 1.02 Reliant Resources common stock | $14.24 |
| | December 21, 2002 | Distribution of 1.11 Genco common stock | $14.24 |

During 2002, CERC Corp. purchased $6.6 million aggregate principal amount of its Subordinated Debentures.

TERM Notes. CERC Corp.'s $500 million aggregate principal amount of 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) provide an investment bank with a call option, that gives it the right to have the TERM Notes tendered to it by the holders on November 1, 2003 and then remarketed if it chooses to exercise the option. The TERM Notes are unsecured obligations of CERC Corp. that bear interest at an annual rate of 6 3/8% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the call option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, CERC Corp. will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by CERC Corp., within the 52-week period beginning November 1, 2003. CERC Corp. may elect into this 52-week remarketing window only if its senior unsecured debt securities are rated at least Baa3 by Moody's Investors Service, Inc. and BBB- by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (unless the investment banker waives that requirement). During this period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by CERC Corp. CERC Corp. may elect to redeem the TERM Notes in whole, but not in part, from the investment bank prior to remarketing. If the TERM Notes are remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to adjustment, and the effective interest rate on the

remarketed TERM Notes will be 5.66% plus CERC Corp.'s applicable credit spread at the time of such remarketing.

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, 2001, the Company had recorded $41 million in long-term debt and 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, 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 will decline to 100 Mmcf/day in the year 2003 with a refund by CERC of $5 million to Reliant Resources. The ANR Agreement will terminate in 2005 with a refund of $36 million to Reliant Resources.

(10) 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. CenterPoint Energy accounts for REI Trust I, HL&P Capital Trust I and HL&P Capital Trust II as wholly owned consolidated subsidiaries. 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.

The junior subordinated debentures are the trusts' sole assets and their entire operations. CenterPoint Energy considers its obligations under the Amended and Restated Declaration of Trust, Indenture, Guaranty Agreement and, where applicable, Agreement as to Expenses and Liabilities, relating to each series of preferred securities or capital securities, taken together, to constitute a full and unconditional guarantee by CenterPoint Energy of each trust's obligations with respect to the respective series of preferred securities or capital securities.

The preferred securities and capital securities are mandatorily redeemable upon the repayment of the related series of junior subordinated debentures at their stated maturity or earlier redemption. Subject to some limitations, CenterPoint Energy has the option of deferring payments of interest on the junior subordinated debentures. During any deferral or event of default, CenterPoint Energy may not pay dividends on its capital stock. As of December 31, 2002, no interest payments on the junior subordinated debentures had been deferred.

The outstanding aggregate liquidation amount, distribution rate and mandatory redemption date of each series of the preferred securities or capital securities of the trusts described above and the identity and similar terms of each related series of junior subordinated debentures are as follows:

| AGGREGATE LIQUIDATION AMOUNTS AS OF DECEMBER 31, REDEMPTION 2001 AND 2002 | DISTRIBUTION RATE/ DATE/ TRUST (IN MILLIONS) | INTEREST RATE MATURITY DATE JUNIOR SUBORDINATED DEBENTURES |
|---|---|---|
| REI Trust I..... | $375 | 7.20% March 2048 7.20% Junior Subordinated Debentures |
| HL&P Capital Trust I..... | $250 | 8.125% March 2046 8.125% Junior Subordinated Deferrable Interest Debentures Series A |
| HL&P Capital Trust II..... | $100 | 8.257% February 2037 8.257% Junior Subordinated Deferrable Interest Debentures Series B |

In June 1996, a Delaware statutory business trust created by CERC Corp. (CERC Trust) issued $173 million aggregate amount of convertible preferred securities to the public. CERC Corp. accounts for CERC Trust as a wholly owned consolidated subsidiary. CERC Trust used the proceeds of the offering to purchase convertible junior subordinated debentures issued by CERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities. The convertible junior subordinated debentures represent CERC Trust's sole asset and its entire operations. CERC Corp. considers its obligation under the Amended and Restated Declaration of Trust, Indenture and Guaranty Agreement relating to the convertible preferred securities, taken together, to constitute a full and unconditional guarantee by CERC Corp. of CERC Trust's obligations with respect to the convertible preferred securities.

The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Effective January 7, 2003, the convertible preferred securities are convertible at the option of the holder into $33.62 of cash and 2.34 shares of CenterPoint Energy common stock for each $50 of liquidation value. As of December 31, 2001 and 2002, $0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their 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, 2002, no interest payments on the convertible junior subordinated debentures had been deferred.

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

### (a) INCENTIVE COMPENSATION PLANS

The Company has long-term incentive compensation plans (LICP) that provide for the issuance of stock-based incentives, including performance-based shares, performance-based units, restricted shares, stock options and stock appreciation rights to key employees of the Company, including officers. As of December 31,

2002, 344 current and 443 former employees of the Company participate in the plans. 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 2000, 2001 and 2002, the Company recorded compensation expense of $22 million, $6 million and $2 million, respectively, related to performance-based shares, performance-based units and restricted share grants. Included in these amounts is $7 million and $5 million in compensation expense for 2000 and 2001, respectively, 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 2000 through 2002:

| NUMBER OF PERFORMANCE-BASED UNITS | NUMBER OF PERFORMANCE-BASED SHARES | NUMBER OF RESTRICTED SHARES |
|---|---|---|
| Outstanding at December 31, 1999 | -- | 928,467 |
| Granted | 270,623 | -- |
| Canceled | 394,942 | 206,395 |
| Released to participants | (81,541) | (13,060) |
| Outstanding at December 31, 2000 | (174,001) | (5,346) |
| Granted | 1,067,867 | 458,612 |
| Canceled | 83,670 | -- |
| Released to participants | 2,623 | -- |
| Outstanding at December 31, 2001 | (424,623) | (249,895) |
| Granted | 83,670 | 626,090 |
| Canceled | 208,562 | -- |
| Released to participants | 451,050 | -- |
| Outstanding at December 31, 2002 | (447,060) | (78,768) |
| Weighted average fair value granted for 2000 | 77,925 | 453,822 |
| Weighted average fair value granted for 2001 | $ 25.19 | $ 28.03 |
| Weighted average fair value granted for 2002 | $ -- | $ 38.13 |
| | $ 12.00 | $ -- |

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 shares for the performance cycle ending December 31, 2002 to a number of time-based 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 time-based 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 time-based 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 time-based 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 time-based restricted shares of CenterPoint Energy common stock and time-based 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 distribution of Texas Genco stock, the Company granted additional CenterPoint Energy shares to participants with performance-based and time-based 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 recognized for these fixed stock options. The following table summarizes stock option activity related to the Company for the years 2000 through 2002:

| NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE | |
|---|---|---|
| Outstanding at December 31, 1999 | 6,462,971 | $25.99 |
| Options granted | 5,936,510 | 22.14 |
| Options exercised | (1,061,169) | 25.01 |
| Options canceled | (1,295,877) | 23.96 |
| 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 |

| NUMBER OF WEIGHTED AVERAGE SHARES EXERCISE PRICE ----- | ----- | -------------- |
|---|---|---|
| -- Options exercisable at December 31, 2000..... | 2,258,397 | $25.76 |
| Options exercisable at December 31, 2001..... | 3,646,228 | $25.38 |
| Options exercisable at December 31, 2002..... | 6,854,910 | $19.78 |

Exercise prices for CenterPoint Energy stock options outstanding held by Company employees ranged from $5.00 to $40.00. The following tables provide information with respect to outstanding CenterPoint Energy stock options held by the Company's employees on December 31, 2002:

| REMAINING AVERAGE CONTRACTUAL LIFE PRICE (YEARS) ---------- ---------- ---------- Ranges of Exercise Prices: | OPTIONS OUTSTANDING | AVERAGE EXERCISE |
|---|---|---|
| $5.00-$15.00..... | 6,330,830 | $11.40 8.0 |
| $15.01-$20.00..... | 2,981,020 | 19.05 5.9 |
| $20.01-$30.00..... | 731,891 | 23.07 6.9 |
| $30.01-$40.00..... | 2,416,141 | 33.80 8.3 ---------- |
| Total..... | 12,459,882 | 18.26 7.5 ========== |

The following table provides information with respect to CenterPoint Energy stock options exercisable at December 31, 2002:

| OPTIONS AVERAGE EXERCISABLE EXERCISE PRICE ---------- -- ---------- Ranges of Exercise Prices: | | |
|---|---|---|
| $5.00-$15.00..... | 2,446,317 | $14.82 |
| $15.01-$20.00..... | 2,929,020 | 19.09 |
| $20.01-$30.00..... | 598,556 | 22.76 |
| $30.01-$40.00..... | 881,017 | 33.81 --------- |
| Total..... | 6,854,910 | 19.78 ========= |

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), and SFAS No. 148, 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 2000, 2001 and 2002 were $5.07, $9.25 and $1.40, respectively. The fair values were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

| 2000 | 2001 | 2002 ------ ------ ------ Expected life in years..... |
|---|---|---|
| 5 | 5 | 5 Interest rate..... |
| 6.57% | 4.87% | 2.83% Volatility..... |
| 24.00% | 31.91% | 48.95% Expected common stock dividend..... |
| $ 1.50 | $ 1.50 | $ 0.64 |

Pro forma information for 2000, 2001 and 2002 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:

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| | | | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) |
| Net Income (loss): As reported | $ 447 | $ 980 | $(3,920) |
| Pro forma | $ 437 | $ 968 | $(3,929) |
| Basic Earnings Per Share: As reported | $1.57 | $3.38 | $(13.16) |
| Pro forma | $1.54 | $3.34 | $(13.16) |
| Diluted Earnings Per Share: As reported | $1.56 | $3.35 | $(13.08) |
| Pro forma | $1.52 | $3.31 | $(13.08) |

(B) PENSION AND POSTRETIREMENT BENEFITS

The Company maintains a pension plan which is a non-contributory defined benefit plan covering substantially all employees 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's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the pension plans consist principally of common stocks and interest bearing obligations. Included in such assets are approximately 4.5 million shares of CenterPoint Energy common stock contributed from treasury stock during 2001. As of December 31, 2002, the fair value of CenterPoint Energy common stock was $38 million or 4.7% of the pension plan assets.

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, health care 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.

The Company is required to fund a portion of its obligations in accordance with rate orders. All other obligations are funded on a pay-as-you-go basis.

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

| YEAR ENDED DECEMBER 31, | 2000 | | 2001 | | 2002 | |
|---|---|---|---|---|---|---|
| | PENSION BENEFITS | POSTRETIREMENT BENEFITS | PENSION BENEFITS | POSTRETIREMENT BENEFITS | PENSION BENEFITS | POSTRETIREMENT BENEFITS |
| | (IN MILLIONS) | | | | | |
| Service cost | $ 31 | $ 6 | $ 35 | $ 5 | $ 32 | $ 5 |
| Interest cost | 88 | 27 | 99 | 31 | 104 | 32 |
| Expected return on plan assets | (146) | (11) | (138) | (13) | (126) | (13) |
| Net amortization | (12) | 11 | (3) | 14 | 16 | 13 |
| Curtailment | -- | -- | (23) | 40 | -- | -- |
| Benefit enhancement | -- | -- | 69 | -- | 9 | 3 |
| Settlement | -- | -- | -- | -- | (18) | -- |
| Net periodic cost (benefit) | $ (39) | $ 33 | $ 39 | $ 77 | $ 35 | $ 22 |
| Above amounts reflect the following net periodic cost (benefit) related to discontinued operations | $ -- | $ -- | $ 45 | $ 42 | $ (4) | $(16) |

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 December 31, 2001 and 2002 for the Company's pension and postretirement benefit plans:

| DECEMBER 31, | 2001 | | 2002 | |
|---|---|---|---|---|
| | PENSION BENEFITS | POSTRETIREMENT BENEFITS | PENSION BENEFITS | POSTRETIREMENT BENEFITS |
| | (IN MILLIONS) | | | |
| CHANGE IN BENEFIT OBLIGATION | | | | |
| Benefit obligation, beginning of year | $ 1,317 | $ 425 | $ 1,485 | $ 456 |
| Service cost | 35 | 5 | 32 | 5 |
| Interest cost | 99 | 31 | 104 | 32 |
| Participant contributions | -- | 5 | -- | 7 |
| Benefits paid | (92) | (17) | (136) | (26) |
| Actuarial loss | 69 | 7 | 56 | 20 |
| Curtailment, benefit enhancement and settlement | 57 | -- | 9 | (15) |
| Benefit obligation, end of year | $ 1,485 | $ 456 | $ 1,550 | $ 479 |
| CHANGE IN PLAN ASSETS | | | | |
| Plan assets, beginning of year | $ 1,417 | $ 122 | $ 1,376 | $ 139 |
| Employer contributions | 107 | 40 | -- | 30 |
| Participant contributions | -- | 5 | -- | 7 |
| Benefits paid | (92) | (17) | (136) | (26) |
| Actual investment return | (56) | (11) | (186) | (19) |
| Plan assets, end of year | $ 1,376 | $ 139 | $ 1,054 | $ 131 |

DECEMBER 31, ---------- 2001 2002 - ---------- PENSION POSTRETIREMENT PENSION POSTRETIREMENT BENEFITS BENEFITS BENEFITS BENEFITS -------- --- (IN MILLIONS) RECONCILIATION OF FUNDED STATUS Funded status..... $ (109) $(317) $ (496) $(348) Unrecognized actuarial loss..... 470 (25) 811 27 Unrecognized prior service cost..... (93) 65 (84) 60 Unrecognized transition (asset) obligation..... (2) 94 -- 87 -------- - ---- -------- ----- Prepaid (accrued) pension cost..... $ 266 $(183) $ 231 $(174) ======== ===== ======== ===== AMOUNTS RECOGNIZED IN BALANCE SHEETS Other assets- Other..... $ 266 $ -- $ -- $ -- Benefits obligations..... -- (183) (392) (174) Accumulated other comprehensive income..... -- -- 623 -- -------- ----- -------- ----- Prepaid (accrued) pension cost..... $ 266 $(183) $ 231 $(174) ======== ===== ======== ===== ACTUARIAL ASSUMPTIONS Discount rate..... 7.25% 7.25% 6.75% 6.75% Expected return on plan assets..... 9.5% 9.5% 9.0% 9.0% Rate of increase in compensation levels..... 3.5-5.5% -- 3.5-5.5% --

For the year ended December 31, 2001, the assumed health care cost trend rates were 7.5% for participants under age 65 and 8.5% for participants age 65 and over. For the year ended December 31, 2002, the assumed health cost trend rate was increased to 12% for all participants. The health care cost trend rates decline by .75% annually to 5.5% by 2011.

If the health care cost trend rate assumption were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 2002 would increase by 2.9%. The annual effect of a 1% increase on the sum of service and interest cost would be an increase of approximately 2.4%. If the health care cost trend rate assumption were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2002 would decrease approximately 2.8%. The annual effect of a 1% decrease on the sum of service and interest cost would be a decrease of 2.4%.

In addition to the non-contributory pension plans discussed above, the Company maintains a non-qualified pension plan which allow 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, $25 million and $9 million in 2000, 2001 and 2002, 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 $99 million and $83 million at December 31, 2001 and 2002, respectively. In addition, these accrued benefit liabilities include the recognition of minimum liability adjustments of $20 million as of December 31, 2001 and $23 million as of December 31, 2002, which are reported as a component of other comprehensive income, net of income tax effects. Included in these amounts is $30 million of accrued benefit liabilities for Reliant Resources' participants as of December 31, 2001. Of these liabilities, $11 million represents the recognition of minimum

liability adjustments, which are reported as discontinued operations on the Statements of Consolidated Comprehensive Income, net of income tax effects.

(C) SAVINGS PLAN

The Company has an 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). 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.

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 Company's savings plan includes an Employee Stock Ownership Plan (ESOP), which contains company stock, a portion of 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.

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 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, 2001 and 2002 were as follows:

| DECEMBER 31, | 2001 | 2002 |
|---|---|---|
| | Allocated shares transferred/distributed from the savings plan | |
| | 2,740,328 | 5,943,297 |
| Allocated shares | | |
| | 8,951,967 | 8,734,810 |
| Unearned shares(1) | | |
| | 7,069,889 | 4,915,577 |
| Total ESOP shares(1) | | |
| | 18,762,184 | 19,593,684 |
| Fair value of unearned ESOP shares | | |
| | $187,493,456 | $41,782,405 |

- ---

(1) During 2002, unearned shares and total shares were increased by 831,500 shares. This is 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.

As a result of the ESOP, the savings plan has significant holdings of CenterPoint Energy common stock. As of December 31, 2002, an aggregate of 32,099,870 shares of CenterPoint Energy's common stock were held by the savings plan, which represented 30% 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 $52 million, $51 million and $47 million in 2000, 2001 and 2002, respectively. Included in these amounts are $5 million $16 million and $6 million of savings plan benefit expense for 2000, 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 health care and life insurance benefits for participants in the long-term disability plan) were $2 million, $6 million and $12 million in 2000, 2001 and 2002, 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 in effect deferred compensation plans which permit eligible participants to elect each year to defer a percentage of that year's salary and up to 100% of that year's annual bonus. In general, employees who attain the age of 60 during employment and participate in the Company's deferred compensation plans may elect to have their deferred compensation amounts repaid in (a) fifteen equal annual installments commencing at the later of age 65 or termination of employment or (b) a lump-sum distribution following termination of employment. Interest generally accrues on deferrals at a rate equal to the average Moody's Long-Term Corporate Bond Index plus 2%, determined annually until termination when the rate is fixed at the rate in effect for the plan year immediately prior to that in which a participant attains age 65. During 2000, 2001 and 2002, the Company recorded interest expense related to its deferred compensation obligation of $14 million, $17 million and $11 million, respectively. Included in these amounts are $1 million, $4 million and $0.2 million of interest expense for 2000, 2001 and 2002, respectively, related to Reliant Resources' participants, which is reflected as discontinued operations in the Statements of Consolidated Operations. The discounted deferred compensation obligation recorded by the Company was $161 million and $132 million as of December 31, 2001 and 2002, respectively.

The Company's obligations under other non-qualified plans are presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(F) OTHER EMPLOYEE MATTERS

As of December 31, 2002, approximately 38% of the Company's employees are subject to collective bargaining agreements. Three of these agreements, covering approximately 24% of the Company's employees, will expire in 2003.

(12) INCOME TAXES

The components of income from continuing operations before income taxes are as follows:

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| | (IN MILLIONS) | | |
| United States | $514 | $687 | $592 |
| Foreign | (58) | (12) | 2 |
| Income from continuing operations before income taxes | $456 | $675 | $594 |

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

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| | (IN MILLIONS) | | |
| Current: | | | |
| Federal | $(102) | $378 | $199 |
| State | 9 | (3) | 9 |
| Foreign | 48 | 4 | 2 |
| Total current | 256 | 379 | (91) |
| Deferred: | | | |
| Federal | 288 | (151) | (23) |
| State | 11 | -- | 1 |
| Total deferred | (22) | (151) | 299 |
| Income tax expense | $234 | $228 | $ 208 |

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

| 2000 | 2001 | 2002 | | | | (IN MILLIONS) |
|---|---|---|---|---|---|---|
| Income from continuing operations before income taxes | | | | | | |
| $456 | $675 | $594 | | | | |
| Federal statutory rate | | | | | | |
| 35% | 35% | 35% | | | | |
| Income taxes at statutory rate | | | | | | |
| 160 | 236 | 208 | | | | |
| Net addition (reduction) in taxes resulting from: | | | | | | |
| State income taxes, net of valuation allowances and federal income tax benefit | | | | | | |
| 6 | (2) | 13 | | | | |
| Capital loss benefit | | | | | | |
| -- | -- | (72) | | | | |
| Amortization of investment tax credit | | | | | | |
| (18) | (18) | (13) | | | | |
| Excess deferred taxes | | | | | | |
| (4) | (5) | (3) | | | | |
| Goodwill amortization | | | | | | |
| 17 | 16 | -- | | | | |
| Latin America operations | | | | | | |
| 69 | (5) | -- | | | | |
| Valuation allowance, capital loss | | | | | | |
| -- | -- | 72 | | | | |
| Other, net | | | | | | |
| 4 | 6 | 3 | | | | |
| Total | | | | | | |
| 74 | (8) | -- | | | | |
| Income tax expense | | | | | | |
| $234 | $228 | $208 | | | | |
| Effective rate | | | | | | |
| 51.3% | 33.8% | 35.0% | | | | |

Following are the Company's tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases:

| DECEMBER 31, | | | | | | |
|---|---|---|---|---|---|---|
| 2001 | 2002 | | | | | (IN MILLIONS) |
| Deferred tax assets: | | | | | | |
| Current: | | | | | | |
| Allowance for doubtful accounts | | | | | | |
| $ 14 | $ 9 | | | | | |
| Non-trading derivative assets, net | | | | | | |
| 19 | 35 | | | | | |
| Current portion of capital loss | | | | | | |
| -- | 8 | | | | | |
| Total current deferred tax assets | | | | | | |
| 33 | 52 | | | | | |
| Non-current: | | | | | | |
| Employee benefits | | | | | | |
| 127 | 374 | | | | | |
| Disallowed plant cost, net | | | | | | |
| 53 | -- | | | | | |
| Operating and capital loss carryforwards | | | | | | |
| 29 | 86 | | | | | |
| Contingent liabilities associated with discontinuance of SFAS No. 71 | | | | | | |
| 74 | 108 | | | | | |
| Foreign exchange gains | | | | | | |
| 16 | 16 | | | | | |
| Impairment of foreign asset | | | | | | |
| 52 | 51 | | | | | |
| Other | | | | | | |
| 74 | 90 | | | | | |
| Valuation allowance | | | | | | |
| (15) | (83) | | | | | |
| Total non-current deferred tax assets | | | | | | |
| 410 | 642 | | | | | |
| Total deferred tax assets | | | | | | |
| 443 | 694 | | | | | |

| DECEMBER 31, | 2001 | 2002 |
|---|---|---|
| (IN MILLIONS) Deferred tax liabilities: Current: | | |
| Unrealized gain on indexed debt securities | 113 | 276 |
| Unrealized gain on AOL Time Warner investment | 244 | 61 |
| Total current deferred tax liabilities | 357 | 337 |
| Non-current: | | |
| Depreciation | 2,237 | 2,397 |
| Regulatory assets, net | 403 | 634 |
| Deferred gas costs | 47 | 3 |
| Other | 75 | 57 |
| Total non-current deferred tax liabilities | 2,762 | 3,091 |
| Total deferred tax liabilities | 3,119 | 3,428 |
| Accumulated deferred income taxes, net | $2,676 | $2,734 |

Tax Attribute Carryforwards. At December 31, 2002, the Company had $7 million and $387 million of federal and state net operating loss carryforwards, respectively. The losses are available to offset future respective federal and state taxable income through the year 2022.

In conjunction with the Reliant Resources Distribution, 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. This loss is a capital loss which 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. A valuation allowance is provided against 100% of the expected benefit due to the uncertainty in the Company's ability to generate capital gains during the utilization period.

The valuation allowance reflects a net decrease of $32 million in 2001 and a net increase of $68 million in 2002. 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 2000, the Company received refunds from the Internal Revenue Service totaling $126 million in taxes and interest following audits of tax returns and refund claims for CenterPoint Energy's 1985, 1986 and 1990 through 1995 tax years, and CERC Corp.'s 1979 through 1993 tax years. The pre-tax income statement effect of $40 million ($26 million after-tax) was recorded in 2000 in other income in the Company's Statements of Consolidated Operations. Of the refunds, $26 million was recorded as a reduction in goodwill. CenterPoint Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. All of CERC Corp.'s consolidated federal income tax returns for tax years ending on or prior to CenterPoint Energy's acquisition of CERC Corp. have been audited and settled.

(13) COMMITMENTS AND CONTINGENCIES

(a) COMMITMENTS AND GUARANTEES

Environmental Capital Commitments. CenterPoint Energy anticipates investing up to $131 million in capital and other special project expenditures between 2003 and 2007 for environmental compliance. CenterPoint Energy anticipates expenditures to be as follows (in millions):

| | |
|---|---|
| 2003 | $ 98 |
| 2004 | 33 |
| 2005 | -- |
| 2006(1) | -- |
| 2007(1) | -- |
| Total | $131 |

- ---

(1) NOx control estimates for 2006 and 2007 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, 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, 2002 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 that extend through 2012 are approximately $292 million in 2003, $165 million in 2004, $169 million in 2005, $174 million in 2006 and $167 million in 2007. Purchase commitments related to lignite mining and lease agreements and purchased power are not material to CenterPoint Energy's operations. Prior to January 1, 2002, CenterPoint Houston was allowed recovery of these costs through rates for electric service. As of December 31, 2002, some of these contracts are above market. CenterPoint Energy anticipates that stranded costs associated with these obligations will be recoverable through the stranded cost recovery mechanisms contained in the Texas electric restructuring law. For information regarding the Texas electric restructuring law, see Note 4(a).

CenterPoint Energy's other long-term fuel supply commitments, which have various quantity requirements and durations, are not considered material either individually or in the aggregate to its results of operations or cash flows.

(b) LEASE COMMITMENTS

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2002, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions).

| | |
|---|---|
| 2003 | $ 31 |
| 2004 | 28 |
| 2005 | 26 |
| 2006 | 24 |
| 2007 | 23 |
| 2008 and beyond | 131 |
| Total | $263 |

Total lease expense for all operating leases was $46 million, $45 million and $43 million during 2000, 2001 and 2002, respectively.

(C) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Legal Matters

The Company's predecessor, Reliant Energy, and certain of its 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 arising out of the lawsuits described under "California Class Actions and Attorney General Cases," "Long-Term Contract Class Action," "Washington and Oregon Class Actions," "Bustamante Price Reporting Class Action" and "Trading and Marketing Activities," including attorneys' fees and other costs. Pursuant to the indemnification obligation, Reliant Resources is defending the Company and its subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

California Class Actions and Attorney General Cases. Reliant Energy, Reliant Resources, Reliant Energy Services, Inc.(Reliant Energy Services), Reliant Energy Power Generation, Inc. (REPG) and several other subsidiaries of Reliant Resources, as well as two former officers and one present officer of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. While the plaintiffs allege various violations by the defendants of antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that the defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. All of these suits originally were filed in state courts in San Diego, San Francisco and Los Angeles Counties. The suits in San Diego and Los Angeles Counties were consolidated and removed to the federal district court in San Diego, but on December 13, 2002, that court remanded the suits to the state courts. Prior to the remand, Reliant Energy was voluntarily dismissed from two of the suits. Several parties, including the Reliant defendants, have appealed the judge's remand decision. The United States court of appeals has entered a briefing schedule that could result in oral arguments by summer of 2003. Proceedings before the state court are expected to resume during the first quarter of 2003.

In March and April 2002, the California Attorney General filed three complaints, two in state court in San Francisco and one in the federal district court in San Francisco, against Reliant Energy, Reliant Resources, Reliant Energy Services and other subsidiaries of Reliant Resources alleging, among other matters, violations by the defendants of state laws against unfair and unlawful business practices arising out of transactions in the markets for ancillary services run by the California independent systems operator, charging unjust and unreasonable prices for electricity, in violation of antitrust laws in connection with the acquisition in 1998 of electric generating facilities located in California. The complaints variously seek restitution and disgorgement of alleged unlawful profits for sales of electricity, civil penalties and fines, injunctive relief against unfair competition, and undefined equitable relief. Reliant Resources has removed the two state court cases to the federal district court in San Francisco where all three cases are now pending.

Following the filing of the Attorney General cases, seven additional class action cases were filed in state courts in Northern California. Each of these purports to represent the same class of California ratepayers, assert the same claims as asserted in the other California class action cases, and in some instances repeat as well the allegations in the Attorney General cases. All of these cases have been removed to federal district court in San Diego. Reliant Resources has not filed an answer in any of these cases. The plaintiffs have agreed to a stipulated order that would require the filing of a consolidated complaint by early March 2003 and the filing of the defendants' initial response to the complaint within 60 days after the consolidated complaint is

filed. In all of these cases filed before the federal and state courts in California, the Reliant defendants have filed or intend to file motions to dismiss on grounds that the claims are barred by federal preemption and the filed rate doctrine.

Long-Term Contract Class Action. In October 2002, a class action was filed in state court in Los Angeles against Reliant Energy and several subsidiaries of Reliant Resources. The complaint in this case repeats the allegations asserted in the California class actions as well as the Attorney General cases and also alleges misconduct related to long-term contracts purportedly entered into by the California Department of Water Resources. None of the Reliant entities, however, has a long-term contract with the Department of Water Resources. This case has been removed to federal district court in San Diego.

Washington and Oregon Class Actions. In December 2002, a lawsuit was filed in Circuit Court of the State of Oregon for the County of Multnomah on behalf of a class of all Oregon purchasers of electricity and natural gas. Reliant Energy, Reliant Resources and several Reliant Resources subsidiaries are named as defendants, along with many other electricity generators and marketers. Like the other lawsuits filed in California, the plaintiffs claim the defendants manipulated wholesale power prices in violation of state and federal law. The plaintiffs seek injunctive relief and payment of damages based on alleged overcharges for electricity. Also in December 2002, a nearly identical lawsuit on behalf of consumers in the State of Washington was filed in federal district court in Seattle. Reliant Resources has removed the Oregon suit to federal district court in Portland. It is anticipated that before answering the lawsuits, the defendants will file motions to dismiss on the grounds that the claims are barred by federal preemption and by the filed rate doctrine.

Bustamante Price Reporting Class Action. In November 2002, California Lieutenant Governor Cruz Bustamante filed a lawsuit in state court in Los Angeles on behalf of a class of purchasers of gas and power alleging violations of state antitrust laws and state laws against unfair and unlawful business practices based on an alleged conspiracy to report and publish false and fraudulent natural gas prices with an intent to affect the market prices of natural gas and electricity in California. Reliant Energy, Reliant Resources and several Reliant Resources subsidiaries are named as defendants, along with other market participants and publishers of some of the price indices. The complaint seeks injunctive relief, compensatory and punitive damages, restitution of alleged overpayment, disgorgement of all profits and funds acquired by the alleged unlawful conduct, costs of suit and attorneys' fees. The parties have stipulated to a schedule that would require the defendants to respond to the complaint by March 31, 2003. The Reliant defendants intend to deny both their alleged violation of any laws and their alleged participation in any conspiracy.

Trading and Marketing Activities. Reliant Energy has been named as a party in several lawsuits and regulatory proceedings relating to the trading and marketing activities of its former subsidiary, Reliant Resources.

In June 2002, the SEC advised Reliant Resources and Reliant Energy that it had issued a formal order in connection with its investigation of Reliant Resources' financial reporting, internal controls and related matters. The Company understands that the investigation is focused on Reliant Resources' same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price and certain structured transactions. These matters were previously the subject of an informal inquiry by the SEC. Reliant Resources and the Company are cooperating with the SEC staff.

In connection with the Texas Utility Commission's industry-wide investigation into potential manipulation of the ERCOT market on and after July 31, 2001, Reliant Energy and Reliant Resources have provided information to the Texas Utility Commission concerning their scheduling and trading activities.

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 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 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 three classes: (1) purchasers of Reliant Energy common stock from February 3, 2000 to May 13, 2002; (2) purchasers of Reliant Resources common stock on the open market from May 1, 2001 to May 13, 2002; and (3) purchasers of Reliant Resources common stock in the Reliant Resources Offering or purchasers of shares that are traceable 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 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. The defendants expect to file a motion to transfer this lawsuit to the federal district court in Houston and to consolidate this lawsuit with the consolidated lawsuits described above.

The Company believes that none of these 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.

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 by 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 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 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. The defendants have filed a motion to dismiss this case on the ground that the plaintiff did not make an adequate demand on the Company before filing suit.

A Special Litigation Committee appointed by the Company's board of directors is investigating similar allegations made in a June 28, 2002 demand letter sent on behalf of a Company shareholder. The letter states that the shareholder and other shareholders are considering filing a derivative suit on behalf of the Company and demands that the Company take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. The Special Litigation Committee is reviewing the demands made by the shareholder to determine if these proposed actions are in the best interests of the Company.

Reliant Energy Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena 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 Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. A jury trial of the original claimant cities (but not the class of cities) in the 269th Judicial District Court for Harris County, Texas, ended in April 2000 (the Three Cities case). Although the jury found for Reliant Energy on many issues, it found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found 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. The trial court in the Three Cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to $1.7 million, including interest, plus an award of $13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, the 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 judgment of the court of appeals is subject to motions for rehearing and an appeal to the Texas Supreme Court.

The extent to which issues in the Three Cities case may affect the claims of the other cities served by Reliant Energy cannot be assessed until judgments are final and no longer subject to appeal. However, the court of appeals' ruling appears to be consistent with Texas Supreme Court opinions. The Company estimates the range of possible outcomes for recovery by the plaintiffs in the Three Cities case to be between $-0- and $18 million inclusive of interest and attorneys' fees.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claims Act against RERC Corp. (now CERC Corp.) and certain of its subsidiaries 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., CenterPoint Energy Gas Transmission Company, CenterPoint Energy Field Services, Inc., and CenterPoint Energy-Mississippi River Transmission Corporation are defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Motions to dismiss and class certification issues have been briefed and argued.

City of Tyler, Texas, Gas Costs Review. By letter to CenterPoint Energy Entex (Entex) dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from $2.8 million to $39.2 million for gas purchased by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler

system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas (the Railroad Commission). Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint Petition requests 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. 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 and that the city has no legal or factual support for the statements made in its letter.

Gas Cost Recovery Suits. 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 Utility 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 residential and small commercial 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. The plaintiffs in both cases seek restitution for the alleged overcharges, exemplary damages and penalties. The Company denies that CERC has overcharged any of its customers for natural gas and believes that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

Other Proceedings. The Company is involved in other proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. The Company's management currently 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.

Environmental Matters

Clean Air Standards. Based on current limitations of the Texas Commission on Environmental Quality regarding NOx emissions in the Houston area, the Company anticipates it will have invested at least $682 million for emission control equipment through 2005, including $551 million expended from January 1, 1999 through December 31, 2002, with possible additional expenditures after 2005. NOx control estimates for 2006 and 2007 have not been finalized.

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 effective control option and that up to $699 million is eligible for cost recovery, the exact amount to be determined in the 2004 true-up proceeding. In addition, the Company is required to provide $16.2 million in funding for certain NOx reduction projects associated with East Texas pipeline companies. These funds are also eligible for cost recovery.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against REGT, Reliant Energy Pipeline Services, Inc., RERC Corp., Reliant Energy Services, other Reliant Energy entities and third parties in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented seven times. As of November 21, 2002, there were 695 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties in the same court. More recently, on January 6, 2003, two other plaintiffs filed a third suit of

similar allegations against the Company, as well as other defendants, in Bossier Parish (26th Judicial District Court).

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." 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. This site was originally leased and operated by predecessors of REGT in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. 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. As of December 31, 2002, 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 or operated by CERC, and for which CERC believes it has no liability.

At December 31, 2001 and 2002, CERC had accrued $23 million and $19 million, respectively, for remediation of the Minnesota sites. At December 31, 2002, the estimated range of possible remediation costs 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 an environmental expense tracker mechanism in its rates in Minnesota. CERC has collected $12 million at December 31, 2002 to be used for future environmental remediation.

CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP 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.

Department of Transportation

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to the Company's interstate pipelines as well as its intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities, in accordance with the requirements of the legislation, over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While the Company anticipates that increased capital and operating expenses will be required to comply with the requirements of the legislation, it will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

Other Matters

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) OPERATIONS AGREEMENT WITH CITY OF SAN ANTONIO

Texas Genco has a joint operating agreement with the City Public Service Board of San Antonio (CPS) to share savings from the joint dispatching of each party's generating assets. Dispatching the two generating systems jointly results in savings of fuel and related expenses because there is a more efficient utilization of each party's lowest cost resources. The two parties equally share the savings resulting from joint dispatch. The agreement terminates in 2009.

(e) 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 $9.3 billion as of December 31, 2002. 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.

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.

(f) NUCLEAR DECOMMISSIONING

Texas Genco contributed $14.8 million per year in 2000 and 2001 to trusts established to fund its share of the decommissioning costs for the South Texas Project. In 2002, Texas Genco contributed $2.9 million to these trusts. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the NRC relating to Texas Genco's nuclear decommissioning trusts. Additionally, Texas Genco's board of directors and CenterPoint Energy's board of directors 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 $163 million as of December 31, 2002, of which approximately 49% were fixed-rate debt securities and the remaining 51% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trust, see Note 3(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. CenterPoint Energy is contractually obligated to indemnify Texas Genco from and against any obligations relating to the decommissioning not otherwise satisfied through collections by CenterPoint Houston. For information regarding the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

(14) 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 recognized in the Consolidated Balance

Sheets at December 31, 2001 and 2002 (see Note 5). Therefore, these financial instruments are stated at fair value and are excluded from the table below.

| DECEMBER 31, 2001 | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|
| (IN MILLIONS) Financial liabilities: | | |
| Long-term debt (excluding capital leases) | $5,545 | $5,550 |
| Trust preferred securities | 706 | 664 |

| DECEMBER 31, 2002 | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|
| (IN MILLIONS) Financial liabilities: | | |
| Long-term debt (excluding capital leases) | $6,135 | $6,349 |
| Trust preferred securities | 706 | 476 |

(15) 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, | 2000 | 2001 | 2002 |
|---|---|---|---|
| (IN MILLIONS, EXCEPT PER SHARE AND SHARE AMOUNTS) Basic EPS calculation: | | | |
| Income from continuing operations before extraordinary item and cumulative effect of accounting change | $ 222 | $ 446 | $ 386 |
| Income from discontinued operations, net of tax | 225 | 475 | 82 |
| Loss on disposal of discontinued operations | -- | -- | (4,371) |
| Extraordinary item, net of tax | -- | -- | (17) |
| Cumulative effect of accounting change, net of tax | -- | 59 | -- |
| Net income (loss) attributable to common shareholders | $ 447 | $ 980 | $ (3,920) |
| Weighted average shares outstanding | 284,652,000 | 289,776,000 | 297,997,000 |
| Basic EPS: Income from continuing operations before extraordinary item and cumulative effect of accounting change | $ 0.78 | $ 1.54 | $ 1.30 |
| Income from discontinued operations, net of tax | 0.79 | 1.64 | 0.27 |
| Loss on disposal of discontinued operations | -- | -- | (14.67) |
| Extraordinary item, net of tax | -- | -- | (0.06) |
| Cumulative effect of accounting change, net of tax | -- | 0.20 | -- |
| Net income (loss) attributable to common shareholders | $ 1.57 | $ 3.38 | $ (13.16) |
| Diluted EPS calculation: Net income (loss) attributable to common shareholders | $ 447 | $ 980 | $ (3,920) |
| Plus: Income impact of assumed conversions: Interest on 6 1/4% convertible trust preferred securities | -- | -- | -- |
| Total earnings effect assuming dilution | $ 447 | $ 980 | $ (3,920) |

| FOR THE YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| (IN MILLIONS, EXCEPT PER SHARE AND SHARE AMOUNTS) | | | |
| Weighted average shares outstanding | 284,652,000 | 289,776,000 | 297,997,000 |
| Plus: Incremental shares from assumed conversions(1) | | | |
| Stock options | 1,652,000 | 1,650,000 | 846,000 |
| Restricted stock | 955,000 | 754,000 | 784,000 |
| 6 1/4% convertible trust preferred securities | 14,000 | 13,000 | 17,000 |
| Weighted average shares assuming dilution | 287,273,000 | 292,193,000 | 299,644,000 |
| Diluted EPS: | | | |
| Income from continuing operations before extraordinary item and cumulative effect of accounting change | $ 0.77 | $ 1.53 | $ 1.29 |
| Income from discontinued operations, net of tax | 0.79 | 1.62 | 0.27 |
| Loss on disposal of discontinued operations | -- | -- | (14.58) |
| Extraordinary item, net of tax | -- | -- | (0.06) |
| Cumulative effect of accounting change, net of tax | -- | 0.20 | -- |
| Net income (loss) attributable to common shareholders | $ 1.56 | $ 3.35 | $ (13.08) |

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(1) Options to purchase 442,385, 2,074,437 and 9,709,272 shares were outstanding for the years ended December 31, 2000, 2001 and 2002, 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.

(16) UNAUDITED QUARTERLY INFORMATION

The consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution as described above on the CenterPoint Energy financial statements. The consolidated financial statements present the Reliant Resources businesses (previously reported as the Wholesale Energy, European Energy and Retail Energy business segments and related corporate costs) 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, 2002.

Summarized quarterly financial data is as follows:

| YEAR ENDED DECEMBER 31, 2001 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
|---|---|---|---|---|
| | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | | |
| Revenues | $3,839 | $2,509 | $2,300 | $2,008 |
| Operating income | 340 | 321 | 435 | 148 |
| Income from continuing operations before cumulative effect of accounting change | 122 | 122 | 183 | 19 |
| Income from discontinued operations, net of tax | 82 | 194 | 172 | 27 |
| Cumulative effect of accounting change, net of tax | 59 | -- | -- | -- |
| Net income attributable to common shareholders | 263 | 316 | 355 | 46 |
| Basic earnings per share:(1) | | | | |
| Income from continuing operations before cumulative effect of accounting change | $ 0.43 | $ 0.42 | $ 0.63 | $ 0.07 |
| Income from discontinued operations, net of tax | 0.28 | 0.67 | 0.59 | 0.09 |
| Cumulative effect of accounting change, net of tax | 0.20 | -- | -- | -- |
| Net income attributable to common shareholders | $ 0.91 | $ 1.09 | $ 1.22 | $ 0.16 |
| Diluted earnings per share:(1) | | | | |
| Income from continuing operations before cumulative effect of accounting change | $ 0.42 | $ 0.42 | $ 0.63 | $ 0.07 |
| Loss from discontinued operations, net of tax | 0.28 | 0.66 | 0.58 | 0.09 |
| Cumulative effect of accounting change, net of tax | 0.20 | -- | -- | -- |
| Net income attributable to common shareholders | $ 0.90 | $ 1.08 | $ 1.21 | $ 0.16 |

| YEAR ENDED DECEMBER 31, 2002 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER |
|---|---|---|---|---|
| | (IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | | |
| Revenues | $2,078 | $1,804 | $ 1,923 | $2,117 |
| Operating income | 350 | 289 | 431 | 259 |
| Income (loss) from continuing operations before extraordinary item | 145 | 88 | 161 | (8) |
| Income (loss) from discontinued operations, net of tax | (114) | 148 | 48 | -- |
| Loss on disposal of discontinued operations | -- | -- | (4,333) | (38) |
| Extraordinary item, net of tax | -- | -- | -- | (17) |
| Net income (loss) attributable to common shareholders | 31 | 236 | (4,124) | (63) |
| Basic earnings (loss) per share:(1) | | | | |
| Income (loss) from continuing operations before extraordinary item | $ 0.49 | $ 0.29 | $ 0.54 | $(0.03) |
| Income (loss) from discontinued operations, net of tax | (0.38) | 0.50 | 0.16 | -- |
| Loss on disposal of discontinued operations | -- | -- | (14.50) | (0.12) |
| Extraordinary item, net of tax | -- | -- | -- | (0.06) |
| Net (loss) income attributable to common shareholders | $ 0.11 | $ 0.79 | $(13.80) | $(0.21) |
| Diluted (loss) earnings per share:(1) | | | | |
| Income (loss) from continuing operations before extraordinary item | $ 0.49 | $ 0.29 | $ 0.54 | $(0.03) |
| Income (loss) from discontinued operations, net of tax | (0.38) | 0.50 | 0.16 | -- |
| Loss on disposal of discontinued operations | -- | -- | (14.47) | (0.12) |
| Extraordinary item, net of tax | -- | -- | -- | (0.06) |
| Net income (loss) attributable to common shareholders | $ 0.11 | $ 0.79 | $(13.77) | $(0.21) |

- ---

(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.

(17) 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 has changed for the Company's electric operations. The Texas generation operations of CenterPoint Energy's former integrated electric utility, Reliant Energy HL&P, are now 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 now reported separately in the Electric Transmission & Distribution business segment In 2001, Latin America was a separate business segment, but beginning in 2002 is reported in the Other Operations business segment. Reportable business segments for all prior periods presented have been restated to conform to the 2002 presentation. Reportable business segments presented herein do not include Wholesale Energy, European Energy, Retail Energy and related corporate costs as these

business segments operated within Reliant Resources which is presented as discontinued operations within these consolidated financial statements. 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 segment data.

Beginning in the first quarter of 2002, the Company began to evaluate business segment performance on an earnings (loss) before interest expense, distribution on trust preferred securities, income taxes, extraordinary item and cumulative effect of accounting change (EBIT) basis. Prior to 2002, the Company evaluated performance based upon operating income. EBIT, as defined, is shown because it is a measure we use to evaluate the performance of our business segments and the Company believes it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. The Company expects that some analysts and investors will want to review EBIT when evaluating the Company. EBIT is not defined under accounting principles generally accepted in the United States of America (GAAP), should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Additionally, the Company's computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion.

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. For a description of the financial reporting business segments, see Note 1. Financial data for business segments, products and services and geographic areas are as follows:

| ELECTRIC OPERATIONS | ELECTRIC TRANSMISSION & DISTRIBUTION | ELECTRIC GENERATION | NATURAL GAS PIPELINES AND GATHERING | TRANSMISSION & DISTRIBUTION | OTHER OPERATIONS | DISCONTINUED OPERATIONS | RECONCILING ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|---|---|---|
| | | | | | (IN MILLIONS) | | | |
| AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2000: | | | | | | | | |
| Revenues from external customers... | $ 2,160 | $ 3,334 | $4,503 | $ 280 | $ 97 | $ -- | $ -- | $10,374 |
| Intersegment revenues..... | -- | -- | 1 | 104 | -- | -- | (105) | -- |
| Depreciation and amortization..... | 356 | 151 | 145 | 56 | 18 | -- | -- | 726 |
| EBIT..... | 953 | 331 | 122 | 137 | (485) | -- | (38) | 1,020 |
| Total assets..... | 6,659 | 4,032 | 4,518 | 2,358 | 4,537 | 14,098 | (977) | 35,225 |
| Equity investments in unconsolidated subsidiaries..... | -- | -- | -- | -- | 13 | -- | -- | 13 |
| Expenditures for long-lived assets..... | 391 | 252 | 195 | 61 | 23 | -- | -- | 922 |
| AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001: | | | | | | | | |
| Revenues from external customers... | 2,100 | 3,411 | 4,737 | 307 | 101 | -- | -- | 10,656 |
| Intersegment revenues..... | -- | -- | 5 | 108 | -- | -- | (113) | -- |
| Depreciation and amortization..... | 299 | 154 | 147 | 58 | 13 | -- | -- | 671 |
| EBIT..... | 906 | 267 | 149 | 138 | (137) | -- | (38) | 1,285 |
| Total assets..... | 7,689 | 4,323 | 3,732 | 2,361 | 1,296 | 12,299 | (1,296) | 30,104 |
| Expenditures for long-lived assets..... | 527 | 409 | 209 | 54 | 28 | -- | -- | 1,227 |

unconsolidated subsidiaries.....
-- 13 Expenditures for long-lived
assets.....
-- 922 AS OF AND FOR THE YEAR
ENDED DECEMBER 31, 2001: Revenues
from external customers... --
10,656 Intersegment
revenues..... (113) --
Depreciation and
amortization..... -- 671
EBIT.....
(41) 1,282 Total
assets.....
(434) 31,266 Expenditures for
long-lived
assets.....
-- 1,227

| | ELECTRIC OPERATIONS | ELECTRIC NATURAL GAS DISTRIBUTION | PIPELINES & GATHERING | TRANSMISSION & OTHER OPERATIONS | DISCONTINUED GENERATION | RECONCILING ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|---|---|
| (IN MILLIONS) AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2002: | | | | | | | |
| Revenues from external customers | 2,222(1) | 1,488(2) | 3,927 | 253 | 32 | -- | 7,922 |
| Intersegment revenues | -- | 5 | 33 | 121 | -- | (159) | -- |
| Depreciation and amortization | 271 | 157 | 126 | 41 | 21 | -- | 616 |
| EBIT | 1,118 | (130) | 210 | 158 | 5 | (29) | 1,332 |
| Total assets | 9,098 | 4,416 | 4,051 | 2,481 | 1,408 | (1,820) | 19,634 |
| Expenditures for long-lived assets | 261 | 280 | 196 | 70 | 47 | -- | 854 |

- ---

(1) Sales to Reliant Resources represented approximately $940 million of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002.

(2) Sales to Reliant Resources represented approximately 66% of Texas Genco's total revenues in 2002.

| YEAR ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|---|---|---|
| | | | (IN MILLIONS) |
| RECONCILIATION OF OPERATING INCOME TO EBIT AND EBIT TO NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS: | | | |
| Operating income | $ 1,387 | $ 1,244 | $ 1,329 |
| Loss from equity investments in unconsolidated subsidiaries | (29) | -- | -- |
| Loss on AOL Time Warner investment | (205) | (70) | (500) |
| Gain on indexed debt securities | 102 | 58 | 480 |
| Impairment on Latin America equity investments | (131) | (4) | -- |
| Loss on disposal of Latin America equity investments | (176) | -- | -- |
| Other income, net | 72 | 54 | 23 |
| EBIT | 1,020 | 1,282 | 1,332 |
| Interest expense and other charges | (564) | (607) | (738) |
| Income tax expense | (234) | (228) | (208) |
| Income from continuing operations before income taxes, extraordinary item, cumulative effect of accounting change and preferred dividends | 222 | 447 | 386 |
| Income from discontinued operations, net of tax | 225 | 475 | 82 |
| Loss on disposal of discontinued operations | -- | -- | (4,371) |
| Extraordinary item, net of tax | -- | -- | (17) |
| Cumulative effect of accounting change, net of tax | -- | 59 | -- |
| Preferred dividends | -- | (1) | -- |
| Net income (loss) attributable to common shareholders | $ 447 | $ 980 | $(3,920) |
| REVENUES BY PRODUCTS AND SERVICES: | | | |
| Retail electricity sales | $ 5,583 | $ 5,598 | $ -- |
| Wholesale electricity sales | -- | -- | 1,503 |
| Electric delivery sales | -- | -- | 1,525 |
| ECOM true-up | -- | -- | 697 |
| Retail gas sales | 4,416 | 4,645 | 3,832 |
| Gas transport | 280 | 307 | 253 |
| Energy products and services | 95 | 106 | 112 |
| Total | $10,374 | $10,656 | $ 7,922 |
| REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREAS: | | | |
| Revenues: U.S. | $10,285 | $10,564 | $ 7,906 |
| Other | 89 | 92 | 16 |
| Total | $10,374 | $10,656 | $ 7,922 |
| Long-lived assets: U.S. | $13,021 | $13,002 | $13,216 |
| Other | 143 | -- | -- |
| Total | $13,164 | $13,002 | $13,216 |

(18) GUARANTOR DISCLOSURES

CenterPoint Energy Gas Resources Corp., CenterPoint Energy Gas Marketing Company and other wholly owned subsidiaries of CERC Corp. provide comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by the Company's pipelines and distribution subsidiaries. In order to hedge their exposure to natural gas prices, these CERC Corp. subsidiaries have entered standard purchase and sale agreements with various counterparties. CenterPoint Energy and CERC Corp. have guaranteed the payment obligations of these subsidiaries under certain of these agreements, typically for one-year terms. As of December 31, 2002, CenterPoint Energy had delivered 14 such guarantees with an aggregate maximum potential exposure of $133.5 million and an aggregate carrying amount of $12.1 million. As of December 31, 2002, CERC Corp. had delivered 43 such guarantees with an aggregate maximum potential exposure of $410 million and an aggregate carrying amount of $53.7 million.

As part of its normal business operations, Texas Genco, LP, a wholly owned indirect subsidiary of Texas Genco, has also entered into power purchase and sale agreements to buy less expensive power than Texas Genco's marginal cost of generation or to sell power to another party who is willing to pay more than Texas Genco's marginal cost of generation. Texas Genco has guaranteed the payment obligations of Texas Genco, LP under certain of these agreements, typically for a one-year term. As of December 31, 2002, Texas Genco had delivered 7 such guarantees with an aggregate maximum potential exposure of $28.2 million and an aggregate carrying amount of $-0-.

CenterPoint Energy has delivered guarantees in support of Texas Genco's obligations to ERCOT under qualified scheduling entity and transmission congestion rights agreements. These guarantees expire in October, 2003 and as of December 31, 2002, have an aggregate maximum potential exposure of $45 million and an aggregate carrying amount of $-0-.

CenterPoint Energy has delivered a guarantee in favor of the Tennessee Board for Licensing Contractors to support the contracting activities of CenterPoint Energy Pipeline Services, Inc. in Tennessee. The term of this guarantee runs with the two-year license granted by the Tennessee Board and provides for a maximum potential exposure of $15 million.

CenterPoint Energy has entered standard indemnification agreements with various surety companies to support the issuance of surety bonds on behalf of CenterPoint Energy and its subsidiaries. These indemnification agreements vary in duration to coincide with the term of the bonds issued. As of December 31, 2002, these agreements covered surety bonds in the aggregate amount of $14.5 million. In addition, CenterPoint Energy has provided $8.9 million in cash deposits to secure its indemnity to one surety company.

## 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, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2002. 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, 2001 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 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 2 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 of the accompanying consolidated financial statements.

As discussed in Note 3(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."

DELOITTE & TOUCHE LLP

Houston, Texas
February 28, 2003

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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 2003 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 2003 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 2003 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 2003 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.

PART IV

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. Subsequent to the date of their evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K



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 156, 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 1, 2002, we filed a Current Report on Form 8-K dated September 30, 2002, announcing that our board of directors had declared a distribution of all of the shares of Reliant Resources, Inc. common stock owned by us to our common shareholders on a pro rata basis. The distribution was completed on September 30, 2002 to our shareholders of record as of the close of business on September 20, 2002.

On October 11, 2002, we filed a Current Report on Form 8-K dated October 11, 2002, to announce that we had negotiated new, one-year credit facilities totaling $4.7 billion to replace similar facilities that expired on October 10, 2002.

On October 17, 2002, we filed a Current Report on Form 8-K dated October 17, 2002, relating to the announcement of third quarter 2002 results.

On November 8, 2002, we filed a Current Report on Form 8-K dated November 8, 2002, to announce that we had negotiated a new $1.31 billion senior secured credit facility at CenterPoint Energy Houston Electric, LLC.

On December 6, 2002, we filed a Current Report on Form 8-K dated December 5, 2002, to announce that our board of directors had declared a stock distribution of approximately 19% of the 80,000,000 outstanding shares of common stock of our wholly owned subsidiary, Texas Genco Holdings, Inc., to our shareholders to be made on January 6, 2003.

On December 12, 2002, we filed a Current Report of Form 8-K dated December 11, 2002, to announce that the Securities and Exchange Commission had declared Texas Genco's Form 10 registration statement relating to its common stock effective under the Securities Exchange Act of 1934. Payment of the distribution had been conditional upon the Securities and Exchange Commission declaring the Form 10 registration statement effective.

On December 23, 2002, we filed a Current Report on Form 8-K dated December 20, 2002, to announce that our board of directors had established the distribution ratio for the previously declared pro rata distribution of approximately 19% of the 80,000,000 outstanding shares of Texas Genco common stock to our shareholders to be made on January 6, 2003.

On January 7, 2003, we filed a Current Report on Form 8-K dated January 6, 2003, announcing that we had distributed approximately 19% of the 80 million outstanding shares of Texas Genco common stock to our shareholders of record as of the close of business on December 20, 2002.

On February 13, 2003, we filed a Current Report on Form 8-K dated February 13, 2003, relating to the announcement of fourth quarter 2002 and year-end 2002 results.

On March 3, 2003, we filed a Current Report on Form 8-K dated February 28, 2003, announcing that we had amended and extended our $3.85 billion credit facility from October 2003 to June 30, 2005.

CENTERPOINT ENERGY, INC.

SCHEDULE I -- FINANCIAL STATEMENTS OF CENTERPOINT ENERGY, INC.
STATEMENT OF OPERATIONS

FOR THE PERIOD SEPTEMBER 1, 2002 THROUGH DECEMBER 31, 2002 ---------- (IN THOUSANDS) Equity Losses of Subsidiaries..... $ (4,907) Interest Income from Subsidiaries..... 29,878 Loss on Disposal of Subsidiary..... (4,371,464) Loss on Indexed Debt Securities..... (7,964) Operation and Maintenance Expenses..... (5,793) Depreciation and Amortization..... (5,978) Taxes Other than Income..... (6,024) Interest Expense to Subsidiaries..... (31,198) Interest Expense..... (186,923) Income Tax Benefit..... 64,916 ---------- Loss Before Extraordinary Item..... (4,525,457) Extraordinary Item, net of tax of $595..... (1,104) ---------- Net Loss..... $(4,526,561) ==========

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- FINANCIAL STATEMENTS OF CENTERPOINT ENERGY, INC.
BALANCE SHEETS

DECEMBER 31, DECEMBER 31, 2001 2002 ------------ -------- ---- (IN THOUSANDS) ASSETS CURRENT ASSETS: Cash and cash equivalents..... $ 3 $ 222,511 Notes receivable -- affiliated companies..... -- 492,246 Accounts receivable -- affiliated companies..... -- 130,712 Other assets..... -- 10,197 ----- ----------- Total current assets..... 3 855,666 ----- ----------- PROPERTY, PLANT AND EQUIPMENT, NET..... -- 114,240 ----- ---------- - OTHER ASSETS: Investment in wholly-owned subsidiaries..... -- 8,090,581 Notes receivable -- affiliated companies..... -- 984,063 Accumulated deferred tax asset..... -- 319,675 Other assets..... -- 185,719 ----- ----------- Total other assets..... -- 9,580,038 - ---- ----------- TOTAL ASSETS..... $ 3 $10,549,944 ===== =========== LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES: Short-term borrowings..... $ -- $ -- Notes payable -- affiliated companies..... -- 37,292 Current portion of long-term debt..... -- 272,422 Indexed debt securities derivative..... -- 224,881 Accounts payable: Affiliated companies..... -- 50,948 Other..... -- 8,869 Taxes accrued..... -- 609,512 Interest accrued..... -- 89,206 Other..... -- 73,334 ----- ----------- Total current liabilities..... -- 1,366,464 --- -- ----------- OTHER LIABILITIES: Benefit obligations..... -- 622,284 Notes payable -- affiliated companies..... -- 1,679,706 Other..... -- 365,646 ----- ----------- Total non-current liabilities..... -- 2,667,636 ----- - ---------- LONG-TERM DEBT..... -- 5,104,474 ----- ---------- SHAREHOLDERS' EQUITY: Common stock..... 3 3,050 Additional paid-in capital..... -- 3,046,043 Retained deficit..... -- (1,062,083) Unearned ESOP stock..... -- (78,049) Accumulated other comprehensive loss..... -- (497,591) ----- ---------- Total shareholders' equity..... 3 1,411,370 ----- ---------- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY..... $ 3 $10,549,944 ===== ==========

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- FINANCIAL STATEMENTS OF CENTERPOINT ENERGY, INC.
STATEMENT OF CASH FLOWS

FOR THE PERIOD SEPTEMBER 1, 2002 THROUGH DECEMBER 31, 2002 ----------
(IN THOUSANDS) OPERATING ACTIVITIES: Net loss.....
$(4,526,561) Add: Loss on disposal of subsidiary..... 4,371,464 ----------
- Loss less extraordinary item..... (155,097) Non-cash items included in net loss: Equity losses of subsidiaries..... 4,907 Deferred income tax benefit..... (52,117) Depreciation and amortization.....
5,978 Loss on indexed debt securities..... 7,964 Extraordinary item..... 1,104 Changes in working capital: Accounts receivable to affiliates, net..... 39,540 Accounts payable..... (1,302) Other current assets.....
(6,571) Other current liabilities..... (101,273) Common stock dividends received from subsidiaries.....
57,645 Other.....
(68,934) ---------- Net cash used in operating activities..... (268,156) ----------
- INVESTING ACTIVITIES: Investment in subsidiaries..... (181,654) Capital expenditures, net..... (4,274) ----------
Net cash used in investing activities..... (185,928) ----------
- FINANCING ACTIVITIES: Changes in short-term borrowings..... (21,000) Payments on long-term debt.....
(168,558) Common stock dividends paid..... (48,672) Notes receivable to affiliated companies.....
914,825 ---------- Net cash provided by financing activities..... 676,595 ---------- NET INCREASE IN CASH AND CASH EQUIVALENTS..... 222,511 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD..... -- ----
------- CASH AND CASH EQUIVALENTS AT END OF PERIOD..... $ 222,511 ==========

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- NOTES TO CONDENSED FINANCIAL STATEMENTS

(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) 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). We are 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 us 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 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, 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, including the Reliant Resources Distribution, and granted it certain authority with respect to system financing, dividends and other matters. The financing authority granted by that order will expire on June 30, 2003, and CenterPoint Energy must obtain a further order from the SEC under the 1935 Act, primarily related to its financing activities subsequent to June 30, 2003.

In the July 2002 order, the SEC limited the aggregate amount of external borrowings of Texas Genco, CenterPoint Houston and CERC to $500 million, $3.55 billion and $2.7 billion, respectively. In addition, the order restricts CenterPoint Energy's ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for those dividends. Under these restrictions, CenterPoint Energy, Texas Genco, CenterPoint Houston and CERC are permitted to pay dividends in excess of the respective current or retained earnings in an amount up to $200 million, $100 million, $200 million and $100 million, respectively.

(3) Effective with the Restructuring, all outstanding shares of Reliant Energy no par value common stock were exchanged for shares of CenterPoint Energy common stock with a par value of $0.01 per share. The capital accounts of CenterPoint Energy have been restated as of December 31, 2000 and 2001 to give effect to the change in par value per share. CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, comprised 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.

(4) 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 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 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. 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.

(5) 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 $396 million, which will be reflected as a regulatory asset in the Consolidated Balance Sheet in the first quarter of 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 will record minority interest ownership in Texas Genco of $146 million in its Consolidated Balance Sheet in the first quarter of 2003.

(6) On February 28, 2003, the Company reached agreement with a syndicate of banks on a second amendment to its $3.85 billion bank facility (the "Second Amendment"). Under the Second Amendment, the maturity date of the bank facility was extended from October 2003 to June 30, 2005, and the $1.2 billion in mandatory prepayments that would have been required this year (including $600 million due on February 28, 2003) were eliminated. The facility consists of a $2.35 billion term loan and a $1.5 billion revolver. Borrowings bear interest based on LIBOR rates under a pricing grid tied to the Company's credit rating. At our current credit ratings, the pricing for loans remains the same. The drawn cost for the facility at our current ratings is LIBOR plus 450 basis points. The Company has agreed to pay the banks an extension fee of 75 basis points on the amounts outstanding under the bank facility on October 9, 2003. The Company also paid $41 million in fees that were due on February 28, 2003, along with $20 million in fees that had been due on June 30, 2003.

In addition, the interest rates will be increased by 25 basis points beginning May 28, 2003 if the Company does not grant the banks a security interest in our 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco requires approval from the SEC under the 1935 Act, which is currently being sought. That security interest would be released when the Company sells Texas Genco, which is expected to occur in 2004. Proceeds from the sale will be used to reduce the bank facility.

Also under the Second Amendment, on or before May 28, 2003, the Company expects to grant to the banks warrants to purchase up to 10%, on a fully diluted basis, of its common stock at a price equal to the greater of $6.56 per share or 110% of the closing price on the New York Stock Exchange on the date the warrants are issued. The warrants would not be exercisable for a year after issuance but would remain outstanding for four years; provided, that if the Company reduces the bank facility during 2003 by specified amounts, some or all of the warrants (or the related rights to equivalent cash compensation) will be extinguished. To the extent that the Company reduces the bank facility by up to $400 million on or before May 28, 2003, up to half of the warrants will be extinguished on a basis proportionate to the reduction in the credit facility. To the extent such warrants are not extinguished on or before May 28, 2003, they will vest and become exercisable in accordance with their terms. Whether or not the Company is able to extinguish warrants on or before May 28, 2003, the remaining 50% of the warrants will be extinguished, again on a proportionate basis, if the Company reduces the bank facility by up to $400 million by the end of 2003. The Company plans to eliminate the warrants entirely before they vest by accessing the capital markets to fund the total payments of $800 million during 2003; however, because of current financial market conditions and uncertainties regarding such conditions over the balance of the year, there can be no assurance that the Company will be able to extinguish the warrants or to do so on favorable terms.

The warrants and the underlying common stock would be registered with the SEC and could be exercised either through the payment of the purchase price or on a "cashless" basis under which the Company would issue a number of shares equal to the difference between the then-current market price and the warrant exercise price. Issuance of the warrants is also subject to obtaining SEC approval under the 1935 Act, which is currently being sought. If that approval is not obtained on or before May 28, 2003, the Company will provide

the banks equivalent cash compensation over the term that its warrants would have been exercisable to the extent they are not otherwise extinguished.

In the Second Amendment, the Company also agreed that its quarterly common stock dividend will not exceed $0.10 per share. If the Company has not reduced the bank facility by a total of at least $400 million by the end of 2003, of which at least $200 million has come from the issuance of capital stock or securities linked to capital stock (such as convertible debt), the maximum dividend payable during 2004 and for the balance of the term of the facility is subject to an additional test. Under that test the maximum permitted quarterly dividend will be the lesser of (i) $0.10 per share or (ii) 12.5% of the Company's net income per share for the 12 months ended on the last day of the previous quarter.

The Second Amendment provides that proceeds from capital stock or indebtedness issued or incurred by the Company must be applied (subject to a $200 million basket for CERC and its subsidiaries and another $250 million basket for borrowings by the Company and its other subsidiaries and other limited exceptions) to repay bank loans and reduce the bank facility. Similarly, cash proceeds from the sale of assets of more than $30 million or, if less, a group of sales aggregating more than $100 million, must be applied to repay bank loans and reduce the bank facility, except that proceeds of up to $120 million can be reinvested in the Company's businesses.

CENTERPOINT ENERGY, INC.

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 2002
(IN THOUSANDS)

| COLUMN A | COLUMN B | COLUMN C | | COLUMN D | COLUMN E |
|---|---|---|---|---|---|
| | | ADDITIONS | | | |
| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARGED TO INCOME | RESERVES(1) | DEDUCTIONS | BALANCE AT END OF PERIOD |
| Year Ended December 31, 2002: | | | | | |
| Accumulated provisions: | | | | | |
| Uncollectible accounts receivable | $46,047 | $25,883 | $47,636 | $24,294 | Reserves for inventory |
| | 123 | 72 | 103 | 92 | Reserves for severance |
| | 1,964 | 16,157 | 1,887 | 16,234 | 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 | Reserves for inventory |
| | 399 | 72 | 348 | 123 | Reserves for severance |
| | 11,347 | 4,759 | 14,142 | 1,964 | Deferred tax asset valuation allowance |
| | 47,677 | (32,238) | -- | 15,439 | Year Ended December 31, 2000: Accumulated provisions: Uncollectible accounts receivable |
| | $19,217 | $37,910 | $19,606 | $37,521 | Reserves for inventory |
| | 90 | 372 | 63 | 399 | Reserves for severance |
| | 11,780 | 4,152 | 4,585 | 11,347 | Deferred tax asset valuation allowance |
| | 16,111 | 31,566 | -- | 47,677 | |

- ---

(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 10th day of March, 2003.

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 10, 2003.

| SIGNATURE | TITLE |
| --- | --- |
| /s/ DAVID M. MCCLANAHAN | President, Chief Executive Officer and Director |
| (David M. McClanahan) | (Principal Executive Officer and Director) |
| /s/ GARY L. WHITLOCK | Executive Vice President and Chief Financial Officer |
| (Gary L. Whitlock) | (Principal Financial Officer) |
| /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 |
| (Milton Carroll) | |
| /s/ JOHN T. CATER | Director |

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---
- (John T. Cater) /s/ O. HOLCOMBE CROSSWELL Director -
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---
---
---
- (O. Holcombe Crosswell) /s/ ROBERT J. CRUIKSHANK Director -
---
---
---
---
- (Robert J. Cruikshank) /s/ T. MILTON HONEA Director -
---
---
---
---
- (T. Milton Honea) /s/ THOMAS F. MADISON Director -
---
---
---
---
- (Thomas F. Madison) /s/ MICHAEL E. SHANNON Director -
---
---
---
---
- (Michael E. Shannon)

CERTIFICATIONS

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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 annual 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
President and Chief Executive Officer

CERTIFICATIONS

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 annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

By: /s/ GARY L. WHITLOCK
---
Gary L. Whitlock
Executive Vice President and
Chief Financial Officer

CENTERPOINT ENERGY, INC.

EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2002

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.

| SEC FILE OR REGISTRATION NUMBER REFERENCE | EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT | EXHIBIT NUMBER REFERENCE |
|---|---|---|---|---|
| 2 | -- | Agreement and Plan of Merger, dated as of October 19, 2001, by and among Reliant Energy, Incorporated ("Reliant Energy"), CenterPoint Energy, Inc. ("CenterPoint Energy") and Reliant Energy MergerCo, Inc. | CenterPoint Energy's Form 10-K for the year ended December 31, 2001 | 1-31447 2 |
| 3(a)(1) | -- | Amended and Restated Articles of Incorporation of CenterPoint Energy | CenterPoint Energy's Registration Statement on Form S-4 | 3-69502 3.1 |
| 3(a)(2) | -- | Articles of Amendment to Amended and Restated Articles of Incorporation of CenterPoint Energy | CenterPoint Energy's Form 10-K for the year ended December 31, 2001 | 1-31447 3.1.1 |
| 3(b) | -- | Amended and Restated Bylaws of | | |

CenterPoint Energy's Form 10-K 1-31447 3.2 CenterPoint Energy for the year ended December 31, 2001 3(c) -- Statement of Resolution CenterPoint Energy's Form 10-K 1-31447 3.3 Establishing Series of Shares for the year ended December 31, designated Series A Preferred 2001 Stock of CenterPoint Energy 4(a) -- Form of CenterPoint Energy Stock CenterPoint Energy's Registration 3-69502 4.1 Certificate Statement on Form S-4 4(b) -- Rights Agreement dated January 1, CenterPoint Energy's Form 10-K 1-31447 4.2 2002, between CenterPoint Energy for the year ended December 31, and JP Morgan Chase Bank, as 2001 Rights Agent 4(c) -- Contribution and Registration CenterPoint Energy's Form 10-K 1-31447 4.3 Agreement dated December 18, 2001 for the year ended December 31, among Reliant Energy, CenterPoint 2001 Energy and the Northern Trust Company, trustee under the Reliant Energy, Incorporated Master Retirement Trust 4(d) (1) -- Mortgage and Deed of Trust, dated HL&P's Form S-7 filed on

| | | | | |
|---|---|---|---|---|
| August 2-59748 | 2(b) | November 1, 1944 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 | 4(d)(2) -- Twenty-First through Fiftieth | 25, 1977 HL&P's Form 10-K for the year 1-3187 |
| | 4(a)(2) | Supplemental Indentures to ended December 31, 1989 | Exhibit 4(a)(1) | 4(d)(3) -- Fifty-First Supplemental |
| HL&P's Form 10-Q for the quarter 1-3187 | 4(a) | Indenture to Exhibit 4(a)(1) ended June 30, 1991 dated as of March 25, 1991 | 4(d)(4) -- Fifty-Second through Fifty-Fifth | |
| HL&P's Form 10-Q for the quarter 1-3187 | 4 | Supplemental Indentures to ended March 31, 1992 | Exhibit 4(a)(1) each dated as of March 1, 1992 | 4(d)(5) -- Fifty-Sixth and Fifty-Seventh |
| HL&P's Form 10-Q for the quarter 1-3187 | 4 | Supplemental Indentures to ended September 30, 1992 | Exhibit 4(a)(1) each dated as of October 1, 1992 | |

| SEC FILE OR REGISTRATION NUMBER REFERENCE | EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT | EXHIBIT |
|---|---|---|---|---|
| | 4(d)(6) | Fifty-Eighth and Fifty-Ninth Supplemental Indentures to HL&P's Form 10-Q for the quarter ended March 31, 1993 | 1-3187 | 4 |
| | 4(d)(7) | Sixtieth Supplemental Indenture to Exhibit 4(a)(1) dated as of March 1, 1993 | HL&P's Form 10-Q for the quarter ended June 30, 1993 | 1-3187 4 |
| | 4(d)(8) | Sixty-First through Sixty-Third Supplemental Indentures to Exhibit 4(a)(1) each dated as of December 1, 1993 | HL&P's Form 10-K for the year ended December 31, 1993 | 1-3187 4(a)(8) |
| | 4(d)(9) | Sixty-Fourth and Sixty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of July 1, 1995 | HL&P's Form 10-K for the year ended December 31, 1995 | 1-3187 4(a)(9) |
| | 4(e)(1) | General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Houston and | CenterPoint Houston's Form 10-Q for the quarter ended September | 1-3187 4(j)(1) |
| | | CenterPoint | | |

| | | | | |
|---|---|---|---|---|
| | Energy Houston Electric, LLC and JPMorgan Chase Bank, as Trustee | 30, 2002 | | |
| 4(e)(2) | First Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 Exhibit 4(e)(1), dated as of for the quarter ended | September 30, 2002 | October 10, 2002 | |
| 4(e)(3) | Second Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 Exhibit 4(e)(1), dated as of for the quarter ended | September 30, 2002 | October 10, 2002 | |
| 4(e)(4) | Third Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 Exhibit 4(e)(1), dated as of for the quarter ended | September 30, 2002 | October 10, 2002 | |
| 4(e)(5) | Fourth Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 Exhibit 4(e)(1), dated as of for the quarter ended | September 30, 2002 | October 10, 2002 | |
| 4(e)(6) | Fifth Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 Exhibit 4(e)(1), dated as of for the quarter ended | September 30, 2002 | October 10, 2002 | |
| 4(e)(7) | Sixth Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 Exhibit 4(e)(1), dated as of for the quarter ended | September 30, 2002 | October 10, 2002 | |

| | | | |
|---|---|---|---|
| 4(e)(8) -- Seventh Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 4(j)(8) | | | |
| Exhibit 4(e)(1), dated as of for the quarter ended September October 10, 2002 30, 2002 | | | |
| 4(e)(9) -- Eighth Supplemental Indenture to CenterPoint Houston's Form 10-Q 1-3187 4(j)(9) | | | |
| Exhibit 4(e)(1), dated as of for the quarter ended September October 10, 2002 30, 2002 | | | |
| +4(e)(10) -- Ninth Supplemental Indenture to Exhibit 4(e)(1), dated as of November 12, 2002 4(f)(1) -- | | | |
| $3,850,000 Amended and Restated CenterPoint Energy's Form 10-Q 1-31447 10(a) Credit Agreement, dated as of for the quarter ended September October 31, 2002, among 30, 2002 CenterPoint Energy and the banks named therein | | | |
| +4(f)(2) -- First Amendment to Exhibit 4(f)(1) effective December 5, 2002 +4(f)(3) -- Second Amendment to Exhibit 4(f)(1) effective February 28, 2003 +4(f)(4) -- Form of warrant agreement related to Exhibit 4(f)(3) +4(f)(5) -- Form of warrant registration rights agreement related to Exhibit 4(f)(3) +4(f)(6) -- Form of pledge agreement related to Exhibit 4(f)(3) +4(g)(1) -- | | | |
| $1,310,000,000 Credit Agreement, dated as of November 12, | | | |

2002, among CenterPoint Houston and the banks named therein

| SEC FILE OR REGISTRATION EXHIBIT NUMBER REFERENCE | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER |
|---|---|---|
| +4(g)(2) | Pledge Agreement, dated as of November 12, 2002 executed in connection with Exhibit 4(g)(1) | |

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 do 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.

| EXHIBIT REGISTRATION EXHIBIT NUMBER REFERENCE | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER |
|---|---|---|
| *10(a)(1) | Executive Benefit Plan of Houston Industries Incorporated ("HI") | HI's Form 10-Q for the quarter ended March 31, 1987 |
| 10(a)(1), 10(a)(2), and 10(a)(3) | First and Second Amendments thereto effective as of June 1, 1982, July 1, 1984, and May 7, 1986, respectively | 1-7629 and and |
| *10(a)(2) | Third Amendment dated | |

September
Reliant
Energy's
Form 10-K
for 1-3187
10(a)(2)
17, 1999 to
Exhibit
10(a)(1)
the year
ended
December
31, 2000
*10(b)(1) -
- Executive
Incentive
Compensation
HI's Form
10-K for
the year
ended 1-
7629 10(b)
Plan of HI
effective
as of
December
31, 1991
January 1,
1982 *10(b)
(2) --
First
Amendment
to Exhibit
HI's Form
10-Q for
the quarter
1-7629
10(a) 10(b)
(1)
effective
as of March
ended March
31, 1992
30, 1992
*10(b)(3) -
- Second
Amendment
to Exhibit
HI's Form
10-K for
the year
ended 1-
7629 10(b)
10(b)(1)
effective
as of
November
December
31, 1992 4,
1992 *10(b)
(4) --
Third
Amendment
to Exhibit
HI's Form
10-K for
the year
ended 1-
7629 10(b)
(4) 10(b)
(1)
effective
as of
December
31, 1994
September
7, 1994
*10(b)(5) -
- Fourth
Amendment
to Exhibit
HI's Form
10-K for
the year
ended 1-
3187 10(b)
(5) 10(b)
(1)
effective
as of
August
December
31, 1997 6,
1997 *10(c)
(1) --
Executive
Incentive

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Compensation | HI's Form | 10-Q for | the quarter | 1-7629 | 10(b)(1) | Plan of HI | effective | as of ended | March 31, | 1987 | |
| January 1, | 1985 *10(c) | (2) -- | First | Amendment | to Exhibit | HI's Form | 10-K for | the year | ended 1- | 7629 10(b) | |
| (3) 10(c) | (1) | effective | as of | January | December | 31, 1988 1, | | | | | |
| 1985 *10(c) | (3) -- | Second | Amendment | to Exhibit | HI's Form | 10-K for | the year | ended 1- | 7629 10(c) | | |
| (3) 10(c) | (1) | effective | as of | January | December | 31, 1991 1, | | | | | |
| 1985 *10(c) | (4) -- | Third | Amendment | to Exhibit | HI's Form | 10-Q for | the quarter | 1-7629 | | | |
| 10(b) 10(c) | (1) | effective | as of March | ended March | 31, 1992 | 30, 1992 | | | | | |
| *10(c)(5) - | - Fourth | Amendment | to Exhibit | HI's Form | 10-K for | the year | ended 1- | 7629 10(c) | | | |
| (5) 10(c) | (1) | effective | as of | November | December | 31, 1992 4, | | | | | |
| 1992 *10(c) | (6) -- | Fifth | Amendment | to Exhibit | HI's Form | 10-K for | the year | ended 1- | 7629 10(c) | | |
| (6) 10(c) | (1) | effective | as of | December | 31, 1994 | September | 7, 1994 | | | | |
| *10(c)(7) - | | | | | | | | | | | |

| | | | | |
|---|---|---|---|---|
| - Sixth Amendment to Exhibit | HI's Form 10-K for the year ended 1- | 3187 10(c) | (7) 10(c) | (1) effective as of August |
| December 31, 1997 6, | 1997 *10(d) | -- Executive Incentive | Compensation HI's Form 10-Q for | the quarter 1-7629 |
| 10(b)(2) Plan of | HL&P effective | as of ended March 31, | 1987 January 1, | 1985 *10(e) (1) -- |
| Executive Incentive | Compensation HI's Form 10-Q for | the quarter 1-7629 | 10(b) Plan of HI as | amended and ended June |
| 30, 1989 restated on | January 1, 1989 | | | |

| EXHIBIT REGISTRATION EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER | REFERENCE |
|---|---|---|---|
| -- | *10(e) (2) -- First Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(e) (2) | 10(e) (1) effective as of January December 31, 1991 |
| 1, 1989 | *10(e) (3) -- Second Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 | 10(c) | 10(e) (1) effective as of March ended March 31, 1992 |
| 30, 1992 | *10(e)(4) -- Third Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(c) (4) | 10(e) (1) effective as of November December 31, 1992 |
| 4, 1992 | *10(e) (5) -- Fourth Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(e) (5) | 10(e) (1) effective as of December 31, 1994 |
| September 7, 1994 | *10(f)(1) -- Executive Incentive Compensation | HI's Form 10-K for the year ended 1- | |

7629 10(b) Plan of HI as amended and December 31, 1990 restated on January 1, 1991 *10(f) (2) -- First Amendment to Exhibit HI's Form 10-K for the year ended 1- 7629 10(f) (2) 10(f) (1) effective as of January December 31, 1991 1, 1991 *10(f) (3) -- Second Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(d) 10(f) (1) effective as of March ended March 31, 1992 30, 1992 *10(f)(4) - - Third Amendment to Exhibit HI's Form 10-K for the year ended 1- 7629 10(f) (4) 10(f) (1) effective as of November December 31, 1992 4, 1992 *10(f) (5) -- Fourth Amendment to Exhibit HI's Form 10-K for the year ended 1- 7629 10(f) (5) 10(f) (1) effective as of January December 31, 1992 1, 1993 *10(f) (6) -- Fifth Amendment to Exhibit HI's Form 10-K for the year ended 1- 7629 10(f) (6) 10(f) (1) effective in part, December 31, 1994 January 1, 1995, and in part, September 7, 1994 *10(f)(7) - - Sixth

Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(a) 10(f) (1) effective as of August ended June 30, 1995 1, 1995 *10(f) (8) -- Seventh Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(a) 10(f) (1) effective as of January ended June 30, 1996 1, 1996 *10(f) (9) -- Eighth Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(a) 10(f) (1) effective as of January ended June 30, 1997 1, 1997 *10(f) (10) -- Ninth Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(f) (10) 10(f) (1) effective in part, December 31, 1997 January 1, 1997, and in part, January 1, 1998 *10(g) -- Benefit Restoration Plan of HI HI's Form 10-Q for the quarter 1-7629 10(c) effective as of June 1, 1985 ended March 31, 1987 *10(h) -- Benefit Restoration Plan of HI as HI's Form 10-K for the year ended 1-7629 10(g)(2) amended and restated effective as December 31, 1991 of January 1, 1988 *10(i) (1) --

| | | | |
|---|---|---|---|
| | Benefit Restoration Plan of HI, | | |
| | HI's Form 10-K for the year ended 1- | | |
| 7629 | 10(g) (3) as amended and restated effective December 31, 1991 as of July 1, 1991 | | |
| *10(i) | (2) -- First Amendment to Exhibit | HI's Form 10-K for the year ended 1- | |
| 3187 | 10(i) (2) | 10(i) (1) effective in part, | December 31, 1997 |
| August 6, 1997, in part, | September 3, 1997, and in part, | October 1, 1997 | |
| *10(j) | (1) -- Deferred Compensation Plan of HI | HI's Form 10-Q for the quarter | |
| 1-7629 | 10(d) effective as of | September 1, 1985 | |
| ended March 31, 1987 | | | |
| *10(j)(2) - | - First Amendment to Exhibit | HI's Form 10-K for the year ended 1- | |
| 7629 | 10(d) (2) | 10(j) (1) effective as of | December 31, 1990 |
| September 1, 1985 | | | |
| *10(j)(3) - | - Second Amendment to Exhibit | HI's Form 10-Q for the quarter | |
| 1-7629 | 10(e) | 10(j) (1) effective as of March | |
| ended March 31, 1992 | | | |
| 30, 1992 | | | |
| *10(j)(4) - | - Third Amendment to Exhibit | HI's Form 10-K for the year ended 1- | |
| 7629 | 10(h) (4) | 10(j) | |

| | |
|---|---|
| (1) effective as of June 2, 1993 | December 31, 1993 |

| EXHIBIT REGISTRATION EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER | REFERENCE |
|---|---|---|---|
| -- | *10(j) (5) -- Fourth Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(h) (5) | 10(j) (1) effective as of December 31, 1994 |
| *10(j)(6) -- | Fifth Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 | 10(d) | 10(j) (1) effective as of August ended June 30, 1995 |
| 1, 1995 | *10(j) (7) -- Sixth Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 | 10(b) | 10(j) (1) effective as of December ended June 30, 1995 |
| 1, 1995 | *10(j) (8) -- Seventh Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 | 10(b) | 10(j) (1) effective as of January ended June 30, 1997 |
| 1, 1997 | *10(j) (9) -- Eighth Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 | 10(j) | |

(9) 10(j) (1) effective as of October December 31, 1997 1, 1997 *10(j) (10) -- Ninth Amendment to Exhibit HI's Form 10-K for the year ended 1- 3187 10(j) (10) 10(j) (1) effective as of December 31, 1997 September 3, 1997 *+10(j)(11) -- Tenth Amendment to Exhibit 10(j)(1) effective as of January 1, 2001 *+10(j)(12) -- Eleventh Amendment to Exhibit 10(j)(1) effective as of August 31, 2002 *10(k) (1) -- Deferred Compensation Plan of HI HI's Form 10-Q for the quarter 1-7629 10(a) effective as of January 1, 1989 ended June 30, 1989 *10(k) (2) -- First Amendment to Exhibit HI's Form 10-K for the year ended 1- 7629 10(e) (3) 10(k) (1) effective as of January December 31, 1989 1, 1989 *10(k) (3) -- Second Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(f) 10(k) (1) effective as of March ended March 31, 1992 30, 1992 *10(k)(4) - - Third Amendment to Exhibit HI's Form 10-K for the year

ended 1-7629 10(i)(4) 10(k)(1) effective as of June 2, December 31, 1993 1993 *10(k)(5) -- Fourth Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 10(i)(5) 10(k)(1) effective as of December 31, 1994 September 7, 1994 *10(k)(6) -- Fifth Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(c) 10(k)(1) effective as of August ended June 30, 1995 1, 1995 *10(k)(7) -- Sixth Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(c) 10(k)(1) effective December 1, ended June 30, 1995 1995 *10(k)(8) -- Seventh Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(c) 10(k)(1) effective as of January ended June 30, 1997 1, 1997 *10(k)(9) -- Eighth Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(k)(9) 10(k)(1) effective in part December 31, 1997 October 1, 1997 and in part January 1, 1998 *10(k)(10) -- Ninth Amendment to Exhibit

| | | | | | |
|---|---|---|---|---|---|
| | HI's Form 10-K for the year ended 1-3187 | 10(k)(10) | 10(k)(1) effective as of December 31, 1997 | | |
| | September 3, 1997 | | | | |
| *+10(k)(11) -- Tenth Amendment to Exhibit 10(k)(1) effective as of January 1, 2001 | | | | | |
| *+10(k)(12) -- Eleventh Amendment to Exhibit 10(k)(1) effective as of August 31, 2002 | | | | | |
| *10(l)(1) -- Deferred Compensation Plan of HI | HI's Form 10-K for the year ended 1-7629 | 10(d)(3) | effective as of January 1, 1991 | | |
| December 31, 1990 | | | | | |
| *10(l)(2) -- First Amendment to Exhibit | HI's Form 10-K for the year ended 1-7629 | 10(j)(2) | 10(l)(1) effective as of January | | |
| December 31, 1991 | 1, 1991 | | | | |
| *10(l)(3) -- Second Amendment to Exhibit | HI's Form 10-Q for the quarter | 1-7629 | 10(g) | 10(l)(1) effective as of March | |
| ended March 31, 1992 | 30, 1992 | | | | |

| EXHIBIT REGISTRATION EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER | REFERENCE |
|---|---|---|---|
| -- | *10(l) (4) -- Third Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(j) (4) | 10(l) (1) effective as of June 2, |
| December 31, 1993 | 1993 *10(l) (5) -- Fourth Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(j) (5) | 10(l) (1) effective as of December |
| December 31, 1993 | 1, 1993 *10(l) (6) -- Fifth Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 | 10(j) (6) | 10(l) (1) effective as of December |
| 31, 1994 | September 7, 1994 *10(l)(7) -- Sixth Amendment to Exhibit HI's Form 10-Q for the quarter | 1-7629 10(b) | 10(l) (1) effective as of August |
| ended June 30, 1995 | 1, 1995 *10(l) (8) -- Seventh Amendment to Exhibit HI's Form 10-Q for the quarter | 1-7629 | |

10(d) 10(l) (1) effective as of December ended June 30, 1996 1, 1995 *10(l) (9) -- Eighth Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(d) 10(l) (1) effective as of January ended June 30, 1997 1, 1997 *10(l) (10) -- Ninth Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(l) (10) 10(l) (1) effective in part August December 31, 1997 6, 1997, in part October 1, 1997, and in part January 1, 1998 *10(l) (11) -- Tenth Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(i) (11) 10(l) (1) effective as of December 31, 1997 September 3, 1997 *+10(l)(12) -- Eleventh Amendment to Exhibit 10(l)(1) effective as of January 1, 2001 *+10(l)(13) -- Twelfth Amendment to Exhibit 10(l)(1) effective as of August 31, 2002 *10(m) (1) -- Long-Term Incentive Compensation HI's Form 10-Q for the quarter 1-7629 10(c) Plan of HI effective as of ended June 30, 1989 January 1,

1989 *10(m) (2) -- First Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 10(f) (2) 10(m) (1) effective as of January December 31, 1989 1, 1990 *10(m) (3) -- Second Amendment to Exhibit HI's Form 10-K for the year ended 1-7629 10(k) (3) 10(m) (1) effective as of December December 31, 1992 22, 1992 *10(m)(4) -- Third Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(m) (4) 10(m) (1) effective as of August December 31, 1997 6, 1997 *10(m) (5) -- Fourth Amendment to Exhibit Reliant Energy's Form 10-Q for 1-3187 10.4 10(m) (1) effective as of January the quarter ended June 30, 2002 1, 2001 *10(n) -- Form of stock option agreement HI's Form 10-Q for the quarter 1-7629 10(h) for non-qualified stock options ended March 31, 1992 granted under Exhibit 10(m)(1) *10(o) -- Forms of restricted stock HI's Form 10-Q for the quarter 1-7629 10(i) agreement

for restricted stock ended March 31, 1992 granted under Exhibit 10(m)(1)

*10(p)(1) -- 1994 Long-Term Incentive HI's Form 10-K for the year ended 1-7629 10(n)(1)

Compensation Plan of HI effective December 31, 1993 as of January 1, 1994

*10(p)(2) -- Form of stock option agreement HI's Form 10-K for the year ended 1-7629 10(n)(2) for non-qualified stock options December 31, 1993 granted under Exhibit 10(p)(1)

*10(p)(3) -- First Amendment to Exhibit HI's Form 10-Q for the quarter 1-7629 10(e) 10(p)(1) effective as of May 9, ended June 30, 1997 1997

*10(p)(4) -- Second Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(p)(4) 10(p)(1) effective as of August December 31, 1997 6, 1997

*10(p)(5) -- Third Amendment to Exhibit HI's Form 10-K for the year ended 1-3187 10(p)(5) 10(p)(1) effective as of January December 31, 1998 1, 1998

| EXHIBIT REGISTRATION EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER | REFERENCE |
|---|---|---|---|
| *10(p(6) | Reliant Energy 1994 Long-Term | Reliant Energy's Form 10-Q for | 1-3187 10.6 |
| *10(q)(1) | Incentive Compensation Plan, as amended and restated effective January 1, 2001 | the quarter ended June 30, 2002 | |
| *10(q)(2) | Savings Restoration Plan of HI | HI's Form 10-K for the year ended | 1-7629 10(f) |
| *10(q)(3) | First Amendment to Exhibit 10(q)(1) | HI's Form 10-K for the year ended | 1-7629 10(l)(2) |
| *10(r)(1) | Second Amendment to Exhibit 10(q)(1) | HI's Form 10-K for the year ended | 1-3187 10(q)(3) |
| | Director Benefits | | |

| | | |
|---|---|---|
| | Plan effective | |
| | HI's Form 10-K for the year ended 1- | |
| 7629 10(m) | as of January 1, | |
| | 1992 December 31, 1991 | |
| *10(r)(2) - | - First Amendment to Exhibit | |
| | HI's Form 10-K for the year ended 1- | |
| 7629 10(m) (1) 10(r) | (1) effective as of | |
| | August December 31, 1998 6, | |
| 1997 *10(s) | (1) -- Executive Life Insurance | |
| | Plan of HI's Form 10-K for the year ended 1- | |
| 7629 10(q) | HI effective as of | |
| | January 1, December 31, 1993 | |
| 1994 *10(s) | (2) -- First Amendment to Exhibit | |
| | HI's Form 10-Q for the quarter | |
| 1-7629 10 | 10(s)(1) effective as of | |
| | January ended June 30, 1995 1, | |
| 1994 *10(s) | (3) -- Second Amendment to Exhibit | |
| | HI's Form 10-K for the year ended 1- | |
| 3187 10(s) (3) 10(s) | (1) effective as of | |
| | August December 31, 1997 6, | |
| 1997 *10(t) | -- Employment and | |
| Supplemental | HI's Form 10-Q for the quarter | |
| | 1-7629 10(f) Benefits Agreement | |
| | between HL&P ended March 31, 1987 and | |
| | Hugh Rice Kelly | |
| *10(u)(1) - | - Reliant | |

| | | | |
|---|---|---|---|
| | Energy Savings Plan, as | | |
| | Reliant Energy's Form 10-K for 1-3187 | | |
| 10(cc)(1) | amended and restated effective | | |
| | the year ended December 31, 1999 | | |
| April 1, 1999 | *10(u)(2) -- | First Amendment to Exhibit | |
| | Reliant Energy's Form 10-Q for 1-3187 | | |
| 10.9 | 10(u)(1) | effective January 1, | |
| | the quarter ended June 30, 2002 | | |
| 1999 | *10(u)(3) -- | Second Amendment to Exhibit | |
| | Reliant Energy's Form 10-Q for 1-3187 | | |
| 10.10 | 10(u)(1) | effective January 1, | |
| | the quarter ended June 30, 2002 | | |
| 1997 | *10(u)(4) -- | Third Amendment to Exhibit | |
| | Reliant Energy's Form 10-Q for 1-3187 | | |
| 10.11 | 10(u)(1) | effective January 1, | |
| | the quarter ended June 30, 2002 | | |
| 2001 | *10(u)(5) -- | Fourth Amendment to Exhibit | |
| | Reliant Energy's Form 10-Q for 1-3187 | | |
| 10.12 | 10(u)(1) | effective May 6, 2002 | |
| | the quarter ended June 30, 2002 | | |
| | *+10(u)(6) -- Fifth Amendment to Exhibit | | |
| | 10(u)(1) effective January 1, | | |
| | 2002 and as renamed effective October 2, | | |
| | 2002 *+10(u)(7) -- Reliant Energy Savings Trust | | |

| | | | |
|---|---|---|---|
| | between Reliant Energy and The Northern Trust Company, as Trustee, as amended and restated effective April 1, 1999 | | |
| *+10(u)(8) | -- First Amendment to Exhibit 10(u)(7) effective September 30, 2002 | | |
| 10(u)(9) | -- Note Purchase Agreement between | HI's Form 10-K for the year ended 1-7629 | 10(j)(3) |
| | HI and the ESOP Trustee, dated as December 31, 1990 | of October 5, 1990 | |
| *+10(u)(10) | -- Reliant Energy Retirement Plan between Reliant Energy and The Northern Trust Company, as Trustee, as amended and restated effective January 1, 1999 | | |
| *+10(u)(11) | -- First Amendment to Exhibit 10(u)(10) effective as of January 1, 1995 | | |

| EXHIBIT REGISTRATION EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER | REFERENCE |
|---|---|---|---|
| *+10(u)(12) | -- Second Amendment to Exhibit 10(u)(10) effective as of January 1, 1995 | | |
| *+10(u)(13) | -- Third Amendment to Exhibit 10(u)(10) effective as of January 1, 2001 | | |
| *+10(u)(14) | -- Fourth Amendment to Exhibit 10(u)(10) effective as of January 1, 2001 | | |
| *+10(u)(15) | -- Fifth Amendment to Exhibit 10(u)(10) effective as of November 15, 2002, and as renamed effective October 2, 2002 | | |
| *+10(u)(16) | -- Sixth Amendment to Exhibit 10(u)(10) effective as of January 1, 2002 | | |
| 10(u)(17) | -- Reliant Energy, Incorporated Reliant Energy's Form 10-K for 1-3187 10(u)(3) Master Retirement Trust (as the year ended December 31, 1999 amended and restated effective January 1, 1999 and renamed effective May 5, 1999) | | |
| 10(u)(18) | -- Contribution and Registration Reliant Energy's Form 10-K | | |

for 1-3187 10(u)(4) Agreement dated December 18, 2001 the year ended December 31, 2001 among the Company, CenterPoint Energy, Inc. and the Northern Trust Company, trustee under the Reliant Energy, Incorporated Master Retirement Trust 10(v)(1) -- Stockholder's Agreement dated as Schedule 13-D dated July 6, 1995 5-19351 2 of July 6, 1995 between the Company and Time Warner Inc. 10(v)(2) -- Amendment to Exhibit 10(v)(1) HI's Form 10-K for the year ended 1-7629 10(x)(4) dated November 18, 1996 December 31, 1996 *10(w)(1) -- Houston Industries Incorporated HI's Form 10-K for the year ended 1-7629 10(7) Executive Deferred Compensation December 31, 1995 Trust effective as of December 19, 1995 *10(w)(2) -- First Amendment to Exhibit HI's Form 10-Q for the quarter 1-3187 10 10(w)(1) effective as of August ended June 30, 1998 6, 1997 *+10(x) -- Supplemental compensation agreement, dated November 27, 2002, between CenterPoint Energy and Milton Carroll *10(y)(1) -- Reliant Energy, Incorporated and Reliant

| | | | | |
|---|---|---|---|---|
| | | Energy's Form 10-K for 1-3187 | | |
| | | 10(y) Subsidiaries Common Stock | | |
| | | the year ended December 31, 2000 | | |
| | | Participation Plan for Designated New Employees and Non-Officer Employees effective as of March 4, 1998 | | |
| | | *+10(y) (2) -- Reliant Energy, Incorporated and Subsidiaries Common Stock Participation Plan for Designated New Employees and Non-Officer Employees, as amended and restated effective January 1, 2001 | | |
| | | *10(z) -- Reliant Energy, Incorporated | | |
| | | Reliant Energy's Definitive Proxy | 1-3187 | |
| | | Appendix I Annual Incentive Compensation Statement for 2000 Annual Meeting | | |
| | | Plan, as amended and restated of Shareholders effective January 1, 1999 | | |
| | | *10(aa) (1) -- Long Term Incentive Plan of Reliant Energy's Registration | 333-60260 | 4.6 |
| | | Reliant Energy, Incorporated Statement on Form S-8 dated May effective as of January 1, 2001 | 4, 2001 | |
| | | *10(aa) (2) -- First Amendment to exhibit Reliant Energy's Registration | 333-60260 | 4.7 |
| | | 10(aa) (1) effective as of January Statement on Form S-8 dated May 1, 2001 | 4, 2001 | |
| | | 10(bb)(1) -- | | |

| | | | | | |
|---|---|---|---|---|---|
| Master Separation Agreement | Reliant Energy's Form 10-Q for 1-3187 | 10.1 | entered into as of December 31, 2000 | the quarter ended March 31, 2001 | between Reliant Energy, Incorporated and Reliant Resources, Inc. |

| EXHIBIT REGISTRATION EXHIBIT NUMBER | DESCRIPTION | REPORT OR REGISTRATION STATEMENT NUMBER | REFERENCE |
|---|---|---|---|
| 10(bb)(2) | Transition Services Agreement, Reliant Energy's Form 10-Q for 1-3187 10.2 dated as of December 31, 2000, the quarter ended March 31, 2001 between Reliant Energy, Incorporated and Reliant Resources, Inc. | | |
| 10(bb)(3) | Technical Services Agreement, Reliant Energy's Form 10-Q for 1-3187 10.3 dated as of December 31, 2000, the quarter ended March 31, 2001 between Reliant Energy, Incorporated and Reliant Resources, Inc. | | |
| 10(bb)(4) | Texas Genco Option Agreement, Reliant Energy's Form 10-Q for 1-3187 10.4 dated as of December 31, 2000, the quarter ended March 31, 2001 between Reliant Energy, Incorporated and Reliant Resources, Inc. | | |
| +10(bb)(5) | First Amendment to Exhibit 10(bb)(4) effective as of February 1, 2003 | | |
| 10(bb)(6) | Employee Matters | | |

Agreement, Reliant Energy's Form 10-Q for 1-3187 10.5 entered into as of December 31, the quarter ended March 31, 2001 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc. 10(bb) (7) -- Retail Agreement, entered into as Reliant Energy's Form 10-Q for 1-3187 10.6 of December 31, 2000, between the quarter ended March 31, 2001 Reliant Energy, Incorporated and Reliant Resources, Inc. 10(bb) (8) -- Registrations Rights Agreement, Reliant Energy's Form 10-Q for 1-3187 10.7 dated as of December 31, 2000, the quarter ended March 31, 2001 between Reliant Energy, Incorporated and Reliant Resources, Inc. 10(bb) (9) -- Tax Allocation Agreement, entered Reliant Energy's Form 10-Q for 1-3187 10.8 into as of December 31, 2000, the quarter ended March 31, 2001 between Reliant Energy, Incorporated and Reliant Resources, Inc. +10(cc) (1) -- Separation Agreement entered into as of August 31, 2002 between CenterPoint Energy and Texas Genco Holdings, Inc. ("Texas Genco") +10(cc)(2) -

| | | | |
|---|---|---|---|
| - Transition Services Agreement, dated as of August 31, 2002, between CenterPoint Energy and Texas Genco | | | |
| +10(cc)(3) - - Tax Allocation Agreement, dated as of August 31, 2002, between CenterPoint Energy and Texas Genco | | | |
| 10(cc)(4) -- Assignment and Assumption Texas Genco's Registration | 1-31449 | 10.11 | |
| Agreement for the Technical Statement on Form 10 Services Agreement entered into as of August 31, 2002, by and between CenterPoint Energy and Texas Genco, LP | | | |
| *10(dd) - - Retention Agreement effective | Reliant Energy's Form 10-K for | 1-3187 | 10(jj) |
| October 15, 2001 between Reliant the year ended December 31, 2001 | Energy, Incorporated and David G. Tees | | |
| *10(ee) -- Retention Agreement effective | Reliant Energy's Form 10-K for | 1-3187 | 10(kk) |
| October 15, 2001 between Reliant the year ended December 31, 2001 | Energy, Incorporated and Michael A. Reed | | |
| *+10(ff)(1) -- Non-Qualified Executive Disability Income Plan of Arkla, Inc. | | | |
| effective as of August 1, 1983 | | | |
| *+10(ff)(2) -- Executive Disability Income Agreement effective | | | |
| July 1, 1984 | | | |

between Arkla, Inc. and T. Milton Honea

*+10(gg) -- Non-Qualified Unfunded Executive Supplemental Income Retirement Plan of Arkla, Inc. effective as of August 1, 1983

*+10(hh)(1) -- Deferred Compensation Plan for Directors of Arkla, Inc. effective as of November 10, 1988

| EXHIBIT NUMBER | DESCRIPTION | REGISTRATION STATEMENT NUMBER OR REPORT REFERENCE |
|---|---|---|
| *+10(hh)(2) | First Amendment to Exhibit 10(hh)(1) effective as of August 6, 1997 | +12 |
| -- | Computation of Ratios of Earnings to Fixed Charges | +21 |
| -- | Subsidiaries of CenterPoint Energy | +23 |
| -- | Consent of Deloitte & Touche LLP | |

EXHIBIT 4(e)(10)

CenterPoint Energy Houston Electric, LLC
1111 Louisiana
Houston, TX 77002

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

TO

JPMORGAN CHASE BANK
Trustee

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NINTH SUPPLEMENTAL INDENTURE

Dated as of November 12, 2002

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Supplementing the General Mortgage Indenture
Dated as of October 10, 2002

THIS INSTRUMENT GRANTS A SECURITY INTEREST BY A PUBLIC UTILITY

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS

This instrument is being filed pursuant to Chapter 35 of the Texas Business and Commerce Code

==========

NINTH SUPPLEMENTAL INDENTURE, dated as of November 12, 2002, between CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a limited liability company 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 General Mortgage Indenture dated as of October 10, 2002 (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

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 Manager, has duly determined to make, execute and deliver to the Trustee this Ninth Supplemental Indenture to the Indenture as permitted by Sections 201, 301 and 1401 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 (9) of the definition of the "Initial Series" under the Indenture in an initial aggregate principal amount of $1,310,000,000 (such series being hereinafter and in the Indenture referred to as the "Initial Series (9)") and to correct certain defective provisions in the Indenture; and

WHEREAS, all things necessary to make the Securities of the Initial Series (9), 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 Ninth Supplemental Indenture a valid, binding and legal agreement of the Company, have been done;

NOW, THEREFORE, THIS NINTH 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 Ninth 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 Ninth Supplemental Indenture hereby creates a series of Securities designated as the "General Mortgage Bonds, Series I, due November 12, 2005" 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 $1,310,000,000.

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 Ninth Supplemental Indenture in accordance with Sections 201 and 301 of the Indenture.

Section 203. Treatment of Proceeds of Title Insurance Policy. Any moneys received by the Trustee as proceeds of any title insurance policy on Mortgaged Property of the Company shall be subject to and treated in accordance with the provisions of Section 607(2) of the Indenture (other than the last paragraph thereof).

ARTICLE THREE

AMENDMENTS TO GENERAL MORTGAGE INDENTURE
DATED OCTOBER 10, 2002

The Indenture is hereby amended, as permitted under Section 1401(8) of the Indenture as follows:

Section 301. Amendment to Granting Clauses.

(a) Clause (a) of Granting Clause First is hereby amended by deleting the words "in real property wherever situated," and inserting the following words in their place: "in real property located in the State of Texas or wherever else situated".

(b) Clause (6) of Excepted Property is hereby amended by inserting a comma between the words "gathering" and "transmission".

(c) Clause (x) of the paragraph beginning "provided, however," is hereby amended by deleting the reference to clause (6) and inserting a reference to clause (7) in its place.

(d) Clause (c) of the paragraph beginning "SUBJECT HOWEVER" is hereby amended by deleting the reference to Section 6.06 and inserting a reference to Section 606 in its place.

Section 302. Amendment to General Definitions.

(a) The definition of "Authenticating Agent" is hereby amended by deleting the reference to "Section 1114" and inserting a reference to "Section 1115" in its place.

(b) The definition of "Expert" is hereby amended by deleting the words "whether or not then engaged in the engineering profession".

(c) The definition of "Manager" is hereby amended by inserting immediately following the word "Company" the following words ", within the meaning of the Texas Limited Liability Company Act".

(d) Clause (2) of the definition of Permitted Liens is hereby amended by adding the words "which is not delinquent" immediately following the words "compensation earned".

(e) The definition of Permitted Liens is hereby amended by deleting clause (22) of such definition in its entirety, by deleting "; and" at the end of clause (21) of such definition and inserting a period in its place and by inserting the word "and" at the end (following the semi-colon) of clause (20) of such definition.

(f) The definition of Retired Securities is hereby amended by adding the following words at the end of such definition: "and provided further that no such First Mortgage Bond may be used as the basis for the authentication and delivery of both additional Securities and additional First Mortgage Bonds."

Section 303. Amendment to Adjusted Net Earnings Definition. Clause (1) of the definition of Adjusted Net Earnings in Section 104 is hereby amended by capitalizing the word "order" in the term "Company order".

Section 304. Amendment to Annual Interest Requirements Definition.

(a) Clause (C) of the definition of Annual Interest Requirements in Section 104 is hereby amended by deleting the words "except any First Mortgage Collateral Bonds and".

(b) Clause (D) of the definition of Annual Interest Requirements in Section 104 is hereby amended by inserting a closed-parenthesis immediately following the words "by a

Prepaid Loan prior to the Lien of this Indenture upon property subject to the Lien of this Indenture" and deleting the closed-parenthesis that follows the words "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".

Section 305. Amendment to Content and Form of Documents Delivered to Trustee. Clause (3) of Section 106 is hereby amended by inserting the word "material" immediately preceding the word "clerical", and by deleting the word `may" immediately preceding the words "be substituted" and inserting the word "shall" in its place.

Section 306. Amendment to Issuance of Securities-General. Section 401(4)(Y) is hereby amended by adding the words `and legally binding" immediately following the word "valid" and by adding the words ", and enforceable against the Company (subject to customary exceptions)." at the end of such clause.

Section 307. Amendment to Issuance on the Basis of Property Additions.

(a) Section 402(2)(B)(xiii) is hereby amended by deleting the words "other than First Mortgage Collateral Bonds".

(b) Section 402(2)(E)(ii) is hereby amended by deleting the words "corporate or" and inserting the word "company" immediately preceding the word "authority".

Section 308. Amendment to Money for Securities Payments to Be Held in Trust. The first paragraph of Section 603 is hereby amended by deleting the words "to the extent required by law".

Section 309. Amendment to Insurance Covenant. Section 607 (2)(B)(iv)(b) is hereby amended by deleting the reference to "clause (b)" and inserting a reference to "clause (B)" in its place.

Section 310. Amendment to Limited Issuance of First Mortgage Securities. Section 611(1) is hereby amended by deleting it in its entirety and inserting the following words in its place:

"(1) First Mortgage Securities in place of, and in substitution for, or to refund, other First Mortgage Securities, if (A) the aggregate principal amount of such new First Mortgage Securities shall not exceed the aggregate principal amount of such other First Mortgage Securities, and (B) the final stated maturity date of such new First Mortgage Securities shall be a date not later than the final stated maturity date of such other First Mortgage Securities;".

Section 311. Amendment to First Mortgage Collateral Bonds. Clause (1) of Section 701 is hereby amended by inserting the words "or other Maturity" immediately following the words "Stated Maturity".

Section 312. Amendment to Discharge of First Mortgage.

(a) Section 707(1)(C)(iv) is hereby amended by deleting the words "to the Company to be deemed to have been made the basis of the authentication and delivery of such Securities, will no longer constitute Funded Property (other than pursuant to clause (6) of the definition of "Funded Property") upon the discharge of the First Mortgage" and inserting in their place the following: "to the Company shall be deemed to have been made the basis of the authentication and delivery of such Securities, upon the discharge of the First Mortgage."

(b) Section 707(1)(F)(ii) is hereby amended by deleting the word "corporate" and inserting the words "limited liability company" in its place.

Section 313. Amendment to Release of Funded Property. Clause (A) of Section 803(3) is hereby amended by deleting the word "generally".

Section 314. Amendment to Satisfaction and Discharge. Section 901(3)(D)(i) is hereby amended by inserting a comma between the words "income" and "gain".

Section 315. Amendment to Acceleration of Maturity. Section 1002(1)(A) is hereby amended by deleting the words "of that series".

ARTICLE FOUR

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 Ninth 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 Ninth 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 Ninth Supplemental Indenture shall be governed by, and construed in accordance with, the law of the State of New York.

This Ninth 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 Ninth Supplemental Indenture to be duly executed as of the day and year first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ MARC KILBRIDE
---
Name: Marc Kilbride
Title: Vice President and Treasurer

JPMORGAN CHASE BANK, as Trustee

By: /s/ REBECCA A. NEWMAN
---
Name: Rebecca A. Newman
Title: Vice President

ACKNOWLEDGMENT

STATE OF TEXAS )
) ss
COUNTY OF HARRIS )

On the 11th day of November 2002, 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 CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, the limited liability company 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
---
Notary Public

FIRST AMENDMENT TO CREDIT AGREEMENT

FIRST AMENDMENT, dated as of December 5, 2002 (this "Amendment"), to the $3,850,000,000 Amended and Restated Credit Agreement, dated as of October 10, 2002 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among, CENTERPOINT ENERGY, INC., a Texas corporation ("Borrower"), the banks and other financial institutions from time to time parties thereto (the "Banks"), CITIBANK, N.A., as syndication agent (in such capacity, the "Syndication Agent"), and JPMORGAN CHASE BANK, as administrative agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H :

WHEREAS, Borrower, the Banks, the Syndication Agent, and the Administrative Agent are parties to the Credit Agreement; and

WHEREAS, Borrower has requested that the Banks agree to amend certain provisions contained in the Credit Agreement, and the Banks and the Administrative Agent are agreeable to such request upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2. Amendment to Definition of Genco Transaction in Section 1.1. The definition of "Genco Transaction" is hereby amended as follows:

> ""Genco Transaction" means up to 20% of the common stock of Texas Genco Holdings, Inc. is (i) issued and sold in an initial public offering of such stock or (ii) distributed by the Borrower to its shareholders, or as a result of some combination thereof or pursuant to some other issuance up to 20% of the common stock of Texas Genco Holdings, Inc. is listed for trading on a national stock exchange or automated quotation system. Without limiting the foregoing, the Genco Transaction shall be deemed to include the distribution of up to 20% of the common stock of Texas Genco Holdings, Inc. to the Borrower by a Significant Subsidiary.".

3. Amendment to Section 8.2 of the Credit Agreement (Negative Covenants). Section 8.2 of the Credit Agreement is hereby amended by amending paragraph (f) thereof by (1) deleting "and" at the end of clause (y) subclause (b) thereof and substituting in lieu thereof a comma, (2) deleting the period at the end of subclause (c) thereof and substituting in lieu thereof ", and" and (3) adding at the end thereof immediately after subclause (c) a new subclause as follows:

"(d) the Borrower may make non-cash Restricted Payments as contemplated by the definition of the Genco Transaction.".

4. Conditions to Effectiveness. This Amendment shall become effective as of the date set forth above upon satisfaction of the following conditions precedent:

(a) The Administrative Agent shall have received counterparts of this Amendment executed by Borrower and the Majority Banks in accordance with Section 11.1 of the Credit Agreement; and

(b) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Amendment shall be in form and substance reasonably satisfactory to the Administrative Agent.

5. Reference to and Effect on the Loan Documents; Limited Effect. On and after the date hereof and the satisfaction of the conditions contained in Section 4 of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended hereby. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Bank or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provisions of any of the Loan Documents. Except as expressly amended herein, all of the provisions and covenants of the Credit Agreement and the other Loan Documents are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby in all respects ratified and confirmed.

6. Representations and Warranties. Borrower, as of the date hereof and after giving effect to the amendment contained herein, hereby confirms, reaffirms and restates the representations and warranties made by it in Article VII of the Credit Agreement and otherwise in the Loan Documents to which it is a party; provided that each reference to the Credit Agreement therein shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment.

7. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts (which may include counterparts delivered by facsimile transmission) and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any executed counterpart delivered by facsimile transmission shall be effective as an original for all purposes hereof. The execution and delivery of this Amendment by any Bank shall be binding upon each of its successors and assigns (including Transferees of its Commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its Commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first written above.

CENTERPOINT ENERGY, INC.

By: /s/ MARC KILBRIDE
---
Name: Marc Kilbride
Title: Vice President & Treasurer

JPMORGAN CHASE BANK, as Administrative Agent and as a Bank

By: /s/ ROBERT W. TRABAND
---
Name: Robert W. Traband
Title: Vice President

CITIBANK, N.A., as Syndication Agent and as a Bank

By: /s/ SANDIP SEN
---
Name: Sandip Sen
Title: Managing Director

ABN AMRO BANK N.V.

By: /s/ KRIS A.GROSSHANS
    ----------
Name: Kris A. Grosshans
Title: Senior Vice President

By: /s/ THOMAS J. STERR
    ----------
Name: Thomas J. Sterr
Title: Vice President

BANK ONE, N.A.

By: /s/ MADELEINE N. PEMBER
---

Name: Madeleine N. Pember
Title: Director

BANK OF AMERICA, N.A.

By: /s/ RICHARD L. STEIN
---

Name: Richard L. Stein
Title: Principal

THE BANK OF NOVA SCOTIA

By: /s/ DENIS P. O'MEARA
---

Name: Denis P. O'Meara
Title: Managing Director

CREDIT SUISSE FIRST BOSTON, Cayman Islands Branch

By: /s/ JAMES P. MORAN
---

Name: James P. Moran
Title: Director

DEUTSCHE BANK AG NEW YORK BRANCH
AND/OR CAYMAN ISLANDS BRANCH

By: /s/ MICHAEL E. KEATING
---
Name: Michael E. Keating
Title: Managing Director

By: /s/ HANS C. NARBERHAUS
---
Name: Hans C. Narberhaus
Title: Vice President

THE NORTHERN TRUST COMPANY

By: /s/ MELISSA A. WHITSON
---

Name: Melissa A. Whitson
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ DAVID A. MCCLUSKEY
---

Name: David A. McCluskey
Title: Manager

UFJ BANK LIMITED

By: /s/ LAURANCE J. BRESSLER
---

Name: Laurance J. Bressler
Title: SVP and Group Co-Head

WACHOVIA BANK, NATIONAL
ASSOCIATION

By: /s/ ROTCHER WATKINS
---

Name: Rotcher Watkins
Title: Managing Director

SECOND AMENDMENT TO CREDIT AGREEMENT

SECOND AMENDMENT, dated as of February 28, 2003 (this "Second Amendment"), to the $3,850,000,000 Amended and Restated Credit Agreement, dated as of October 10, 2002 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among CENTERPOINT ENERGY, INC., a Texas corporation ("Borrower"), the banks and other financial institutions from time to time parties thereto (the "Banks"), CITIBANK, N.A., as syndication agent (in such capacity, the "Syndication Agent"), and JPMORGAN CHASE BANK, as administrative agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H :

WHEREAS, the Borrower, the Banks, the Syndication Agent, and the Administrative Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower has requested that the Banks agree to extend the Termination Date and amend certain other provisions contained in the Credit Agreement, and the Banks and the Administrative Agent are agreeable to such request upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2. Amendment to Section 1.1 (Certain Defined Terms): (a) Section 1.1 of the Credit Agreement is hereby amended by deleting, in their entirety, the terms "Applicable Margin", "CAF Borrowing", "CAF Facility", "CAF LIBOR Rate Loan", "CAF Loan", "CAF Loan Assignee", "CAF Loan Assignment and Acceptance", "CAF Margin", "CAF Rate", "Competitive Bid", "Competitive Bid Confirmation", "Competitive Bid Request", "Fixed Rate Loan", "Loan Documents" and "Revolving Loan Maturity Date" appearing therein and inserting the following new definitions in the appropriate alphabetical order:

""Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

| DESIGNATED RATING | LIBOR RATE MARGIN FOR REVOLVING LOANS | ABR MARGIN FOR REVOLVING LOANS | LIBOR RATE MARGIN FOR TERM LOANS | ABR MARGIN FOR TERM LOANS |
|---|---|---|---|---|
| A-/A3 or higher | 3.000% | 2.000% | 3.500% | 2.500% |

| DESIGNATED RATING | LIBOR RATE MARGIN FOR REVOLVING LOANS | ABR MARGIN FOR REVOLVING LOANS | LIBOR RATE MARGIN FOR TERM LOANS | ABR MARGIN FOR TERM LOANS |
|---|---|---|---|---|
| BBB+/Baa1 or BBB/Baa2 or BBB-/Baa3 | 3.500% | 2.500% | 4.000% | 3.000% |
| BB+/Ba1 | 4.000% | 3.000% | 4.500% | 3.500% |
| BB/Ba2 or lower (or unrated) | 4.500% | 3.500% | 5.000% | 4.000% |

; provided, however, if the Texas Genco Stock has not been pledged to the Administrative Agent, for the benefit of the Banks, on or prior to the three-month anniversary of the Second Amendment Effective Date, each of the foregoing rates shall increase by 0.250% on and after such date until the earlier to occur of (i) the execution and delivery of the Pledge Agreement by Utility Holding, LLC and the Borrower, and the pledge of the Texas Genco Stock to the Administrative Agent, for the benefit of the Banks, and (ii) the receipt by the Banks of the Net Cash Proceeds from the Disposition of the Texas Genco Stock in accordance with the terms of this Agreement.

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"CEHE Credit Agreement" means the $1,310,000,000 Credit Agreement, dated as of November 12, 2002, among CenterPoint Electric, as borrower, Credit Suisse First Boston, as administrative agent, and the other financial institutions parties thereto, as amended, modified or supplemented from time to time.

"CEHE Facility" means the credit facilities provided under the CEHE Credit Agreement.

"Collateral" has the meaning specified in the Pledge Agreement.

"Loan Documents" means this Agreement, any Notes, the Pledge Agreement, the Warrant Agreement, the Registration Rights Agreement, the Warrants issued under the Warrant Agreement and any document or instrument executed in connection with the foregoing.

"Pledge Agreement" means the Pledge Agreement, substantially in the form of Annex A to the Second Amendment, to be entered into pursuant to the Second Amendment, as amended, modified or supplemented from time to time.

"Registration Rights Agreement" means the Registration Rights Agreement, substantially in the form of Annex B to the Second Amendment, to be entered into pursuant to the Second Amendment, as amended, modified or supplemented from time to time.

"Revolving Loan Maturity Date" means June 30, 2005.

"RRI Option" means the option relating to the Texas Genco Stock granted to Reliant Resources, Inc. pursuant to the Texas Genco Option Agreement, dated as of December 31, 2000, between the Borrower and Reliant Resources, Inc., as amended, modified or supplemented from time to time.

"Second Amendment" means the Second Amendment, dated as of February 28, 2003, to this Agreement.

"Second Amendment Effective Date" means the date on which each of the conditions precedent set forth in the Second Amendment shall have been satisfied or waived.

"Specified Swap Agreement" means any Swap Agreement entered into by the Borrower and any Bank or Affiliate thereof to hedge or mitigate interest rate risks with respect to the Loans.

"Texas Genco" means Texas Genco Holdings, Inc.

"Texas Genco Entities" has the meaning specified in Section 8.2(c).

"Texas Genco Stock" means the Capital Stock of Texas Genco now owned or hereafter acquired by Utility Holding, LLC, which, as of the date hereof, constitutes at least 80% of the issued and outstanding Capital Stock of Texas Genco.

"Utility Holding, LLC" means Utility Holding, LLC, a Delaware limited liability company and the direct parent of Texas Genco.

"Warrant Agreement" means the Warrant Agreement, substantially in the form of Annex C to the Second Amendment, to be entered into pursuant to the Second Amendment, as amended, modified or supplemented from time to time.

"Warrants" has the meaning specified in the Warrant Agreement.";

(b) amending the definition of "Excluded Asset Sales" by (i) deleting "and" immediately following clause (viii) therein and substituting in lieu thereof a semicolon, (ii) adding "and" immediately following clause (ix) therein and (iii) adding immediately following clause (ix) a new clause (x) as follows:

"(x) the sale or the remarketing of any Indebtedness for Borrowed Money outstanding on the Closing Date if the refinancing, refunding, remarketing, renewal or extension thereof would be permitted pursuant to clause (a) of the definition of "Excluded Transactions"";

(c) amending the definition of "Excluded Transactions" by (i) deleting each reference to "Indebtedness" therein and substituting in lieu thereof "Indebtedness for Borrowed Money" and (ii) deleting clause (a) thereof in its entirety and substituting in lieu thereof a new clause (a) as follows:

"(a) Indebtedness for Borrowed Money in respect of any refinancing, refunding, remarketing, renewal or extension (on or prior to the maturity thereof) of (without any increase in the principal amount thereof plus any expenses (including any redemption premium, penalty, broken funding, settlement and other costs) or any shortening of the final maturity thereof) Indebtedness for Borrowed Money outstanding on the Closing Date (and any refinancing, refunding, remarketing, renewal or extension thereof) and additional Indebtedness for Borrowed Money incurred by (x) Resources and/or its Subsidiaries in an aggregate principal amount not to exceed $200,000,000 outstanding at any time and (y) the Borrower and/or its Subsidiaries (including, without limitation, Resources and its Subsidiaries) in an aggregate principal amount not to exceed $250,000,000 outstanding at any time;"; and

(d) amending the definition of "Net Cash Proceeds" by deleting clause (b) thereof in its entirety and substituting in lieu thereof a new clause (b) as follows:

"(b) in connection with any issuance or sale of Capital Stock or any incurrence of Indebtedness for Borrowed Money, the cash proceeds received from such issuance or incurrence, net of (i) attorneys' fees, investment banking fees, accountants' fees, underwriting discounts, escrow fees, reserves, related swap costs and commissions and other customary fees and expenses actually incurred in connection therewith and other similar payment obligations resulting therefrom (other than the obligations under this Agreement) that are required to be paid concurrently or otherwise as a result of such issuance or incurrence and (ii) other amounts that are to be refinanced or otherwise paid with all or part of the proceeds thereof".

3. Amendment to Section 2.3 of the Credit Agreement (Repayment of Term Loans). Section 2.3 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in lieu thereof the following new Section 2.3:

"SECTION 2.3. Repayment of Term Loans. The Borrower shall repay all outstanding Term Loans on the Termination Date, together with accrued and unpaid interest thereon.".

4. Amendment to Article III of the Credit Agreement (Amounts and Terms of the CAF Loans). Article III of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in lieu thereof the following new Article III:

"ARTICLE III

[INTENTIONALLY OMITTED.]".

5. Amendment to Section 4.2 of the Credit Agreement (Fees). Section 4.2 of the Credit Agreement is hereby amended by:

(a) deleting paragraph (b) thereof in its entirety and substituting in lieu thereof a new paragraph (b) as follows:

"(b) The Borrower agrees to pay to the Administrative Agent on October 9, 2003 for the account of each Bank a fee in the amount of 0.75% of the amount of the sum of (x) such Bank's Revolving Commitment (whether used or unused) and (y) the aggregate principal amount of such Bank's Term Loans outstanding on such date."; and

(b) deleting paragraph (c) thereof in its entirety and substituting in lieu thereof a new paragraph (c) as follows:

"(c) The Borrower agrees to pay to the Administrative Agent for the account of the Banks a fee in the aggregate amount of $61,436,170.21 (the "Additional Fee") to be allocated to each Bank based upon the sum of such Bank's Revolving Commitment, and the aggregate amount of such Bank's Term Loans, outstanding on the Second Amendment Effective Date, payable on the Second Amendment Effective Date.".

6. Amendment to Section 5.7 of the Credit Agreement (Mandatory Repayments and Prepayments and Commitment Reductions). Section 5.7 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting in lieu thereof the following new Section 5.7:

"SECTION 5.7 Mandatory Repayments and Prepayments and Commitment Reductions. (a) If any Capital Stock or Indebtedness for Borrowed Money shall be issued or incurred by the Borrower or any of its Subsidiaries after the Closing Date (other than Excluded Transactions and as provided in Section 5.7(c), an amount equal to 100% of the Net Cash Proceeds thereof shall be applied within one (1) Business Day after the receipt thereof toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(e).

(b) If the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Asset Sale (other than (x) an Excluded Asset Sale, (y) any Asset Sale yielding Net Cash Proceeds of $30,000,000 or less, provided that the aggregate amount of Net Cash Proceeds from all Asset Sales excluded by this clause (y) shall not exceed $100,000,000 and (z) as provided in paragraphs (c) and (d) below) or Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, within one (1) Business Day after the receipt thereof, the Borrower shall, or shall cause the applicable Subsidiary to, apply such Net Cash Proceeds toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(e); provided

that, notwithstanding the foregoing, (i) the aggregate Net Cash Proceeds of Asset Sales that may be excluded from the foregoing pursuant to a Reinvestment Notice shall not exceed $120,000,000 and (ii) on each Reinvestment Prepayment Date, an amount equal to the Reinvestment Prepayment Amount with respect to the relevant Reinvestment Event shall be applied toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(e).

(c) If the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Disposition of (i) any of the Texas Genco Stock or (ii) any material portion or all or substantially all of the Properties of any Texas Genco Entity, within one (1) Business Day after the receipt thereof, the Borrower shall, or shall cause the applicable Subsidiary to, apply, subject, in the case of clause (ii) only, to the terms of any Indebtedness incurred by Texas Genco and/or its Subsidiaries in accordance with Section 8.2(h), such Net Cash Proceeds toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(e); provided that, in the case of a Disposition described in clause (ii) above, the amount of such application may be reduced proportionally to the minority interest of shareholders of Texas Genco other than the Borrower and its Subsidiaries to the extent required by virtue of fiduciary obligations to such shareholders under applicable law.

(d) If the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from the sale or contribution of assets to a Securitization Subsidiary, together with the issuance of Securitization Securities, within one (1) Business Day after receipt thereof, the Borrower shall, or shall cause the applicable Subsidiary to, apply such Net Cash Proceeds toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(e); provided that, notwithstanding the foregoing, any such Net Cash Proceeds shall be applied, to the extent required under the CEHE Credit Agreement prior to any application pursuant to this Section 5.7(d), to repay the obligations under the CEHE Facility pursuant to the terms of the CEHE Credit Agreement.

(e) Amounts to be applied in connection with prepayments and Commitment reductions made pursuant to this Section 5.7 shall be applied, first, to the prepayment of the Term Loans in accordance with Section 5.2(b) and, second, to reduce permanently the Revolving Commitments. Any such reduction of the Revolving Commitments shall be accompanied by prepayment of the Revolving Loans to the extent, if any, that the Total Aggregate Extensions of Credit exceed the amount of the Total Revolving Commitments as so reduced, provided that the Borrower shall be obligated, first, to prepay the Revolving Loans in the amount of such excess, and, second, to cash collateralize the Letters of Credit to the extent that the aggregate amount of the L/C Obligations exceeds such Total Revolving Commitments after prepayment of all Revolving Loans. The application of any prepayment pursuant to this Section 5.7 shall be made, first, to ABR Loans and, second, to LIBOR Rate Loans. Each prepayment of the Loans under this Section 5.7 shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.".

7. Amendment to Section 6.2 of the Credit Agreement (Conditions Precedent to Each Borrowing). Section 6.2 of the Credit Agreement is hereby amended by adding immediately following "this Agreement" in paragraph (b) thereof "and in the other Loan Documents".

8. Amendment to Section 7.1 of the Credit Agreement (Representations and Warranties of the Borrower). Section 7.1 of the Credit Agreement is hereby amended by:

(a) deleting the second sentence in paragraph (g) thereof in its entirety and substituting in lieu thereof the following:

"The proceeds of the Revolving Loans will be used by the Borrower (i) to refinance certain obligations under, or for which credit support is provided by, the Existing Credit Facilities, (ii) to support commercial paper issued by the Borrower, and (iii) for other general corporate purposes.";

(b) adding immediately following "under this Agreement" in clause (i) in paragraph (k) thereof "or under any other Loan Document";

(c) deleting paragraph (m) in its entirety and substituting in lieu thereof the following new paragraph (m) as follows:

"(m) Financial Statements. The pro forma consolidated financial statements of the Borrower as of and for the nine months ended September 30, 2002 filed with the SEC on November 14, 2002 with the Borrower's 10-Q dated November 14, 2002, copies of which have been delivered to the Banks, present fairly in all material respects the consolidated financial condition and results of operations of the Borrower and its Consolidated Subsidiaries as of such date and for the period then ended, in conformity with, as applicable, GAAP and the regulations promulgated under the Securities Act and, except as otherwise stated therein, consistently applied (in the case of such unaudited statements, subject to year-end adjustments and the exclusion of detailed footnotes).";

(d) adding immediately following "this Agreement" in the first sentence in paragraph (n) thereof "or the other Loan Documents"; and

(e) adding immediately following paragraph (s) thereof a new paragraph (t) as follows:

"(t) Pledge Agreement. Upon execution thereof, the Pledge Agreement will be effective to create in favor of the Administrative Agent, for the benefit of the Banks, a legal, valid and enforceable security interest in the Collateral as described therein and proceeds thereof. In the case of the Pledged Stock described in the Pledge Agreement, when stock certificates representing such Pledged Stock are delivered to the Administrative Agent, or if such Pledged Stock is uncertificated, when financing

statements in appropriate form are filed with the appropriate office in the State of Delaware, upon execution thereof, the Pledge Agreement shall constitute a fully perfected Lien on, and security in, all right, title and interest of Utility Holding, LLC in the Pledged Stock, as security for the Credit Agreement Obligations (as defined in the Pledge Agreement), prior and superior in right to any other Person other than the RRI Option.".

9. Amendment to Section 8.2 of the Credit Agreement (Negative Covenants of the Borrower). Section 8.2 of the Credit Agreement is hereby amended by:

(a) amending paragraph (a) thereof by deleting the ratio "4.75:1.00" in clause (i) therein and substituting in lieu thereof "3.75:1.00";

(b) amending paragraph (b) thereof by (i) deleting the proviso in clause (iv) thereof in its entirety, (ii) deleting clause (vii) thereof in its entirety and substituting in lieu thereof a new clause (vii) as follows:

"(vii) Liens securing Indebtedness of (x) Texas Genco and/or its Subsidiaries; provided that such Liens shall be limited to the Property of Texas Genco and/or its Subsidiaries and (y) Resources and/or its Subsidiaries; provided that such Liens shall be limited to the Property of Resources and/or its Subsidiaries;",

(iii) deleting the "and" immediately following clause (xviii) thereof, (iv) deleting the period at the end of clause (xix) thereof and substituting in lieu thereof a semicolon and (v) adding at the end thereof immediately following clause (xix) new clauses (xx) and (xxi) as follows:

"(xx) Liens in favor of or for the benefit of the Banks or their Affiliates in the Collateral pursuant to the Pledge Agreement to secure obligations under Specified Swap Agreements; and

(xxi) Liens created pursuant to the Pledge Agreement.";

(c) amending paragraph (c) thereof by (i) deleting ", or the Capital Stock of any Significant Subsidiary of the Borrower," in clause (iii) therein and (ii) deleting the first proviso therein in its entirety and substituting in lieu thereof the following:

"provided, however, that nothing contained in this Section 8.2(c) shall prohibit (A) a merger involving Texas Genco or any of its Subsidiaries (collectively, the "Texas Genco Entities") or any other Subsidiary of the Borrower (including mergers to reincorporate or change the domicile of such Texas Genco Entity or other Subsidiary of the Borrower, as the case may be) if, in the case of any Texas Genco Entity, Texas Genco is the surviving entity thereof or, in the case of any other Subsidiary of the Borrower, the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower is the surviving entity thereof; (B) the liquidation, winding up or dissolution of a Texas Genco Entity or any other Significant Subsidiary of the Borrower if all of the Properties of such Texas Genco Entity

or such other Significant Subsidiary, as the case may be, are conveyed, transferred or distributed to, in the case of any Texas Genco Entity, Texas Genco or, in the case of any other Significant Subsidiary, the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower; (C) the Disposition of any material portion or all or substantially all (or any lesser portion) of the Properties of any Texas Genco Entity or any other Significant Subsidiary, in the case of any Texas Genco Entity, to any other Person (so long as the Borrower complies with Section 5.7(c)), or, in the case of any other Significant Subsidiary, to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower; or (D) the transfer of assets in connection with the issuance of Securitization Securities;";

(d) deleting paragraph (e) thereof in its entirety and substituting in lieu thereof the following:

"(e) Sale of Significant Subsidiary Stock. And will not permit any Subsidiary to sell, assign, transfer or otherwise dispose of any of the Capital Stock of any Significant Subsidiary. Notwithstanding the foregoing provisions or Section 8.2(c) or this Section 8.2(e), (x) the Borrower or any Significant Subsidiary may sell, assign, transfer or otherwise dispose of (i) any of the Capital Stock of any Significant Subsidiary to the Borrower or to a Wholly-Owned Subsidiary of the Borrower that constitutes a Significant Subsidiary after giving effect to such transaction, (ii) the Capital Stock pursuant to the Genco Transaction, which was consummated prior to the Second Amendment Effective Date and (iii) the Texas Genco Stock; provided that (A) the Borrower complies with Section 5.7(c) and (B) if any Disposition of the Texas Genco Stock is effectuated by exercise of the RRI Option, such Disposition shall be made only in cash and (y) any Significant Subsidiary shall have the right to issue, sell, assign, transfer or otherwise dispose of for value its preference or preferred stock in one or more bona fide transactions to any Person; provided that immediately before and after giving effect to any such Disposition (other than pursuant to the RRI Option) described in the foregoing clauses (x) and (y), no Event of Default or Default shall have occurred and be continuing.";

(e) amending paragraph (f) thereof by (i) deleting the dollar amount "$0.16" in clause (c) thereof and substituting in lieu thereof "$0.10" and (ii) adding at the end thereof immediately before the period the following:

", provided that such amount shall be limited during any such fiscal quarter ending after December 31, 2003, to the lesser of (i) $0.10 per share of common Capital Stock of the Borrower and (ii) an aggregate amount not to exceed the product of (x) 50% of consolidated net income of the Borrower and its Subsidiaries, determined in accordance with GAAP, for the 12 months ended on the last day of the prior quarter and (y) 25%, in the event that the aggregate Term Loans outstanding shall not have been repaid during the period from the Second Amendment Effective Date through December 31, 2003 in an aggregate amount equal to at least $400,000,000, with at least $200,000,000 of such prepayment being made with the proceeds of the issuance during the period from the

Second Amendment Effective Date through December 31, 2003 by the Borrower of its Capital Stock or securities linked thereto.";

(f) amending paragraph (g) thereof by adding immediately following "Wholly-Owned Subsidiary of the Borrower" in clause (b) therein "and Texas Genco and its Subsidiaries"; and

(g) adding at the end thereof immediately following paragraph (g) thereof new paragraphs (h), (i), (j), (k) and (l) as follows:

"(h) Texas Genco Indebtedness. Permit Texas Genco or its Subsidiaries to create, incur, assume or permit to exist any Indebtedness for Borrowed Money, except Indebtedness in an aggregate principal amount not to exceed $250,000,000 at any one time outstanding.

(i) Pledge of Texas Genco Stock. Fail to use its best efforts to obtain all necessary approvals, including by the SEC, to pledge and, upon receipt of such approvals, fail to cause Utility Holding, LLC to pledge, to the Administrative Agent, for the benefit of the Banks, all of the Texas Genco Stock pursuant to the Pledge Agreement, including without limitation, delivery to the Administrative Agent of each document (including any original stock certificates together with undated stock powers executed in blank and any Uniform Commercial Code financing statements) in form and substance reasonably satisfactory to it, necessary, or in the reasonable opinion of the Administrative Agent, desirable to perfect the Liens created by the Pledge Agreement, in proper form for filing, registration or recordation, and reasonably satisfactory legal opinions or other documents and certificates reasonably requested by the Administrative Agent.

(j) Issuance of Warrants. Fail to use its best efforts to obtain all necessary approvals, including by the SEC, to issue and, upon receipt of such approvals, fail to (i) issue, to the Banks, the Warrants required to be issued pursuant to the Warrant Agreement or (ii) enter into the Registration Rights Agreement; provided, however, that if on or prior to the three-month anniversary of the Second Amendment Effective Date, the Borrower has not obtained SEC approval to issue the Warrants, the Borrower shall, prior to such anniversary, enter into an agreement, in form and substance reasonably satisfactory to the Majority Banks, to provide, for the benefit of the Banks, the equivalent value of the Warrants over the same time period during which the Warrants would have been exercisable. Concurrently with the execution and delivery of the Warrant Agreement and the Registration Rights Agreement, the Borrower shall deliver to the Administrative Agent reasonably satisfactory legal opinions or other documents and certificates reasonably requested by the Administrative Agent.

(k) Liens on Texas Genco Stock. And will not permit any of its Subsidiaries to, pledge, mortgage, hypothecate or grant a Lien upon, or permit any mortgage, pledge,

security interest or other Lien upon, the Texas Genco Stock other than under the Loan Documents or the RRI Option.

(l) Resources Indebtedness. And will not permit any of its Subsidiaries or Affiliates (other than Resources and its Subsidiaries), to directly or indirectly pay, contribute, loan or otherwise transfer funds to Resources for the purpose of repaying the principal on Resource's existing $350 million loan facility or any refinancing thereof unless (i) such payment, contribution, loan or advance is made with the proceeds of a capital markets offering (to the extent permitted under this Agreement), or (ii) at the time of such payment, contribution, loan or advance, the Borrower, on a consolidated basis, does not reasonably require or foresee that it will require such funds in order for the Borrower and its Subsidiaries and Affiliates to operate their businesses consistent with past practices and to meet their ongoing obligations to third parties. Prior to the Borrower, its Subsidiaries, or its Affiliates (other than Resources and its Subsidiaries) making any payment, contribution, loan or other transfer of funds to Resources pursuant to clause (ii) above, the Borrower shall give the Banks written notice of its intent to make such transfer. Any Bank may, within five Business Days of receipt of such notice, request that the Borrower provide to the Banks a certificate summarizing how the Borrower reached the conclusion required to make such transfer pursuant to clause (ii) above. The Borrower will not permit a transfer pursuant to clause (ii) above to occur until (x) the sixth Business Day following the Borrower's giving to the Banks of notice of such transfer, if no Bank requests from the Borrower the certificate described above, or (y) the fifth Business Day following the Borrower's delivery of the certificate described above, if a Bank does request such certificate.".

10. Amendment to Section 9.1 of the Credit Agreement (Events of Default). Section 9.1 of the Credit Agreement is hereby amended by:

(a) adding immediately following the reference to "Section 7.1 " in paragraph (c) thereof ", in any other Loan Document";

(b) adding immediately following the parenthetical in paragraph (e) thereof "or under any other Loan Document"; and

(c) (i) deleting the period at the end of paragraph (k) thereof and substituting in lieu thereof "; or" and (ii) adding at the end thereof immediately following paragraph (k) a new paragraph (l) as follows:

"(l) (i) On or after the date of execution thereof, the Pledge Agreement shall cease, for any reason (other than in accordance with its terms), to be in full force and effect or the Borrower or any Affiliate of the Borrower shall so assert (other than in accordance with its terms), or (ii) any Lien created by the Pledge Agreement shall cease to be enforceable and of the same effect and priority purported to be created thereby (other than in accordance with its terms).".

11. Amendment to Section 9.2 of the Credit Agreement (Cancellation/Acceleration). Section 9.2 of the Credit Agreement is hereby amended by:

(a) adding immediately following "under this Agreement" in clause (ii) in paragraph (a) thereof "or any other Loan Document"; and

(b) adding immediately following each reference to "under this Agreement" in clause (ii) in paragraph (b) thereof "or any other Loan Document".

12. Amendment to Section 11.1 of the Credit Agreement (Amendments and Waivers). Section 11.1 of the Credit Agreement is hereby amended by:

(a) adding immediately following "expiration date of any Bank's Commitments," in clause (i) therein "or amend or modify the definition of Initial Repayment Date or Subsequent Repayment Date (each as defined in the Warrant Agreement), or modify the Warrant Agreement to have the effect thereof, in each case to postpone such date,"; and

(b) adding immediately following "and the other Loan Documents," in clause (ii) therein "or release all or substantially all of the Collateral (other than in accordance with the terms of the Pledge Agreement),".

13. Amendment to Section 11.6 of the Credit Agreement (Effectiveness, Successors and Assigns, Participations; Assignments). Section 11.6 of the Credit Agreement is hereby amended by deleting the first sentence in paragraph (g) thereof and substituting in lieu thereof the following:

"Each of the Banks and the Administrative Agent agrees to exercise its best efforts to keep, and to cause any third party recipient of the Information (as defined below) to keep, any Information confidential from anyone other than Persons employed or retained by such party who are or are expected to become engaged in evaluating, approving, structuring or administering the transactions contemplated hereunder; provided that nothing shall prevent any Bank or the Administrative Agent from disclosing such Information (i) to any other Bank or any Affiliate of any Bank, (ii) pursuant to subpoena or upon the order of any court or administrative agency, (iii) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (iv) if such Information has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which either the Administrative Agent, any Bank, the Borrower or their respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to the Administrative Agent's or such Bank's, as the case may be, legal counsel, independent auditors and other professional advisors, or (viii) to any actual or proposed Participant or Purchasing Bank (each, a "Transferee") that has agreed in writing to be bound by the provisions of this Section 11.6(g). For purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information (i) with respect to "structure" or "tax aspects" of the credit and

lending transactions provided for in this Agreement, as such terms are used in Sections 6011, 6111 or 6112 of the Code, and the regulations promulgated thereunder, or (ii) that is available to the Administrative Agent or any Bank on a nonconfidential basis prior to disclosure by the Borrower. For avoidance of doubt, the Borrower, the Administrative Agent and the Banks agree that the Borrower, the Administrative Agent and the Banks (and each of their Affiliates, their directors, officers, agent, attorneys, employees and representatives) are permitted to disclose to any and all Persons, without limitation of any kind, the "structure" and "tax aspects" of the credit and lending transactions provided for in this Agreement, as such terms are used in Sections 6011, 6111 or 6112 of the Code, and the regulations promulgated thereunder, and all materials of any kind (including opinions or other tax analyses) that are provided to the Administrative Agent and the Banks related to such structure and tax aspects. The preceding sentence and clause (i) in the definition of "Information" above are set forth herein solely to come within certain "safe harbor" provisions set forth in certain temporary regulations promulgated under Sections 6011, 6111 and 6112 of the Code.".

14. Amendment to Credit Agreement. The Credit Agreement is hereby amended by deleting all references to CAF Loans and all other related definitions deleted pursuant to Section 2 of this Second Amendment (other than "Applicable Margin", "Loan Documents" and "Revolving Loan Maturity Date").

15. Amendment to Exhibit 11.6(i)(c) to the Credit Agreement (Form of CAF Note). Exhibit 11.6(i)(c) to the Credit Agreement and all references thereto are hereby deleted in their entirety.

16. Conditions to Effectiveness. This Second Amendment shall become effective as of the date set forth above upon satisfaction of the following conditions precedent (the "Second Amendment Effective Date"):

(a) The Administrative Agent shall have received counterparts of this Second Amendment executed by the Borrower and each of the Banks;

(b) The Administrative Agent shall have received copies of an amendment to the Texas Genco Option Agreement, dated as of December 31, 2000, between the Borrower and Reliant Resources, Inc., permitting the pledge of the Texas Genco Stock and permitting the exercise of voting rights and foreclosure remedies, upon the occurrence and during the continuation of an Event of Default, for the Texas Genco Stock;

(c) The Administrative Agent shall have received, for the benefit of the Banks, the Additional Fee;

(d) The Administrative Agent shall have received all fees and expenses required to be paid pursuant to the Credit Agreement;

(e) The Administrative Agent shall have received satisfactory legal opinions and other documents and certificates reasonably requested by the Administrative Agent; and

(f) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Second Amendment shall be in form and substance reasonably satisfactory to the Administrative Agent.

17. Reference to and Effect on the Loan Documents; Limited Effect. On and after the date hereof and the satisfaction of the conditions contained in Section 16 of this Second Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended hereby. The execution, delivery and effectiveness of this Second Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Bank or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provisions of any of the Loan Documents. Except as expressly amended herein, all of the provisions and covenants of the Credit Agreement and the other Loan Documents are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby in all respects ratified and confirmed.

18. Representations and Warranties. The Borrower, as of the date hereof and after giving effect to the amendment contained herein, hereby confirms, reaffirms and restates the representations and warranties (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date) made by it in Article VII of the Credit Agreement and otherwise in the Loan Documents to which it is a party; provided that each reference to the Credit Agreement therein shall be deemed to be a reference to the Credit Agreement after giving effect to this Second Amendment.

19. Counterparts. This Second Amendment may be executed by one or more of the parties hereto in any number of separate counterparts (which may include counterparts delivered by facsimile transmission) and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any executed counterpart delivered by facsimile transmission shall be effective as an original for all purposes hereof. The execution and delivery of this Second Amendment by any Bank shall be binding upon each of its successors and assigns (including Transferees of its Commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its Commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

20. GOVERNING LAW. THIS SECOND AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed and delivered by their duly authorized officers as of the date first written above.

CENTERPOINT ENERGY, INC.

By: /s/ MARC KILBRIDE
---
Name: Marc Kilbride
Title: Vice President and Treasurer

JPMORGAN CHASE BANK, as Administrative Agent and as a Bank

By: /s/ WILLIAM T. STROUT
---
Name: William T. Strout
Title: Managing Director

CITIBANK, N.A., as Syndication Agent and as a Bank

By: /s/ SANDIP SEN
---
Name: Sandip Sen
Title: Managing Director

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ABN AMRO BANK N.V.

By: /s/ JOHN J. MACK
---
Name: John J. Mack
Title: Senior Vice President

By: /s/ THOMAS J. STERR
---
Name: Thomas J. Sterr
Title: Vice President

BANK HAPOALIM, B.M

By: /s/ MARC BOSC
---
Name: Marc Bosc
Title: Vice President

By: /s/ LEHROY HACKEN
---
Name: Lehroy Hacken
Title: Vice President

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BANK ONE, N.A.

By: /s/ MADELEINE N. PEMBER
---

Name: Madeleine N. Pember
Title: Director

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BANK OF AMERICA, N.A.

By: /s/ RICHARD L. STEIN
---

Name: Richard L. Stein
Title: Principal

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THE BANK OF NOVA SCOTIA

By: /s/ DENIS P. O'MEARA
---

Name: Denis P. O'Meara
Title: Managing Director

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THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ D. BARNELL
---
Name: D. Barnell
Title: Vice President

By: /s/ J. MEARNS
---
Name: J. Mearns
Title: VP & Manager

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BARCLAYS BANK PLC

By: /s/ SYDNEY G. DENNIS
---

Name: Sydney G. Dennis
Title: Director

BAYERISCHE LANDESBANK
GIROZENTRALE

By: /s/ DIETMAN RIEG
---

Name: Dietman Rieg
Title: First Vice President

By: /s/ JAMES H. BOYLE
---

Name: James H. Boyle
Title: Vice President

WESTLB AG, New York Branch

By: /s/ SALVATORE BATTINELLI
---
Name: Salvatore Battinelli
Title: Managing Director

By: /s/ RICHARD J. PEARSE
---
Name: Richard J. Pearse
Title: Executive Director

EXHIBIT 4(f)(4)

CENTERPOINT ENERGY, INC.

THE BANKS PARTY HERETO

CITIBANK, N.A.

JPMORGAN CHASE BANK

and

CENTERPOINT ENERGY, INC.
as warrant agent

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# WARRANT AGREEMENT

Dated as of [_____ __], 2003

WARRANT AGREEMENT

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WARRANT AGREEMENT dated as of [_____ __], 2003 between CenterPoint Energy, Inc., a Texas corporation (the "COMPANY"), the banks and other financial institutions from time to time parties to the Credit Agreement (as defined below) (each, a "Lender"), Citibank, N.A., JPMorgan Chase Bank and CenterPoint Energy, Inc., as Warrant Agent (the "Warrant Agent").

WHEREAS, on the date hereof the Company is issuing [30,600,564.20] common stock purchase warrants, as hereinafter described (the "WARRANTS"), which in the aggregate initially entitle the holders thereof to purchase [30,600,564.20] shares of Common Stock, par value $0.01 per share (the "COMMON STOCK"), of the Company which constitute 10.0% of the Common Stock outstanding on a Diluted Basis (as defined below) (the Common Stock issuable on exercise of the Warrants being referred to herein as the "WARRANT SHARES" and, where appropriate, such term shall also mean the other securities or property of the Company, or any successor thereto, purchasable and deliverable upon exercise of a Warrant as set forth in Section 15), in connection with the Second Amendment, dated as of February 28, 2003 (the "SECOND AMENDMENT"), to the $3,850,000,000 Amended and Restated Credit Agreement dated as of October 10, 2002 (the "CREDIT AGREEMENT"), among the Company, the banks and other financial institutions from time to time parties thereto and JPMorgan Chase Bank, as administrative agent (the "ADMINISTRATIVE AGENT"). Capitalized terms used and not otherwise defined herein have the meanings ascribed thereto in the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereto agree as follows:

SECTION 1. Issuance of Warrants. The Warrants shall be issued on the date hereof (the "ISSUE DATE"). The Warrants shall consist of two tranches of Warrants, each consisting of [15,300,282.10] Warrants. All or a portion of the first tranche of Warrants (the "FIRST TRANCHE WARRANTS") and the second tranche of Warrants (the "SECOND TRANCHE WARRANTS") shall be reduced and cancelled in accordance with Sections 11(b) and 11(c) based on repayments of Term Loans (as defined in the Credit Agreement) under the Credit Agreement. Each Warrant Certificate (as defined below) shall evidence the number of Warrants specified therein, and each Warrant evidenced thereby initially shall represent the right, subject to the provisions contained herein and therein, to purchase from the Company one fully paid and non-assessable share of the Company's Common Stock (subject to adjustment from time to time as set forth in Section 15).

SECTION 2. Appointment of Warrant Agent. The Company shall initially act as the Warrant Agent in accordance with the terms set forth hereinafter in this Agreement.

SECTION 3. Warrant Certificates. The certificates evidencing the Warrants (the "WARRANT CERTIFICATES") will initially be issued in global form (the "GLOBAL WARRANTS"). The Warrant Certificates evidencing the Global Warrants to be delivered pursuant to this Agreement shall be substantially in the form set forth in Exhibit A-1 or Exhibit A-2 attached hereto, as applicable. Such Global Warrants shall represent such of the outstanding Warrants as shall be specified therein and each shall provide that it shall represent the aggregate amount of

outstanding Warrants from time to time endorsed thereon and that the aggregate amount of outstanding Warrants represented thereby may from time to time be decreased or increased, as appropriate, in accordance with the terms of this Agreement. The Depository Trust Company shall act as the Depositary (the "DEPOSITARY") with respect to the Global Warrants until a successor shall be appointed by the Company. Upon written request, and subject to Section 8(d) hereof, a Warrant holder may receive Warrants in registered form as definitive Warrant Certificates (the "DEFINITIVE WARRANTS").

SECTION 4. Execution of Warrant Certificates. Warrant Certificates shall be signed on behalf of the Company by its Chairman of the Board or its President or a Vice President and by its Secretary or an Assistant Secretary under its corporate seal. Each such signature upon the Warrant Certificates may be in the form of a facsimile signature of the present or any future Chairman of the Board, President, Vice President, Secretary or Assistant Secretary and may be imprinted or otherwise reproduced on the Warrant Certificates and for that purpose the Company may adopt and use the facsimile signature of any person who shall have been Chairman of the Board, President, Vice President, Secretary or Assistant Secretary, notwithstanding the fact that at the time the Warrant Certificates shall be countersigned and delivered or disposed of he or she shall have ceased to hold such office.

In case any officer of the Company who shall have signed any of the Warrant Certificates shall cease to be such officer before the Warrant Certificates so signed shall have been countersigned by the Warrant Agent, or disposed of by the Company, such Warrant Certificates nevertheless may be countersigned and delivered or disposed of as though such person had not ceased to be such officer of the Company; and any Warrant Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Warrant Certificate, shall be a proper officer of the Company to sign such Warrant Certificate, although at the date of the execution of this Warrant Agreement any such person was not such officer.

SECTION 5. Countersignature and Delivery. Subject to the immediately following paragraph, Warrant Certificates shall be countersigned by manual signature and dated the date of countersignature by the Warrant Agent and shall not be valid for any purpose unless so countersigned and dated. The Warrant Certificates shall be numbered and shall be registered in the Warrant Register (as defined below).

Upon the receipt by the Warrant Agent of a written order of the Company, which order shall be signed by its Chairman of the Board or its President or a Vice President and by its Secretary or an Assistant Secretary, and shall specify the amount of Warrants to be countersigned, whether the Warrants are to be Global Warrants or Definitive Warrants, the date of such Warrants and such other information as the Warrant Agent may reasonably request, without any further action by the Company, the Warrant Agent is authorized, upon receipt from the Company at any time and from time to time of the Warrant Certificates, duly executed as provided in Section 4 hereof, to countersign the Warrant Certificates and upon the holder's request deliver them. Such countersignature shall be by a duly authorized signatory of the Warrant Agent (although it shall not be necessary for the same signatory to sign all Warrant Certificates).

In case any authorized signatory of the Warrant Agent who shall have countersigned any of the Warrant Certificates shall cease to be such authorized signatory before the Warrant Certificate shall be disposed of by the Company or the Warrant Agent, such Warrant Certificate nevertheless may be delivered or disposed of as though the person who countersigned such Warrant Certificate had not ceased to be such authorized signatory of the Warrant Agent; and any Warrant Certificate may be countersigned on behalf of the Warrant Agent by such persons as, at the actual time of countersignature of such Warrant Certificates, shall be the duly authorized signatories of the Warrant Agent, although at the time of the execution and delivery of this Agreement any such person is not such an authorized signatory.

The Warrant Agent's countersignature on all Warrant Certificates shall be in substantially the form set forth in Exhibit A-1 or Exhibit A-2 hereto, as applicable.

SECTION 6. Registration. The Company will keep, at the office or agency maintained by the Company for such purpose, a register or registers in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of, and registration of transfer and exchange of, Warrants as provided in this Agreement. Each person designated by the Company from time to time as a person authorized to register the transfer and exchange of the Warrants is hereinafter called, individually and collectively, the "REGISTRAR". The Company hereby initially appoints the Warrant Agent as Registrar. Upon written notice to the Warrant Agent and any acting Registrar, the Company may appoint a successor Registrar for such purposes.

The Company will at all times designate one person (who may be the Company and who need not be a Registrar) to act as repository of a master list of names and addresses of the holders of Warrants (the "WARRANT REGISTER"). The Warrant Agent will act as such repository unless and until some other person is, by written notice from the Company to the Warrant Agent and the Registrar, designated by the Company to act as such. The Company shall cause each Registrar to furnish to such repository, on a current basis, such information as to all registrations of transfer and exchanges effected by such Registrar, as may be necessary to enable such repository to maintain the Warrant Register on as current a basis as is practicable.

The Company and the Warrant Agent may deem and treat the registered holder(s) of the Warrant Certificates as the absolute owner(s) thereof (notwithstanding any notation of ownership or other writing thereon made by anyone), for all purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

SECTION 7. Temporary Warrant Certificates. Pending the preparation of definitive Warrant Certificates, the Company may execute, and the Warrant Agent shall countersign and deliver, temporary Warrant Certificates, which are printed, lithographed, typewritten or otherwise produced, substantially of the tenor of the definitive Warrant Certificates in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Warrant Certificates may determine, as evidenced by their execution of such Warrant Certificates.

If temporary Warrant Certificates are issued, the Company will cause definitive Warrant Certificates to be prepared without unreasonable delay. After the preparation of

definitive Warrant Certificates, the temporary Warrant Certificates shall be exchangeable for definitive Warrant Certificates upon surrender of the temporary Warrant Certificates at any office or agency maintained by the Company for that purpose pursuant to Section 10 hereof. Subject to the provisions of Section 12 hereof, such exchange shall be without charge to the holder. Upon surrender for cancellation of any one or more temporary Warrant Certificates, the Company shall execute, and the Warrant Agent shall countersign and deliver in exchange therefor, one or more definitive Warrant Certificates representing in the aggregate a like number of Warrants. Until so exchanged, the holder of a temporary Warrant Certificate shall in all respects be entitled to the same benefits under this Agreement as a holder of a definitive Warrant Certificate.

SECTION 8. Registration of Transfers or Exchanges.

(a) Transfer or Exchange of Definitive Warrants.

When Definitive Warrants are presented to the Warrant Agent with a request from the holder:

(i) to register the transfer of the Definitive Warrants; or

(ii) to exchange such Definitive Warrants for an equal number of Definitive Warrants of other authorized denominations,

the Warrant Agent shall register the transfer or make the exchange as requested if the requirements under this Warrant Agreement as set forth in this Section 8(a) hereof for such transactions are met; provided, however, that the Definitive Warrants presented or surrendered by a holder for registration of transfer or exchange:

(x) shall be duly endorsed or accompanied by a written instruction of transfer or exchange in form satisfactory to the Company and the Warrant Agent, duly executed by such holder or by his attorney, duly authorized in writing; and

(y) in the case of Warrants the offer and sale of which have not been registered under the Securities Act and are presented for transfer or exchange prior to (X) the date which is two years (or such shorter period as may be prescribed by Rule 144(k) (or any successor provision thereto)) after the later of the date of original issuance of the Warrants and the last date on which the Company or any Affiliate (as defined in the Credit Agreement) of the Company was the owner of such Warrants, or any predecessor thereto, and (Y) such later date, if any, as may be required by any subsequent change in applicable law, as set forth in a certification from such holder in substantially the form of Exhibit B hereto (the "Resale Restriction Termination Date"), such Warrants shall be accompanied by the following additional information and documents, as applicable:

(A) if such Warrants are being delivered to the Warrant Agent by a holder for registration in the name of such holder, without transfer, a certification from such holder to that effect (in substantially the form of Exhibit B hereto);

(B) if such Warrants are being transferred to the Company by a holder, a certification from such holder to that effect (in substantially the form of Exhibit B hereto);

(C) if such Warrants are being transferred to a qualified institutional buyer as such term is defined in Rule 144A under the Securities Act (a "QIB") in accordance with Rule 144A under the Securities Act, a certification from the transferor to that effect (in substantially the form of Exhibit B hereto);

(D) if such Warrants are being transferred in reliance on Regulation S under the Securities Act (i) a certification from the transferor to that effect (in substantially the form of Exhibit B hereto), (ii) a certification for Regulation S transfers (in substantially the form of Exhibit C hereto) and (iii) if requested by the Company, an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act;

(E) if such Warrants are being transferred in reliance on Rule 144 under the Securities Act (i) a certification from the transferor to that effect (in substantially the form of Exhibit B hereto) and (ii) an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; or

(F) if such Warrants are being transferred in reliance on another exemption from the registration requirements of the Securities Act (i) a certification from the transferor to that effect (in substantially the form of Exhibit B hereto), (ii) a certification from the transferee (in substantially the form of Exhibit D hereto) and (iii) an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; provided that the Company may, based upon the views of its own counsel, instruct the Warrant Agent not to register such transfer in any case where the proposed transferee is not a QIB or non-U. S. person, respectively.

(b) Restrictions on Transfer of a Definitive Warrant for a Beneficial Interest in a Global Warrant.

A Definitive Warrant may not be transferred by a holder for a beneficial interest in a Global Warrant except upon satisfaction of the requirements set forth below. Upon receipt by the Warrant Agent of a Definitive Warrant, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Warrant Agent, together with:

(i) certification from such holder (in substantially the form of Exhibit B hereto) that such Definitive Warrant is being transferred to a QIB in accordance with Rule l44A under the Securities Act; and

(ii) written instructions directing the Warrant Agent to make, or to direct the Depositary to make, an endorsement on the Global Warrant to reflect an increase in the aggregate amount of the Warrants represented by the Global Warrant,

then the Warrant Agent shall cancel such Definitive Warrant and cause, or direct the Depositary to cause, in accordance with the standing instructions and procedures existing between the Depositary and the Warrant Agent, the number of Warrant Shares represented by the Global Warrant to be increased accordingly. If no Global Warrant is then outstanding, the Company shall issue, and the Warrant Agent shall upon written instructions from the Company authenticate, a new Global Warrant in the appropriate amount.

(c) Transfer or Exchange of Global Warrants.

The transfer or exchange of Global Warrants or beneficial interests therein shall be effected through the Depositary, in accordance with this Section 8, the Private Placement Legend (as defined below), this Agreement (including those restrictions on transfer set forth herein) and the procedures of the Depositary therefor.

(d) Transfer or Exchange of a Beneficial Interest in a Global Warrant for a Definitive Warrant.

(i) Any person having a beneficial interest in a Global Warrant may transfer or exchange such beneficial interest for a Definitive Warrant upon receipt by the Warrant Agent of written instructions (or such other form of instructions as is customary for the Depositary) from the Depositary or its nominee on behalf of any person having a beneficial interest in a Global Warrant, including a written order containing registration instructions and, in the case of any such transfer or exchange prior to the Resale Restriction Termination Date, the following additional information and documents:

(A) if such beneficial interest is being transferred to the person designated by the Depositary as being the beneficial owner, a certification from such person to that effect (in substantially the form of Exhibit B hereto);

(B) if such beneficial interest is being transferred to the Company, a certification from such holder to that effect (in substantially the form of Exhibit B hereto);

(C) if such beneficial interest is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certification from the transferor to that effect (in substantially the form of Exhibit B hereto);

(D) if such beneficial interest is being transferred in reliance on Regulation S under the Securities Act (i) a certification from the transferor to that effect (in substantially in the form of Exhibit B hereto), (ii) a certification for Regulation S transfers (in substantially the form of Exhibit C hereto) and (iii) if requested by the Company, an opinion of counsel reasonably

satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act;

(E) if such beneficial interest is being transferred in reliance on Rule 144 under the Securities Act (i) a certification from the transferor to that effect (in substantially the form of Exhibit B hereto) and (ii) an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; or

(F) if such beneficial interest is being transferred in reliance on another exemption from the registration requirements of the Securities Act (i) a certification from the transferor to that effect (in substantially the form of Exhibit B hereto), (ii) a certification from the transferee (in substantially the form of Exhibit D hereto) and (iii) an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer is in compliance with the Securities Act; provided that the Company may, based upon the views of its own counsel, instruct the Warrant Agent not to register such transfer in any case where the proposed transferee is not a QIB or non-U. S. person, respectively;

then the Warrant Agent will cause, in accordance with the standing instructions and procedures existing between the Depositary and the Warrant Agent, the aggregate amount of the Global Warrant to be reduced and, following such reduction, in accordance with Sections 4 and 5 the Company will execute and, the Warrant Agent will countersign and deliver to the transferee a Definitive Warrant.

(ii) Definitive Warrants issued in exchange for a beneficial interest in a Global Warrant pursuant to this Section 8(d) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Warrant Agent in writing. The Warrant Agent shall deliver such Definitive Warrants to the persons in whose names such Warrants are so registered and adjust the Global Warrant pursuant to subsection (h) of this Section 8.

(e) Restrictions on Transfer or Exchange of Global Warrants.

Notwithstanding any other provisions of this Agreement (other than the provisions set forth in subsection (f) of this Section 8), a Global Warrant may not be transferred or exchanged as a whole except by the Depositary to a nominee of the Depositary; by a nominee of the Depositary to the Depositary or another nominee of the Depositary; or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(f) Authentication of Definitive Warrants in Absence of Depositary.

If at any time:

(i) the Depositary for the Global Warrants notifies the Company that the Depositary is unwilling or unable to continue as Depositary for the Global Warrant and a successor Depositary for the Global Warrant is not appointed by the Company within 90 days after delivery of such notice; or

(ii) the Company, at its sole discretion, notifies the Warrant Agent in writing that it elects to cause the issuance of Definitive Warrants for all Global Warrants under this Agreement,

then the Company will execute, and the Warrant Agent will, upon receipt of an Officers' Certificate requesting the authentication and delivery of Definitive Warrants, authenticate and deliver Definitive Warrants, in an aggregate number equal to the aggregate number of warrants represented by the Global Warrant, in exchange for such Global Warrant.

(g) Private Placement Legend.

Upon the transfer or exchange of Warrant Certificates not bearing the legend set forth in the first paragraph of Exhibit A-1 or Exhibit A-2 attached hereto, as applicable (the "PRIVATE PLACEMENT LEGEND"), the Warrant Agent shall deliver Warrant Certificates that do not bear the Private Placement Legend. Upon the transfer, exchange or replacement of Warrant Certificates bearing the Private Placement Legend, the Warrant Agent shall deliver Warrant Certificates that bear the Private Placement Legend unless, and the Warrant Agent is hereby authorized to deliver Warrant Certificates without the Private Placement Legend if, (i) there is delivered to the Warrant Agent an opinion of counsel reasonably satisfactory to the Company and the Warrant Agent to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act or (ii) the Warrants to be transferred or exchanged represented by such Warrant Certificates are being transferred or exchanged pursuant to an effective registration statement under the Securities Act.

(h) Cancellation or Adjustment of a Global Warrant.

At such time as all beneficial interests in a Global Warrant have either been exchanged for Definitive Warrants, redeemed, repurchased or canceled, such Global Warrant shall be returned to the Company or, upon written order to the Warrant Agent in the form of an Officers' Certificate from the Company, retained and canceled by the Warrant Agent. At any time prior to such cancellation, if any beneficial interest in a Global Warrant is exchanged for Definitive Warrants, redeemed, repurchased or canceled, the number of Warrants represented by such Global Warrant shall be reduced and an endorsement shall be made on such Global Warrant by the Warrant Agent to reflect such reduction.

(i) Obligations with Respect to Transfers or Exchanges of Warrants.

(i) To permit registrations of transfers or exchanges, the Company shall execute, at the Warrant Agent's request, and the Warrant Agent shall authenticate, Definitive Warrants and Global Warrants.

(ii) All Definitive Warrants and Global Warrants issued upon any registration, transfer or exchange of Definitive Warrants or Global Warrants, as the case may be, shall be the valid obligations of the Company, entitled to the same benefits under this Warrant Agreement as the Definitive Warrants or Global Warrants surrendered upon the registration of transfer or exchange.

(iii) No service charge shall be made to the holder for any registration of transfer or exchange of Warrants, but the Company may require from the transferring or exchanging holder payment of a sum sufficient to cover any transfer tax or similar governmental charge payable upon exchanges pursuant to Section 12 and exchanges in respect of portions of Warrants not exercised and the Company may deduct such taxes from any payment of money to be made and such transfer or exchange shall not be consummated (if such taxes are not deducted in full) unless or until the holder shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company and the Warrant Agent that such tax has been paid.

(j) Restrictions on Transfer.

Registrations of transfer of Warrants or interests therein may not be made with respect to Warrants exercisable for less than [____] shares of Common Stock (subject to adjustment from time to time in accordance with Section 15).

SECTION 9. Lost, Stolen, Destroyed, Defaced Or Mutilated Warrant Certificates. Upon receipt by the Company and the Warrant Agent (or any agent of the Company or the Warrant Agent, if requested by the Company) of evidence satisfactory to them of the loss, theft, destruction, defacement, or mutilation of any Warrant Certificate and of indemnity satisfactory to them and, in the case of mutilation or defacement, upon surrender thereof to the Warrant Agent for cancellation, then, in the absence of notice to the Company or the Warrant Agent that such Warrant Certificate has been acquired by a bona fide purchaser or holder in due course, the Company shall execute, and an authorized signatory of the Warrant Agent shall manually authenticate and deliver, in exchange for or in lieu of the lost, stolen, destroyed, defaced or mutilated Warrant Certificate, a new Warrant Certificate representing a like number of Warrants, bearing a number or other distinguishing symbol not contemporaneously outstanding. Upon the issuance of any new Warrant Certificate under this Section in a name other than the prior registered holder of the lost, stolen, destroyed, defaced or mutilated Warrant Certificate, the Company may require (in addition to compliance with other applicable restrictions on transfer contained herein) the payment from the holder of such Warrant Certificate of a sum sufficient to cover any tax, stamp tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Warrant Agent and the Registrar) in connection therewith. Every substitute Warrant Certificate executed and delivered pursuant to this Section in lieu of any lost, stolen or destroyed Warrant Certificate shall constitute an additional contractual obligation of the Company, whether or not the lost, stolen or destroyed Warrant Certificate shall be at any time enforceable by anyone, and shall be entitled to the benefits of (but shall be subject to all the limitations of rights set forth in) this Agreement equally and proportionately with any and all other Warrant Certificates duly executed and delivered hereunder. The provisions of this Section 9 are exclusive with respect to the replacement of lost, stolen, destroyed, defaced or mutilated Warrant Certificates and shall

preclude (to the extent lawful) any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement of lost, stolen, destroyed, defaced or mutilated Warrant Certificates.

The Warrant Agent is hereby authorized to authenticate in accordance with the provisions of this Agreement and deliver the new Warrant Certificates required pursuant to the provisions of this Section.

SECTION 10. Offices For Exercise, Etc. So long as any of the Warrants remain outstanding, the Company will designate and maintain: (a) an office or agency where the Warrant Certificates may be presented for exercise (each a "WARRANT EXERCISE OFFICE"), (b) an office or agency where the Warrant Certificates may be presented for registration of transfer and for exchange (including the exchange of temporary Warrant Certificates for definitive Warrant Certificates pursuant to Section 7 hereof), and (c) an office or agency where notices and demands to or upon the Company in respect of the Warrants or of this Agreement may be served. The Company may from time to time change or rescind such designation, as it may deem desirable or expedient. In addition to such office or offices or agency or agencies, the Company may from time to time designate and maintain one or more additional offices or agencies, where Warrant Certificates may be presented for exercise or for registration of transfer or for exchange, and the Company may from time to time change or rescind such designation, as it may deem desirable or expedient. The Company will give to the Warrant Agent written notice of the location of any such office or agency and of any change of location thereof. The Company hereby designates the office of the Warrant Agent as set forth in Section 19 hereof (the "WARRANT AGENT OFFICE"), as the initial agency maintained for each such purposes. In case the Company shall fail to maintain any such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notice may be served at the Warrant Agent Office and the Company appoints the Warrant Agent as its agent to receive all such presentations, surrenders, notices and demands.

SECTION 11. Terms of Warrants. (a) Each Warrant shall, when the certificate or certificates therefor are countersigned by the Warrant Agent, entitle the holder(s) thereof, subject to and upon compliance with the provisions of this Agreement, to purchase one (1) share of Common Stock, which number of shares of Common Stock, in the aggregate for all Warrants, shall be equal to 10.0% of the sum of (a) the number of shares of Common Stock outstanding (including the Company's Employee Stock Ownership Program shares outstanding that are unallocated to plan participants) as of the close of business on the date preceding February 28, 2003, (b) without duplication, the number of additional shares not then outstanding, other than shares issuable upon exercise of options, that would be included in determining, in accordance with generally accepted accounting principles, fully diluted earnings per share for the fiscal year ended December 31, 2002 and (c) the number of shares issuable upon exercise of all "in the money" options as of the close of business on the date preceding February 28, 2003 (not giving any effect to shares issuable upon exercise of the Warrants and exclusive of any treasury shares) (a "DILUTED BASIS"). The Warrants shall consist of [15,300,282.10] First Tranche Warrants and [15,300,282.10] Second Tranche Warrants, which shall be identical in all respects other than with respect to the adjustments set forth in subsections (b) and (c) hereof. The number of Warrant Shares issuable upon exercise of a Warrant shall be subject to adjustment from time to time as set forth in Section 15 hereof.

(b) First Tranche Warrants. (i) On May 28, 2003 (the "INITIAL REPAYMENT DATE"), each First Tranche Warrant shall be subject to reduction and cancellation in accordance with the following formula:

$$F' = F \times \left( 1 - \frac{IR}{400} \right)$$

where:

F' = the number of shares subject to an adjusted First Tranche Warrant (an "ADJUSTED FIRST TRANCHE WARRANT").

F = the number of shares subject to a First Tranche Warrant.

IR = the aggregate principal amount of the Term Loans (in millions of dollars) repaid after the date of the Second Amendment and on or prior to the Initial Repayment Date.

(ii) On the Initial Repayment Date, the number of shares subject to each First Tranche Warrant shall be reduced to the number determined pursuant to subsection (b)(i) and (A) if such First Tranche Warrant is represented by a Global Warrant, the Company shall take such actions as are necessary to effect such reduction in accordance with the provisions of Section 8, shall cause to be given to each of the beneficial holders of the Warrants written notice of such reduction in accordance with the procedures of the Depositary therefor and shall cause the pro rata beneficial ownership of the holders after such reduction to remain identical to the pro rata beneficial ownership of the holders immediately prior to such reduction and (B) if such First Tranche Warrant is represented by a Definitive Warrant, such Definitive Warrant shall be cancelled and exchanged (unless the number of Adjusted First Tranche Warrants shall be equal to zero) for a Definitive Warrant representing Adjusted First Tranche Warrants in accordance with the provisions of Section 8; provided, however, that if the holder of a Definitive Warrant does not present the Definitive Warrant for adjustment in accordance with subsection (b)(ii)(B) above, the number of shares subject to such Definitive Warrant shall be likewise reduced to the number determined pursuant to subsection (b)(i).

(c) Second Tranche Warrants.(i) On December 31, 2003 (the "SUBSEQUENT REPAYMENT DATE"), each Second Tranche Warrant shall be subject to reduction and cancellation in accordance with the following formula:

$$S' = S \times \left( 1 - \frac{SR + CF}{400} \right)$$

where:

S'= the number of shares subject to an adjusted Second Tranche Warrant (an "ADJUSTED SECOND TRANCHE WARRANT").

S = the number of shares subject to a Second Tranche Warrant.

SR= the aggregate principal amount of the Term Loans (in millions of dollars) repaid after the Initial Repayment Date, and on or prior to the Subsequent Repayment Date.

CF= the excess, if any, of IR over 400.

(ii) On the Subsequent Repayment Date, the number of shares subject to each Second Tranche Warrant shall be reduced to the number determined pursuant to subsection (c)(i) and (A) if such Second Tranche Warrant is represented by a Global Warrant, the Company shall take such actions as are necessary to effect such reduction in accordance with the provisions of Section 8, shall cause to be given to each of the beneficial holders of the Warrants written notice of such reduction in accordance with the procedures of the Depositary therefor and shall cause the pro rata beneficial ownership of the holders after such reduction to remain identical to the pro rata beneficial ownership of the holders immediately prior to such reduction and (B) if such Second Tranche Warrant is represented by a Definitive Warrant, such Definitive Warrant shall be cancelled and exchanged (unless the number of Adjusted Second Tranche Warrants shall be equal to zero) for a Definitive Warrant representing Adjusted Second Tranche Warrants in accordance with the provisions of Section 8; provided, however, that if the holder of a Definitive Warrant does not present the Definitive Warrant for adjustment in accordance with subsection (c)(ii)(B) above, the number of shares subject to such Definitive Warrant shall be likewise reduced to the number determined pursuant to subsection (c)(i).

(d) Exercise Price. The exercise price per share at which Warrant Shares shall be purchasable upon the exercise of Warrants (the "EXERCISE PRICE") shall be, with respect to each Warrant, the greater of (i) 110% of the volume weighted average daily closing sales price of Common Stock on the New York Stock Exchange over the 5 consecutive trading days following February 28, 2003 or (ii) 110% of the closing sales price of Common Stock on the New York Stock Exchange on the date hereof, in the case of each of (i) and (ii) subject to adjustments from time to time as set forth in Section 15 hereof.

(e) Term of Exercise. Subject to the terms of this Agreement, each Warrant holder shall have the right, which may be exercised from 9:00 a.m., New York City time, on or after [the date one year and one day from the date hereof], 2004 and until 5:00 p.m., New York City time, on [the date four years and one day from the date hereof], 2007 ("EXPIRATION DATE"), to receive from the Company the number of fully paid and nonassessable Warrant Shares which the holder may at the time be entitled to receive on exercise of such Warrants and payment of the Exercise Price then in effect for such Warrant Shares. Each Warrant not exercised prior to the Expiration Date shall become void and all rights thereunder and all rights in respect thereof under this Agreement shall cease as of such time.

(f) Method of Exercise. A Warrant may be exercised upon surrender to the Company at the principal office of the Warrant Agent, which is currently located at the address listed in Section 19 hereof, of the certificate or certificates evidencing the Warrants to be exercised with the form of election to purchase on the reverse thereof duly filled in and signed and such other documentation as the Warrant Agent may reasonably request, and upon payment to the Warrant Agent for the account of the Company of the Exercise Price which is set forth in

the form of Warrant Certificate attached hereto as Exhibit A-1 or Exhibit A-2, as applicable, as adjusted as herein provided, for the number of Warrant Shares in respect of which such Warrants are then exercised. Warrants may not be exercised in part for less than [_____] shares of Common Stock (subject to adjustment from time to time in accordance with Section 15). Payment of the aggregate Exercise Price shall be made in cash or by certified or official bank check payable to the order of the Company in New York Clearing House Funds or Federal funds wire, or the equivalent thereof. In the alternative, a Warrant may be exercised on a net basis (a "Cashless Exercise") without the payment of cash, in which case the number of shares of Common Stock deliverable upon exercise shall be reduced so as to equal the product of (a) the number of shares of Common Stock issuable as of the Exercise Date upon the exercise of such Warrant (if payment of the Exercise Price were being made in cash) and (b) the Cashless Exercise Ratio (as defined below), in which case the Company shall calculate the number of shares of Common Stock to which such Holder is entitled and, for purposes of determining the number of shares, if any, for which such Warrant remains exercisable, the Warrant shall be treated as having been exercised for the number of shares which would have been deliverable upon exercise had it been exercised for cash. "CASHLESS EXERCISE RATIO" means a fraction, the numerator of which is the excess of the Current Market Price per share of Common Stock on the business day on which such Warrant is exercised over the Exercise Price per share as of the Exercise Date and the denominator of which is the Current Market Price per share of the Common Stock on the business day on which such Warrant is exercised. Upon surrender of a Warrant Certificate representing more than one Warrant in connection with the Holder's option to elect a Cashless Exercise, the number of shares of Common Stock deliverable upon a Cashless Exercise shall be equal to the number of shares of Common Stock issuable upon the exercise of Warrants that the Holder specifies are to be exercised pursuant to a Cashless Exercise multiplied by the Cashless Exercise Ratio. A Warrant may also be exercised by any combination of an exercise for cash and a Cashless Exercise. All provisions of this Agreement shall be applicable with respect to a surrender of a Warrant Certificate pursuant to a Cashless Exercise for less than the full number of Warrants represented thereby. In the event that a Warrant Certificate is surrendered for exercise of less than all the Warrants represented by such Warrant Certificate at any time prior to the Expiration Date, a new Warrant Certificate representing the remaining Warrants shall be issued. The Warrant Agent shall countersign and deliver the required new Warrant Certificates, and the Company, at the Warrant Agent's request, shall supply the Warrant Agent with Warrant Certificates duly signed on behalf of the Company for such purpose. Upon the request of the Company, the Warrant Agent shall provide to the Company information with respect to (x) the total number of Warrants which have been exercised as of the date of such request and (y) the total amount of funds which have been received pursuant to the exercise of such Warrants as of the date of such request.

(g) Restrictions on Exercise. No Lender may exercise a Warrant to the extent that, immediately following such exercise, such Lender would directly or indirectly own, control or hold with power to vote, within the meaning of Section 2(a)(11) of the Public Utility Holding Company Act of 1935, as amended (the "HOLDING COMPANY ACT"), five percent or more of the outstanding Common Stock of the Company. In addition, upon and following exercise of a Warrant no Lender shall (i) act with any other Lender or Lenders as an organized group of persons (within the meaning of Section 2(a)(2) of the Holding Company Act) owning, controlling or holding with power to vote five percent or more of the outstanding voting securities (as defined in Section 2(a)(17) of the Holding Company Act) of the Company or (ii)

otherwise seek to exercise such a controlling influence over the management or policies of the Company (within the meaning of Section 2(a)(7)(B) of the Holding Company Act) as would make it necessary or appropriate in the public interest or for the protection of investors or consumers that such Lender be subject to the obligations, liabilities and duties imposed under the Holding Company Act on a holding company; provided, however, that it is understood and agreed that neither (a) the exercise by any Lender of rights or remedies provided by the Credit Agreement nor (b) the exercise by any Lender of rights or remedies provided to holders of Registrable Securities pursuant to the provisions of the Warrant Registration Rights Agreement shall be deemed to be prohibited or restricted by this sentence.

(h) Issuance of Warrant Shares. Subject to the provisions of Section 12 hereof, upon such surrender of Warrants and payment of the Exercise Price, the Company shall issue and cause to be delivered (or make other arrangements with similar effect) with all reasonable dispatch to and in such name or names as the Warrant holder may designate, a certificate or certificates for the number of full Warrant Shares issuable upon the exercise of such Warrants together with cash as provided in Section 16 hereof; provided, however, that if any consolidation, merger or lease or sale of assets is proposed to be effected by the Company as described in subsection (j) of Section 15 hereof, or a bona fide tender offer or an exchange offer for shares of Common Stock of the Company shall be made, upon such surrender of Warrants and payment of the Exercise Price as aforesaid, the Company shall, as soon as reasonably practicable, but in any event not later than three business days thereafter, issue and cause to be delivered the full number of Warrant Shares issuable upon the exercise of such Warrants in the manner described in this sentence together with cash as provided in Section 16 hereof. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares as of the date of the surrender of such Warrants and payment of the Exercise Price.

The Warrants shall be exercisable, at the election of the holders thereof, either in full or from time to time in part and, in the event that a certificate evidencing Warrants is exercised in respect of fewer than all of the Warrant Shares issuable on such exercise at any time prior to the date of expiration of the Warrants, a new certificate evidencing the remaining Warrant or Warrants will be issued, and the Warrant Agent is hereby irrevocably authorized to countersign and to deliver the required new Warrant Certificate or Certificates pursuant to the provisions of this Section 11 and of Section 10 hereof, and the Company, whenever required by the Warrant Agent, shall supply the Warrant Agent with Warrant Certificates duly executed on behalf of the Company for such purpose. The Company shall make all necessary arrangements for the issuance of such Warrant Shares in the name of Cede & Co., or such other nominee as the Depositary may request, and all other customary arrangements applicable to the Common Stock of the Company with the Depositary and, if applicable, any securities exchange.

All Warrant Certificates surrendered upon exercise of Warrants shall be canceled by the Warrant Agent. Such canceled Warrant Certificates shall then be disposed of by the Warrant Agent in its customary manner. The Warrant Agent shall account promptly to the Company with respect to Warrants exercised and concurrently pay to the Company all monies received by the Warrant Agent for the purchase of the Warrant Shares through the exercise of such Warrants.

The Warrant Agent shall keep copies of this Agreement and any notices given or received hereunder available for inspection by the holders with reasonable prior written notice during normal business hours at its office. The Company shall supply the Warrant Agent from time to time with such numbers of copies of this Agreement as the Warrant Agent may request.

SECTION 12. Payment of Taxes. The Company will pay all documentary stamp taxes attributable to the initial issuance of Warrant Shares upon the exercise of Warrants; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issue of any Warrant Certificates or any certificates for Warrant Shares in a name other than that of the registered holder of a Warrant Certificate surrendered upon the exercise of a Warrant, and the Company shall not be required to issue or deliver such Warrant Certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

SECTION 13. Reservation of Warrant Shares. The Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Common Stock or its authorized and issued Common Stock held in its treasury, for the purpose of enabling it to satisfy any obligation to issue Warrant Shares upon exercise of Warrants, the maximum number of shares of Common Stock which may then be deliverable upon the exercise of all outstanding Warrants.

The Company or, if appointed, the transfer agent for the Common Stock (the "TRANSFER AGENT") and every subsequent transfer agent for any shares of the Company's Common Stock issuable upon the exercise of any of the rights of purchase aforesaid will be irrevocably authorized and directed at all times to reserve such number of authorized shares as shall be required for such purpose. The Company will keep a copy of this Agreement on file with the Transfer Agent and with every subsequent transfer agent for any shares of the Company's Common Stock issuable upon the exercise of the rights of purchase represented by the Warrants. The Warrant Agent is hereby irrevocably authorized to requisition from time to time from such Transfer Agent the stock certificates required to honor outstanding Warrants upon exercise thereof in accordance with the terms of this Agreement. The Company will supply such Transfer Agent with duly executed certificates for such purposes and will provide or otherwise make available any cash which may be payable as provided in Section 12 hereof. The Company will furnish such Transfer Agent a copy of all notices of adjustments and certificates related thereto, transmitted to each holder pursuant to Section 15 hereof.

Before taking any action which would cause an adjustment pursuant to Section 15 hereof to reduce the Exercise Price below the then par value (if any) of the Warrant Shares, the Company will take any commercially reasonable corporate action which may, in the opinion of its counsel (which may be counsel employed by the Company), be necessary in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares at the Exercise Price as so adjusted.

The Company covenants that all Warrant Shares which may be issued upon exercise of Warrants will, upon payment of the Exercise Price therefor and issue, be fully paid,

nonassessable, free of preemptive rights and free from all taxes, liens, charges and security interests with respect to the issue thereof.

SECTION 14. Obtaining Stock Exchange Listings. The Company will from time to time take all commercially reasonable actions which may be necessary so that the Warrant Shares, immediately upon their issuance upon the exercise of Warrants, will be listed on the principal securities exchanges and markets within the United States of America, if any, on which other shares of Common Stock are then listed.

SECTION 15. Adjustment of Number of Warrant Shares. The number of Warrant Shares issuable upon the exercise of each Warrant is subject to adjustment from time to time upon the occurrence following the date hereof of the events enumerated in this Section 15.

(a) Adjustment for Change in Capital Stock. If the Company:

(i) subdivides its outstanding shares of Common Stock into a greater number of shares;

(ii) combines its outstanding shares of Common Stock into a smaller number of shares;

(iii) pays a dividend or makes a distribution on its Common Stock in shares of its capital stock (whether shares of Common Stock or of capital stock of any other class); or

(iv) issues by reclassification of its Common Stock any shares of its capital stock,

then the number of shares of Common Stock issuable upon exercise of each Warrant immediately prior to such action shall be proportionately adjusted so that the holder of any Warrant thereafter exercised shall receive the aggregate number and kind of shares of capital stock of the Company which he would have owned immediately following such action if such Warrant had been exercised immediately prior to such action (irrespective of whether the Warrants then outstanding are then exerciseable).

Such adjustment shall be made successively whenever any event listed above shall occur and shall become effective immediately after the effective date of any such event (which in the case of an adjustment by reason of a dividend or distribution, shall be the record date therefor). If, as a result of an adjustment made pursuant to this paragraph, the holder of any Warrant thereafter exercised shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive) shall determine the allocation of the adjusted Exercise Price between or among shares of such classes of capital stock.

(b) Adjustment for Rights Offerings to Holders of Common Stock. If the Company dividends or distributes any rights, warrants or options to all holders of its Common Stock entitling them for a period expiring within 60 days of the record date mentioned below to purchase shares of Common Stock at a price per share less than the Current Market Price per

share on that record date, the number of shares of Common Stock issuable upon the exercise of each Warrant immediately after such date shall be determined by multiplying the number of shares of Common Stock issuable upon exercise of each Warrant immediately prior to such date by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock issuable upon exercise of the rights, warrants or options to be distributed, and the denominator of which shall be the number of shares of Common Stock outstanding on such record date plus the total number of shares of Common Stock which the aggregate consideration receivable upon exercise of all of the rights, warrants or options to be distributed would purchase at the Current Market Price per share of Common Stock on such record date.

The adjustment shall be made successively whenever any such rights, warrants or options are distributed and shall become effective immediately after the record date for the determination of stockholders entitled to receive the rights, warrants or options. If at the end of the period during which the rights, warrants or options are exercisable, not all of them have been exercised, the number of shares issuable upon exercise of a Warrant shall be immediately readjusted to what it would have been if only the number exercised had been distributed. No adjustment shall be made pursuant to this Section 15(b) which shall have the effect of decreasing the number of shares of Common Stock issuable upon exercise of each Warrant.

(c) Adjustment for Distributions Other Than Common Stock. Except with respect to any distribution provided for in subsection (b) above and except as provided below, if the Company dividends or distributes to all holders of its Common Stock any of its assets (including cash) or evidences of its indebtedness, other securities (including securities convertible into Common Stock) or any rights, options or warrants to purchase assets, evidences of indebtedness, whether or not immediately exerciseable, the number of shares of Common Stock issuable upon exercise of each Warrant shall be adjusted in accordance with the formula:

$$N' = N \times \frac{M}{M - F}$$

where:

N'= the adjusted number of shares of Common Stock issuable upon exercise of each Warrant.

N = the current number of shares of Common Stock issuable upon exercise of each Warrant.

M = the Current Market Price per share of Common Stock on the record date mentioned below.

F = the fair market value, as determined reasonably and in good faith by the Board of Directors of the Company, on the record date of the assets, securities, rights, warrants or options distributable to one share of Common Stock after taking into account, in the case of any rights,

warrants or options, the consideration required to be paid upon exercise thereof;

provided, however, that the Company is not required to make an adjustment pursuant to this Section 15(c) if at the time of such distribution, without requiring the Warrants to be exercised, the Company makes the same distribution to holders of Warrants as it makes to holders of Common Stock pro rata based on the number of shares of Common Stock for which such Warrants are exercisable (whether or not currently exercisable).

The adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive the distribution.

This subsection (c) does not apply to regular quarterly cash dividends, dividends or distributions of capital stock of the Company referred to in Section 15(a) or dividends or distributions referred to in Section 15(b). If any adjustment is made pursuant to this subsection (c) as a result of the issuance or rights, warrants or options and at the end of the period during which any such rights, warrants or options are exercisable, not all such rights, warrants or options shall have been exercised, the Warrants shall be immediately readjusted as if "F" in the above formula was the fair market value on the record date of the indebtedness or assets actually distributed upon exercise of such rights, warrants or options divided by the number of shares of Common Stock outstanding on the record date. Notwithstanding anything to the contrary contained in this subsection (c), if "M-F" in the above formula is less than $1.00, the Company may elect to, and if "M-F" is a negative number, the Company shall, in lieu of the adjustment otherwise required by this subsection (c), distribute to the holders of the Warrants, upon exercise thereof, the evidences of indebtedness, assets, rights, warrants or options (or the proceeds thereof) which would have been distributed to such holders had such Warrants been exercised immediately prior to the record date for such distribution. No adjustment shall be made pursuant to this Section 15(c) which shall have the effect of decreasing the number of shares of Common Stock issuable upon exercise of each Warrant.

(d) Self-Tenders. In case of the consummation of a tender or exchange offer (other than an odd-lot tender offer) made by the Company or any subsidiary of the Company for all or any portion of the Common Stock to the extent that the cash and value of any other consideration included in such payment per share of Common Stock exceeds the first reported sales price per share of Common Stock on the trading day next succeeding the last time tenders or exchanges may be made pursuant to a tender or exchange offer (the "TENDER EXPIRATION TIME"), the number of shares of Common Stock issuable upon exercise of each Warrant shall be adjusted in accordance with the formula:

$$N' = N \times \frac{C + R}{A}$$

where:

N'= the adjusted number of shares of Common Stock issuable upon exercise of each Warrant.

N = the current number of shares of Common Stock issuable upon exercise of each Warrant.

C = the fair market value (if other than in cash, as determined reasonably and in good faith by the Board of Directors of the Company) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the Tender Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "PURCHASED SHARES").

R = the product of the number of shares of Common Stock outstanding (less any Purchased Shares) on the Tender Expiration Time and the first reported sales price of the Common Stock on the trading day next succeeding the Tender Expiration Time, such reduction to become effective immediately prior to the opening of business on the day following the Tender Expiration Time.

A = the number of shares of Common Stock outstanding (including any tendered or exchanged shares) at the Tender Expiration Time multiplied by the first reported sales price of the Common Stock on the trading day next succeeding the Tender Expiration Time.

(e) Current Market Price. For the purpose of any computation of Current Market Price under this Section 15 and Section 16, the Current Market Price per share of Common Stock at any date shall be:

(i) if the security is not registered under the Exchange Act, (a) the value of the security, determined in good faith by the Board of Directors and certified in a board resolution, based on the most recently completed arms-length transaction between the Company and a person other than an Affiliate of the Company and the closing of which occurs on such date or shall have occurred within the six-month period preceding such date, or (b) if no such transaction shall have occurred on such date or within such six-month period, the fair market value of the security as determined by an independent investment banking firm or independent financial expert, each of nationally recognized standing and jointly selected by the Company and the holders of a majority of the Warrants with respect to which the Current Market Price of Common Stock is being determined (provided that, in the case of the calculation of Current Market Price for determining the cash value of fractional shares, any such determination within six months that is, in the good faith judgment of the Board of Directors, a reasonable determination of value, may be utilized); or

(ii) if the security is registered under the Exchange Act, the average of the daily closing sales prices of the securities for the shorter of (a) the 20 consecutive trading days ending on the last full trading day on the exchange or market specified in the second succeeding sentence prior to the Time of Determination (as defined below) and (b) the period commencing on the date next succeeding the first public announcement of

the issuance, sale, distribution or granting in question through such last full trading day prior to the Time of Determination, as certified to the Warrant Agent by the President, any Vice President or the Chief Financial Officer of the Company, in the case of each of (ii)(a) and (ii)(b). The term "TIME OF DETERMINATION" as used herein shall be the time and date of the earlier to occur of (A) the date as of which the Current Market Price is to be computed and (B) the last full trading day on such exchange or market before the commencement of "ex-dividend" trading in the Common Stock relating to the event giving rise to the adjustment required by subsection (a), (b), (c) or (d). The closing sales price for each such trading day shall be: (A) in the case of a security listed or admitted to trading on any United States national securities exchange or quotation system, the closing sales price, regular way, on such day, or if no sale takes place on such day, the average of the closing bid and asked prices on such day; (B) in the case of a security not then listed or admitted to trading on any national securities exchange or quotation system, the last reported sale price on such day, or if no sale takes place on such day, the average of the closing bid and asked prices on such day, as reported by a reputable quotation source designated by the Company; (C) in the case of a security not then listed or admitted to trading on any national securities exchange or quotation system and as to which no such reported sale price or closing bid and asked prices are available, the average of the reported high bid and low asked prices on such day, as reported by a reputable quotation service, or a newspaper of general circulation in the Borough of Manhattan, City and State of New York, customarily published on each business day, designated by the Company, or if there shall be no bid and asked prices on such day, the average of the high bid and low asked prices, as so reported, on the most recent day (not more than 30 days prior to the date in question) for which prices have been so reported; and (D) if there are not bid and asked prices reported during the 30 days prior to the date in question, the Current Market Price shall be determined as if the securities were not registered under the Exchange Act.

(f) When De Minimis Adjustment May Be Deferred. No adjustment in the number of shares of Common Stock issuable upon exercise of each Warrant need be made unless such adjustment, together with other adjustments carried forward as provided below, would require an increase or decrease of at least 1% in such number. Any adjustments that are not made shall be carried forward and taken into account in any subsequent adjustment.

All calculations under this Section 15 shall be made to the nearest 1/100th of a cent or to the nearest 1/100th of a share, as the case may be.

(g) When No Adjustment Required. No adjustment need be made for a change in the par value or no par value of the Common Stock.

To the extent the Warrants become convertible into cash, no adjustment need be made thereafter as to the amount of cash into which such Warrants are exercisable. Interest will not accrue on the cash.

(h) Voluntary Reduction. The Company from time to time may increase the number of shares of Common Stock issuable upon exercise of each Warrant by any amount for any period of time (including, without limitation, permanently) if such period is at least 5 days.

Whenever the number of shares of Common Stock issuable upon exercise of each Warrant is increased, the Company shall mail to Warrant holders a notice of the increase. The Company shall mail the notice at least 15 days before the date the increase in the number of shares of Common Stock so issuable takes effect. The notice shall state the increased number of shares of Common Stock issuable upon exercise of each Warrant and the period it will be in effect.

A voluntary increase of the number of shares of Common Stock issuable upon exercise of each Warrant does not change or adjust the number of shares of Common Stock issuable upon exercise of each Warrant for purposes of subsections (a), (b), (c) or (d) of this Section 15.

(i) Notice of Certain Transactions. If:

(1) the number of shares of Common Stock issuable upon exercise of each Warrant is adjusted pursuant to this Section 15;

(2) the Company takes any action that would require a supplemental Warrant Agreement pursuant to subsection (j) of this Section 15; or

(3) there is a liquidation or dissolution of the Company,

the Company shall mail to Warrant holders a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, transfer, lease, liquidation or dissolution. The Company shall mail the notice at least 15 days before such date. Failure to mail the notice or any defect in it shall not affect the validity of the transaction.

(j) Reorganization of Company.If the Company consolidates or merges with or into, or transfers or leases all or substantially all its assets to, any person, upon consummation of such transaction the Warrants shall automatically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Warrant would have owned immediately after the consolidation, merger, transfer or lease if such holder had exercised the Warrant immediately before the effective date of the transaction; provided that (i) if the holders of Common Stock were entitled to exercise a right of election as to the kind or amount of securities, cash or other assets receivable upon such consolidation or merger, then the kind and amount of securities, cash or other assets for which each Warrant shall become exercisable shall be deemed to be the kind and amount so receivable per share by a plurality of the holders of Common Stock in such consolidation or merger or (ii) if a bona fide tender or exchange offer shall have been made to and accepted by the holders of Common Stock under circumstances in which, upon completion of such tender or exchange offer, the maker thereof, together with members of any group (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) of which such maker is a part, and together with any affiliate or associate of such maker (within the meaning of Rule 12b-2 under the Exchange Act) and any members of any such group of which any such affiliate or associate is a part, own beneficially (within the meaning of Rule 13d-3 under the Exchange Act) more than 50% of the outstanding shares of Common Stock, the holder of a Warrant shall be entitled to receive the highest amount of cash, securities or other property to which such

holder would actually have been entitled as a shareholder if such Warrant holder had exercised the Warrant prior to the expiration of such tender or exchange offer, accepted such offer and all of the Common Stock held by such holder had been purchased pursuant to such tender or exchange offer, subject to adjustments (from and after the consummation of such tender or exchange offer) as nearly equivalent as possible to the adjustments provided for in this Section 15. Concurrently with the consummation of any such transaction, the corporation or other entity formed by or surviving any such consolidation or merger if other than the Company, or the person to which such sale or conveyance shall have been made, shall enter into a supplemental Warrant Agreement so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section. The successor Company shall mail to Warrant holders a notice describing the supplemental Warrant Agreement.

If the issuer of securities deliverable upon exercise of Warrants under the supplemental Warrant Agreement is an affiliate of the formed, surviving, transferee or lessee corporation, that issuer shall join in the supplemental Warrant Agreement.

If this subsection (j) applies, subsections (a), (b), (c) and (d) of this Section 15 do not apply.

(k) When Issuance or Payment May Be Deferred. In any case in which this Section 15 shall require that an adjustment in the number of shares of Common Stock issuable upon exercise of each Warrant be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event (i) issuing to the holder of any Warrant exercised after such record date the Warrant Shares and other capital stock of the Company, if any, issuable upon such exercise over and above the Warrant Shares and other capital stock of the Company, if any, issuable upon such exercise on the basis of the number of shares of Common Stock issuable upon exercise of each Warrant and (ii) paying to such holder any amount in cash in lieu of a fractional share pursuant to Section 16 hereof; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional Warrant Shares, other capital stock and cash upon the occurrence of the event requiring such adjustment.

(l) Adjustment in Exercise Price. Upon each event that provides for an adjustment of the number of shares of Common Stock issuable upon exercise of each Warrant pursuant to this Section 15, each Warrant outstanding prior to the making of the adjustment shall thereafter have an adjusted Exercise Price obtained from the following formula:

$$E' = E \times \frac{N}{N'}$$

where:

E'= the adjusted Exercise Price.

E = the Exercise Price prior to adjustment.

N'= the adjusted number of Warrant Shares issuable upon exercise of a Warrant by payment of the adjusted Exercise Price.

N = the number of Warrant Shares previously issuable upon exercise of a Warrant by payment of the Exercise Price prior to adjustment.

Following any adjustment to the Exercise Price pursuant to this Section 15, the amount payable, when adjusted and together with any consideration allocated to the issuance of the Warrants, shall never be less than the par value per Warrant Share at the time of such adjustment. Such adjustment shall be made successively whenever any event listed above shall occur.

(m) Other Adjustments. In the event that at any time, as a result of an adjustment made pursuant to this Section 15, the holders shall become entitled to receive any securities of the Company other than shares of Common Stock, thereafter the number of such other securities so receivable upon exercise of the Warrants and the Exercise Price applicable to such exercise shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares of Common Stock contained in this Section 15.

(n) Other Events. If any event occurs as to which the foregoing provisions of this Section 15 are not strictly applicable but would impact the holders of Warrants adversely as compared to holders of Common Stock, and the failure to make any adjustment, in the good faith judgment of the Board of Directors of the Company, would not fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then such Board of Directors shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of such Board, to protect such purchase rights as aforesaid, but in no event shall any such adjustment have the effect of decreasing the number of shares of Common Stock subject to purchase upon exercise of this Warrant.

(o) Action in Avoidance and Non-Dilution. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets (including assets of its subsidiaries), consolidation, merger, issue or sale of securities or otherwise, avoid or take any action which would have the effect of avoiding the observance or performance of any of the terms to be observed or performed hereunder by the Company but will at all times in good faith assist in carrying out all of the provisions of the Warrants and in taking all of such action as may be necessary or appropriate in order to protect the rights of the registered holders of the Warrants against impairment.

(p) Form of Warrants. Irrespective of any adjustments in the number or kind of shares issuable upon the exercise of the Warrants or the Exercise Price, Warrants theretofore or thereafter issued may continue to express the same number and kind of shares and Exercise Price as are stated in the Warrants initially issuable pursuant to this Agreement.

SECTION 16. Fractional Interests. The Company shall not be required to issue fractional Warrant Shares on the exercise of Warrants. If more than one Warrant shall be presented for exercise in full at the same time by the same holder, the number of full Warrant Shares which shall be issuable upon the exercise thereof shall be computed on the basis of the aggregate number of Warrant Shares purchasable on exercise of the Warrants so presented. If any fraction of a Warrant Share would, except for the provisions of this Section 16, be issuable on the exercise of any Warrants (or specified portion thereof), the Company shall pay an amount in cash equal to the Current Market Price per share, multiplied by such fraction.

Warrants may be issued in fractional interests. Holders of fractional interests in Warrants will be entitled to purchase a number of Warrant Shares equal to the product obtained by multiplying the number of Warrant Shares issuable with respect to a full Warrant multiplied by the fractional interest owned by such holder in the Warrant.

SECTION 17. Notices to Warrant Holders. Upon any adjustment of the number of shares or Exercise Price pursuant to Section 15, the Company shall within five days, (i) cause to be filed with the Warrant Agent a certificate executed by the Chief Financial Officer of the Company setting forth the number of shares of common stock issuable upon exercise of each Warrant after such adjustment and setting forth in reasonable detail the method of calculation and the facts upon which such calculations are based, and (ii) cause to be given to each of the registered holders of the Warrant Certificates at his address appearing on the Warrant Register written notice of such adjustments by first-class mail, postage prepaid. Where appropriate, such notice may be given in advance and included as a part of the notice required to be mailed under the other provisions of this Section 17.

In case:

(a) the Company proposes to take any action which would require an adjustment to the number or type of securities issuable upon exercise of the Warrants pursuant to Section 15 hereof;

(b) of any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or of the conveyance or transfer of the properties and assets of the Company substantially as an entirety, or of any reclassification or change of Common Stock issuable upon exercise of the Warrants (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or a tender offer or exchange offer for shares of Common Stock; or

(c) of the voluntary or involuntary dissolution, liquidation or winding up of the Company;

then the Company shall cause to be filed with the Warrant Agent and shall cause to be given to each of the registered holders of the Warrant Certificates at his address appearing on the Warrant Register, at least 5 calendar days prior to the applicable record date hereinafter specified, or as promptly as practicable under the circumstances in the case of events for which there is no record date, by first-class mail, postage prepaid, a written notice stating (i) the date on which such action is to occur and the nature of such action, as well as any applicable record date for receipt

of property or securities to be received by holders of Common Stock, (ii) the initial expiration date set forth in any tender offer or exchange offer for shares of Common Stock or (iii) the date on which any such consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up is expected to become effective or consummated, and the date as of which it is expected that holders of record of shares of Common Stock shall be entitled to exchange such shares for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up. The failure to give the notice required by this Section 17 or any defect therein shall not affect the legality or validity of any distribution, right, option, warrant, consolidation, merger, conveyance, transfer, dissolution, liquidation or winding up, or the vote upon any action.

Nothing contained in this Agreement or in any of the Warrant Certificates shall be construed as conferring upon the holders thereof the right to vote or to consent or to receive notice as shareholders in respect of the meetings of shareholders or the election of Directors of the Company or any other matter, or any rights whatsoever as shareholders of the Company.

SECTION 18. Change of Warrant Agent.If the Warrant Agent shall become incapable of acting as Warrant Agent, the Company shall appoint a successor to such Warrant Agent. If the Company shall fail to make such appointment within a period of 30 days after it has been notified in writing of such incapacity by the Warrant Agent or by the holder of a Warrant Certificate, then the holder of any Warrant Certificate may apply to any court of competent jurisdiction for the appointment of a successor to the Warrant Agent. Pending appointment of a successor to such Warrant Agent, either by the Company or by such a court, the duties of the Warrant Agent shall be carried out by the Company. The holders of a majority of the unexercised Warrants shall be entitled at any time to remove the Warrant Agent and appoint a successor to such Warrant Agent. Such successor to the Warrant Agent need not be approved by the Company or the former Warrant Agent. After appointment the successor to the Warrant Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Warrant Agent without further act or deed; but the former Warrant Agent upon payment of all fees and expenses due it and its agents and counsel shall deliver and transfer to the successor to the Warrant Agent any property at the time held by it hereunder and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Failure to give any notice provided for in this Section 18, however, or any defect therein, shall not affect the legality or validity of the appointment of a successor to the Warrant Agent.

SECTION 19. Notices to Company and Warrant Agent. Any notice or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder(s) of any Warrant Certificate to or on the Company shall be sufficiently given or made when and if deposited in the mail, first class or registered, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent), as follows:

CenterPoint Energy, Inc.
1111 Louisiana
Houston, Texas
Attention: Chief Financial Officer

In case the Company shall fail to maintain such office or agency or shall fail to give such notice of the location or of any change in the location thereof, presentations may be made and notices and demands may be served at the principal office of the Warrant Agent.

Any notice pursuant to this Agreement to be given by the Company or by the holder(s) of any Warrant Certificate to the Warrant Agent shall be sufficiently given when and if deposited in the mail, first-class or registered, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) to the Warrant Agent as follows:

CenterPoint Energy, Inc.
1111 Louisiana
Houston, Texas
Attention: [_____]

SECTION 20. Supplements and Amendments. The Company and the holders of Warrants exercisable for a majority of the Warrant Shares issuable on exercise of all outstanding Warrants may from time to time supplement or amend any provision herein; provided however, that the consent of each holder affected shall be required for any amendment pursuant to which (i) the Exercise Price would be increased or the number of Warrant Shares purchasable upon exercise of Warrants would be decreased (other than pursuant to adjustments provided herein) or (ii) the Initial Repayment Date or the Subsequent Repayment Date would be changed.

SECTION 21. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company, the holders of the Warrants or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

SECTION 22. Termination. This Agreement will terminate on any earlier date if all Warrants have been exercised or expired without exercise.

SECTION 23. Governing Law. Except insofar as matters covered in this Agreement concern the internal affairs of the Company (which matters shall be governed by and construed in accordance with the laws of the State of Texas), this Agreement and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of New York and for all purposes shall be construed in accordance with the internal laws of said State.

SECTION 24. Benefits of This Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company, the Warrant Agent and the registered holders of the Warrant Certificates any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Warrant Agent and the registered holders of the Warrant Certificates.

SECTION 25. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

CENTERPOINT ENERGY, INC.

By _____
Title:

CITIBANK, N.A.

By _____
Title:

JPMORGAN CHASE BANK

By _____
Title:

[_____]

By _____
Title:

CENTERPOINT ENERGY, INC.
as Warrant Agent

By _____
Title:

[FORM OF FIRST TRANCHE WARRANT CERTIFICATE]

[FACE]

THE WARRANTS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE OR OTHER SECURITIES LAWS, AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON, IS NOT ACQUIRING THESE SECURITIES FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(k) TAKING INTO ACCOUNT THE PROVISIONS OF RULE 144(d), IF APPLICABLE, UNDER THE SECURITIES ACT (THE "RESALE RESTRICTION TERMINATION DATE") RESELL OR OTHERWISE TRANSFER THE WARRANTS REPRESENTED BY THIS CERTIFICATE EXCEPT (A) TO CENTERPOINT ENERGY, INC. (THE "COMPANY") OR ANY SUBSIDIARY THEREOF, (B) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) IN COMPLIANCE WITH RULE 144 UNDER THE SECURITIES ACT, (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (F) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE WARRANTS REPRESENTED BY THIS CERTIFICATE ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE COMPANY AND THE WARRANT AGENT SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AS SET FORTH IN THE WARRANT AGREEMENT (AS DEFINED HEREIN), AND (II) PURSUANT TO CLAUSES (C), (D) OR (E), TO REQUIRE THAT A CERTIFICATION OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE WARRANT AGENT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. HEDGING TRANSACTIONS INVOLVING THE WARRANTS REPRESENTED HEREBY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

[GLOBAL WARRANTS ONLY: THIS SECURITY IS A GLOBAL WARRANT WITHIN THE MEANING OF THE WARRANT AGREEMENT HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A SUCCESSOR DEPOSITARY. THIS SECURITY IS NOT EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE WARRANT AGREEMENT, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE WARRANT AGREEMENT.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR IS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]



CUSIP [_____]

No. _____ [_____] Warrants

WARRANT CERTIFICATE

CENTERPOINT ENERGY, INC.

This Warrant Certificate certifies that [_____], or registered assigns, is the registered holder of [____] Warrants (the "WARRANTS") to purchase shares of Common Stock, par value $0.01 per share, issuable upon exercise of the Warrants (the "WARRANT SHARES", such term, where appropriate, also refers to the other securities or property purchasable and deliverable upon exercise of a Warrant as set forth in Section 15 of the Warrant Agreement referred to on the reverse hereof) of CENTERPOINT ENERGY, INC., a Delaware corporation (the "COMPANY," which term includes its successors and assigns). Each Warrant entitles the holder to purchase from the Company at any time from 9:00 a.m. New York City time on or after [_____ __], 2004 until 5:00 p.m., New York City time, on [_____ __], 2007 (the "EXPIRATION DATE"), one (1) fully paid, registered and non-assessable Warrant Share, subject to adjustment as provided in Section 15 of the Warrant Agreement, at an exercise price as set forth in Section 11(d) of the Warrant Agreement (the "EXERCISE PRICE") payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the Warrant Exercise Office, subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. Notwithstanding the foregoing, Warrants may be exercised without the exchange of funds pursuant to a Cashless Exercise as provided in Section 11(f) of the Warrant Agreement. Capitalized terms used herein without being defined herein shall have the definitions ascribed to such terms in the Warrant Agreement.

The Company has initially designated the office of the Warrant Agent as set forth in Section 19 of the Warrant Agreement as the initial Warrant Exercise Office.

THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THE WARRANTS IS SUBJECT TO ADJUSTMENT UPON THE OCCURRENCE OF CERTAIN EVENTS SET FORTH IN THE WARRANT AGREEMENT, INCLUDING PURSUANT TO THE PROVISIONS SET FORTH IN SECTION 15.

THE NUMBER OF WARRANTS REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO ADJUSTMENT UPON THE OCCURRENCE OF CERTAIN EVENTS SET FORTH IN THE WARRANT AGREEMENT, INCLUDING PURSUANT TO THE PROVISIONS SET FORTH IN SECTIONS 11(b). [DEFINITIVE WARRANTS AFTER ADJUSTMENT PURSUANT TO SECTION 11(b): THE NUMBER OF WARRANTS REPRESENTED BY THIS CERTIFICATE HAS BEEN ADJUSTED PURSUANT TO THE PROVISIONS SET FORTH SECTION 11(b).]

Any Warrants not exercised on or prior to 5:00 p.m., New York City time, on [_____], 2007 shall thereafter be void.

If the Company, in a single transaction or through a series of related transactions, consolidates with or merges with or into, or sells all or substantially all of its property and assets to, another person (other than a subsidiary of the Company) solely for cash, the holders of Warrants which are then exercisable shall be entitled to receive distributions on the date of such event on an equal basis with holders of shares of Capital Stock (or other securities issuable upon

exercise of the Warrants) as if the Warrants had been exercised immediately prior to such event less the aggregate Exercise Price therefor.

Reference is hereby made to the further provisions on the reverse hereof which provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall be governed and construed in accordance with the laws of the State of Texas.

CENTERPOINT ENERGY, INC.

By: _____
Name:
Title:

Dated:

Countersigned by:

CENTERPOINT ENERGY, INC.,
as Warrant Agent

By: _____
Name:
Title:

[FORM OF FIRST TRANCHE WARRANT CERTIFICATE]

[REVERSE]

CENTERPOINT ENERGY, INC.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring at 5:00 p.m., New York City time, on [_____ __], 2007 (the "EXPIRATION DATE"), each of which represents the right to purchase at any time on or after [the date one year and one day from the date hereof], 2004 and on or prior to the Expiration Date one (1) Warrant Share, subject to adjustment as set forth in the Warrant Agreement; provided, however, that either a registration statement relating to the Warrant Shares underlying such Warrant is, at the time of exercise, effective and available or the exercise of such Warrant is exempt from the registration requirements of the Securities Act, and such Warrant Shares are qualified for sale or exempt from qualification under the applicable securities laws of the state or other jurisdiction in which the holder of such Warrant resides. The Warrants are issued pursuant to a Warrant Agreement dated as of [_____ __], 2003 (the "WARRANT AGREEMENT"), duly executed and delivered by the Company to the banks and other financial institutions signatories thereto, Citibank, N.A., JPMorgan Chase Bank and CenterPoint Energy, Inc., as Warrant Agent (the "WARRANT AGENT"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words "HOLDERS" or "HOLDER" meaning the registered holders or registered holder) of the Warrants.

Warrants may be exercised by (i) surrendering at any Warrant Exercise Office this Warrant Certificate with the form of Election to Exercise set forth hereon duly completed and executed and (ii) to the extent such exercise is not being effected through a Cashless Exercise by paying in full the Warrant Exercise Price for each such Warrant exercised and any other amounts required to be paid pursuant to the Warrant Agreement. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

As soon as practicable after the exercise of any Warrant or Warrants, the Company shall issue or cause to be issued to or upon the written order of the registered holder of this Warrant Certificate, a certificate or certificates evidencing such Warrant Share or Warrant Shares to which such holder is entitled, in fully registered form, registered in such name or names as may be directed by such holder pursuant to the Election to Exercise, as set forth on the reverse of this Warrant Certificate. Such certificate or certificates evidencing the Warrant Share or Warrant Shares shall be deemed to have been issued and any persons who are designated to be named therein shall be deemed to have become the holder of record of such Warrant Share or Warrant Shares as of the close of business on the date upon which the exercise of this Warrant was deemed to be effective as provided in the preceding paragraph.

The Warrant Agreement provides that upon the occurrence of certain events the number of Warrant Shares set forth on the face hereof may, subject to certain conditions, be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in a Warrant Registration Rights Agreement dated as of [_____ __], 2003, among the Company J.P. Morgan Securities Inc. and Salomon Smith Barney, Inc., as amended from time to time. A copy of the Registration Rights Agreement may be obtained by the holder hereof upon written request to the Company or the Warrant Agent.

Warrant Certificates, when surrendered at any office or agency maintained by the Company for that purpose by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged for a new Warrant Certificate or new Warrant Certificates evidencing in the aggregate a like number of Warrants, in the manner and subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

Upon due presentment for registration of transfer of this Warrant Certificate at any office or agency maintained by the Company for that purpose, a new Warrant Certificate evidencing in the aggregate a like number of Warrants shall be issued to the transferee in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

[FORM OF ELECTION TO EXERCISE]

(To be executed upon exercise of Warrants on the Exercise Date)

The undersigned hereby irrevocably elects to exercise [_____] of the Warrants represented by this Warrant Certificate and purchase the whole number of Warrant Shares issuable upon the exercise of such Warrants and herewith tenders payment for such Warrant Shares as follows:

$_____ in cash or by certified or official bank check; or by surrender of Warrants pursuant to a Cashless Exercise (as defined in the Warrant Agreement) for [_____] shares of Common Stock at the current Cashless Exercise Ratio.

The undersigned requests that a certificate representing such Warrant Shares be registered in the name of _____ whose address is _____ and that such shares be delivered to whose address is _____. Any cash payments to be paid in lieu of a fractional share of Common Stock should be delivered to _____ _____ whose address is _____ and the check representing payment thereof should be delivered to whose address is _____.

[FOR REGULATION S WARRANTS ONLY: The undersigned (i) certifies that it is not a "U.S. Person," as defined in Regulation S under the Securities Act of 1933, and that the Warrants being exercised hereby are not being so exercised on behalf of a U.S. Person or (ii) delivers herewith an opinion of counsel to the effect that the Warrants hereby exercised, and the delivery of Warrant Shares hereby, have been registered under the Securities Act of 1933 or are exempt from registration thereunder.]

Dated _____, ____

Name of holder of
Warrant Certificate:

_____
(Please Print)

Tax Identification or
Social Security Number: _____
Address: _____
_____

Signature: _____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever and if the certificate representing the Warrant Shares or any Warrant Certificate representing Warrants not exercised is to be registered in a name other than that in which this Warrant Certificate is registered, or if any cash payment to be paid in lieu of a fractional share is to be made to a person other than

the registered holder of this Warrant Certificate, the signature of the holder hereof must be guaranteed as provided in the Warrant Agreement.

Dated _____, _____

Signature:

_____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

[FORM OF CERTIFICATE FOR REPURCHASE OFFER]

(To be executed only upon repurchase

of Warrant by CenterPoint Energy, Inc.)

TO: _____

The undersigned, having received prior notice of the consideration for which CENTERPOINT ENERGY, INC. will repurchase the Warrants represented by the within Warrant Certificate, hereby surrenders this Warrant Certificate for repurchase by CENTERPOINT ENERGY, INC. of the number of Warrants specified below for the consideration set forth in such notice.

Dated: _____, _____

_____
(Number of Warrants)

_____
(Signature of Owner)

_____
(Street Address)

_____
(City) (State) (Zip Code)

Signature Guaranteed By:

_____

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Warrant Agent, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("Stamp") or such other "signature guarantee program" as may be determined by the Warrant Agent in addition to, or in substitution for, Stamp, all in accordance with the Securities Exchange Act of 1934, as amended.

Securities and/or check to be issued to: _____

Please insert social security or identifying number: _____

Name: _____

Street Address: _____

City, State and Zip Code: _____

[FORM OF ASSIGNMENT]

For value received _____ hereby sells, assigns and transfers unto _____ the within Warrant Certificate, together _____ with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney, to transfer said Warrant Certificate on the books of the within-named Company, with full power of substitution in the premises.

Dated: _____, _____

Signature: _____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

SCHEDULE OF DECREASES IN GLOBAL WARRANTS

The following decreases in this Global Warrant for certificated Warrants have been made:

| Date of Exchange | Amount of decrease in Number of Warrants of this Global Warrant | Amount of increase in Number of Warrants of this Global Warrant Signature of | Number of Warrants of this Global Warrant following such decrease (or increase) | Signature of authorized officer of Warrant Agent |
|---|---|---|---|---|
| - | | | | |

[FORM OF SECOND TRANCHE WARRANT CERTIFICATE]

[FACE]

THE WARRANTS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE OR OTHER SECURITIES LAWS, AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON, IS NOT ACQUIRING THESE SECURITIES FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(k) TAKING INTO ACCOUNT THE PROVISIONS OF RULE 144(d), IF APPLICABLE, UNDER THE SECURITIES ACT (THE "RESALE RESTRICTION TERMINATION DATE") RESELL OR OTHERWISE TRANSFER THE WARRANTS REPRESENTED BY THIS CERTIFICATE EXCEPT (A) TO CENTERPOINT ENERGY, INC. (THE "COMPANY") OR ANY SUBSIDIARY THEREOF, (B) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) IN COMPLIANCE WITH RULE 144 UNDER THE SECURITIES ACT, (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR (F) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE WARRANTS REPRESENTED BY THIS CERTIFICATE ARE TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; PROVIDED THAT THE COMPANY AND THE WARRANT AGENT SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AS SET FORTH IN THE WARRANT AGREEMENT (AS DEFINED HEREIN), AND (II) PURSUANT TO CLAUSES (C), (D) OR (E), TO REQUIRE THAT A CERTIFICATION OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE WARRANT AGENT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. HEDGING TRANSACTIONS INVOLVING THE WARRANTS REPRESENTED HEREBY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

[GLOBAL WARRANTS ONLY: THIS SECURITY IS A GLOBAL WARRANT WITHIN THE MEANING OF THE WARRANT AGREEMENT HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A SUCCESSOR DEPOSITARY. THIS SECURITY IS NOT EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE WARRANT AGREEMENT, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE WARRANT AGREEMENT.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR IS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

CUSIP [_____]

No. _____ [_____] Warrants

WARRANT CERTIFICATE

CENTERPOINT ENERGY, INC.

This Warrant Certificate certifies that [_____], or registered assigns, is the registered holder of [____] Warrants (the "WARRANTS") to purchase shares of Common Stock, par value $0.01 per share, issuable upon exercise of the Warrants (the "WARRANT SHARES", such term, where appropriate, also refers to the other securities or property purchasable and deliverable upon exercise of a Warrant as set forth in Section 15 of the Warrant Agreement referred to on the reverse hereof) of CENTERPOINT ENERGY, INC., a Delaware corporation (the "COMPANY," which term includes its successors and assigns). Each Warrant entitles the holder to purchase from the Company at any time from 9:00 a.m. New York City time on or after [_____ __], 2004 until 5:00 p.m., New York City time, on [_____ __], 2007 (the "EXPIRATION DATE"), one (1) fully paid, registered and non-assessable Warrant Share, subject to adjustment as provided in Section 15 of the Warrant Agreement, at an exercise price as set forth in Section 11(d) of the Warrant Agreement (the "EXERCISE PRICE") payable in lawful money of the United States of America upon surrender of this Warrant Certificate and payment of the Exercise Price at the Warrant Exercise Office, subject to the conditions set forth herein and in the Warrant Agreement referred to on the reverse hereof. Notwithstanding the foregoing, Warrants may be exercised without the exchange of funds pursuant to a Cashless Exercise as provided in Section 11(f) of the Warrant Agreement. Capitalized terms used herein without being defined herein shall have the definitions ascribed to such terms in the Warrant Agreement.

The Company has initially designated the office of the Warrant Agent as set forth in Section 19 of the Warrant Agreement as the initial Warrant Exercise Office.

THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THE WARRANTS IS SUBJECT TO ADJUSTMENT UPON THE OCCURRENCE OF CERTAIN EVENTS SET FORTH IN THE WARRANT AGREEMENT, INCLUDING PURSUANT TO THE PROVISIONS SET FORTH IN SECTION 15.

THE NUMBER OF WARRANTS REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO ADJUSTMENT UPON THE OCCURRENCE OF CERTAIN EVENTS SET FORTH IN THE WARRANT AGREEMENT, INCLUDING PURSUANT TO THE PROVISIONS SET FORTH IN SECTIONS 11(c). [DEFINITIVE WARRANTS AFTER ADJUSTMENT PURSUANT TO SECTION 11(c): THE NUMBER OF WARRANTS REPRESENTED BY THIS CERTIFICATE HAS BEEN ADJUSTED PURSUANT TO THE PROVISIONS SET FORTH SECTION 11(c).]

Any Warrants not exercised on or prior to 5:00 p.m., New York City time, on [_____ __], 2007 shall thereafter be void.

If the Company, in a single transaction or through a series of related transactions, consolidates with or merges with or into, or sells all or substantially all of its property and assets to, another person (other than a subsidiary of the Company) solely for cash, the holders of Warrants which are then exercisable shall be entitled to receive distributions on the date of such event on an equal basis with holders of shares of Capital Stock (or other securities issuable upon

exercise of the Warrants) as if the Warrants had been exercised immediately prior to such event less the aggregate Exercise Price therefor.

Reference is hereby made to the further provisions on the reverse hereof which provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall be governed and construed in accordance with the laws of the State of Texas.

CENTERPOINT ENERGY, INC.

By: _____
Name:
Title:

Dated:

Countersigned by:

CENTERPOINT ENERGY, INC.,
as Warrant Agent

By: _____
Name:
Title:

[FORM OF SECOND TRANCHE WARRANT CERTIFICATE]

[REVERSE]

CENTERPOINT ENERGY, INC.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants expiring at 5:00 p.m., New York City time, on [_____ __], 2007 (the "EXPIRATION DATE"), each of which represents the right to purchase at any time on or after [the date one year and one day from the date hereof], 2004 and on or prior to the Expiration Date one (1) Warrant Share, subject to adjustment as set forth in the Warrant Agreement; provided, however, that either a registration statement relating to the Warrant Shares underlying such Warrant is, at the time of exercise, effective and available or the exercise of such Warrant is exempt from the registration requirements of the Securities Act, and such Warrant Shares are qualified for sale or exempt from qualification under the applicable securities laws of the state or other jurisdiction in which the holder of such Warrant resides. The Warrants are issued pursuant to a Warrant Agreement dated as of [_____ __], 2003 (the "WARRANT AGREEMENT"), duly executed and delivered by the Company to the banks and other financial institutions signatories thereto, Citibank, N.A., JPMorgan Chase Bank and CenterPoint Energy, Inc., as Warrant Agent (the "WARRANT AGENT"), which Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Warrant Agent, the Company and the holders (the words "HOLDERS" or "HOLDER" meaning the registered holders or registered holder) of the Warrants.

Warrants may be exercised by (i) surrendering at any Warrant Exercise Office this Warrant Certificate with the form of Election to Exercise set forth hereon duly completed and executed and (ii) to the extent such exercise is not being effected through a Cashless Exercise by paying in full the Warrant Exercise Price for each such Warrant exercised and any other amounts required to be paid pursuant to the Warrant Agreement. In the event that upon any exercise of Warrants evidenced hereby the number of Warrants exercised shall be less than the total number of Warrants evidenced hereby, there shall be issued to the holder hereof or his assignee a new Warrant Certificate evidencing the number of Warrants not exercised. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of this Warrant.

As soon as practicable after the exercise of any Warrant or Warrants, the Company shall issue or cause to be issued to or upon the written order of the registered holder of this Warrant Certificate, a certificate or certificates evidencing such Warrant Share or Warrant Shares to which such holder is entitled, in fully registered form, registered in such name or names as may be directed by such holder pursuant to the Election to Exercise, as set forth on the reverse of this Warrant Certificate. Such certificate or certificates evidencing the Warrant Share or Warrant Shares shall be deemed to have been issued and any persons who are designated to be named therein shall be deemed to have become the holder of record of such Warrant Share or Warrant Shares as of the close of business on the date upon which the exercise of this Warrant was deemed to be effective as provided in the preceding paragraph.

The Warrant Agreement provides that upon the occurrence of certain events the number of Warrant Shares set forth on the face hereof may, subject to certain conditions, be adjusted. No fractions of a share of Common Stock will be issued upon the exercise of any Warrant, but the Company will pay the cash value thereof determined as provided in the Warrant Agreement.

The holders of the Warrants are entitled to certain registration rights with respect to the Common Stock purchasable upon exercise thereof. Said registration rights are set forth in full in a Warrant Registration Rights Agreement dated as of [_____ __], 2003, among the Company J.P. Morgan Securities Inc. and Salomon Smith Barney, Inc., as amended from time to time. A copy of the Registration Rights Agreement may be obtained by the holder hereof upon written request to the Company or the Warrant Agent.

Warrant Certificates, when surrendered at any office or agency maintained by the Company for that purpose by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged for a new Warrant Certificate or new Warrant Certificates evidencing in the aggregate a like number of Warrants, in the manner and subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

Upon due presentment for registration of transfer of this Warrant Certificate at any office or agency maintained by the Company for that purpose, a new Warrant Certificate evidencing in the aggregate a like number of Warrants shall be issued to the transferee in exchange for this Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, of any distribution to the holder(s) hereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

[FORM OF ELECTION TO EXERCISE]

(To be executed upon exercise of Warrants on the Exercise Date)

The undersigned hereby irrevocably elects to exercise [_____] of the Warrants represented by this Warrant Certificate and purchase the whole number of Warrant Shares issuable upon the exercise of such Warrants and herewith tenders payment for such Warrant Shares as follows:

$_____ in cash or by certified or official bank check; or by surrender of Warrants pursuant to a Cashless Exercise (as defined in the Warrant Agreement) for [_____] shares of Common Stock at the current Cashless Exercise Ratio.

The undersigned requests that a certificate representing such Warrant Shares be registered in the name of _____ whose address is _____ and that such shares be delivered to whose address is _____. Any cash payments to be paid in lieu of a fractional share of Common Stock should be delivered to _____ _____ whose address is _____ and the check representing payment thereof should be delivered to whose address is _____.

[FOR REGULATION S WARRANTS ONLY: The undersigned (i) certifies that it is not a "U.S. Person," as defined in Regulation S under the Securities Act of 1933, and that the Warrants being exercised hereby are not being so exercised on behalf of a U.S. Person or (ii) delivers herewith an opinion of counsel to the effect that the Warrants hereby exercised, and the delivery of Warrant Shares hereby, have been registered under the Securities Act of 1933 or are exempt from registration thereunder.]

Dated _____, ____

Name of holder of
Warrant Certificate:

_____
(Please Print)

Tax Identification or
Social Security Number: _____
Address: _____
_____

Signature: _____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever and if the certificate representing the Warrant Shares or any Warrant Certificate representing Warrants not exercised is to be registered in a name other than that in which this Warrant Certificate is registered, or if any cash payment to be paid in lieu of a fractional share is to be made to a person other than

the registered holder of this Warrant Certificate, the signature of the holder hereof must be guaranteed as provided in the Warrant Agreement.

Dated _____, _____

Signature:

_____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

[FORM OF CERTIFICATE FOR REPURCHASE OFFER]

(To be executed only upon repurchase

of Warrant by CenterPoint Energy, Inc.)

TO: _____

The undersigned, having received prior notice of the consideration for which CENTERPOINT ENERGY, INC. will repurchase the Warrants represented by the within Warrant Certificate, hereby surrenders this Warrant Certificate for repurchase by CENTERPOINT ENERGY, INC. of the number of Warrants specified below for the consideration set forth in such notice.

Dated: _____, _____

_____
(Number of Warrants)

_____
(Signature of Owner)

_____
(Street Address)

_____
(City) (State) (Zip Code)

Signature Guaranteed By:

_____

Signatures must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Warrant Agent, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("Stamp") or such other "signature guarantee program" as may be determined by the Warrant Agent in addition to, or in substitution for, Stamp, all in accordance with the Securities Exchange Act of 1934, as amended.

Securities and/or check to be issued to: _____

Please insert social security or identifying number: _____

Name: _____

Street Address: _____

City, State and Zip Code: _____

[FORM OF ASSIGNMENT]

For value received _____ hereby sells, assigns and transfers unto _____ the within Warrant Certificate, together _____ with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ attorney, to transfer said Warrant Certificate on the books of the within-named Company, with full power of substitution in the premises.

Dated: _____, _____

Signature: _____

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed: _____

SCHEDULE OF DECREASES IN GLOBAL WARRANTS

The following decreases in this Global Warrant for certificated Warrants have been made:

| Date of Exchange | Amount of decrease in Number of Warrants of this Global Warrant | Amount of increase in Number of Warrants of this Global Warrant Signature of | Number of Warrants of this Global Warrant following such decrease (or increase) | Signature of authorized officer of Warrant Agent |
|---|---|---|---|---|
| - ---------- | ---------- | ---------- | ---------- | ---------- |

EXHIBIT B

CERTIFICATE TO BE DELIVERED UPON EXCHANGE
OR REGISTRATION OF TRANSFER OF WARRANTS

Re: Warrants to Purchase Common Stock (the "Warrants") of CENTERPOINT ENERGY, INC.

This Certificate relates to _____ Warrants held in *[ ]book-entry or [ ]certificated form by _____ (the "Transferor").

The Transferor:*

[ ] has requested the Warrant Agent by written order to deliver in exchange for its beneficial interest in the Global Warrant held by the Depositary a Warrant or Warrants in definitive, registered form of authorized denominations and an aggregate number equal to its beneficial interest in such Global Warrant (or the portion thereof indicated above); or

[ ] has requested the Warrant Agent by written order to exchange or register the transfer of a Warrant or Warrants.

In connection with such request and in respect of each such Warrant, the Transferor does hereby certify that the Transferor is familiar with the Warrant Agreement relating to the above captioned Warrants and the restrictions on transfers thereof as provided in Section 8 of such Warrant Agreement, that the Resale Restriction Termination Date has not occurred, and that the transfer of this Warrant does not require registration under the Securities Act of 1933, as amended (the "Act") because*:

[ ] Such Warrant is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 8(a)(y)(A) or Section 8(d)(i)(A) of the Warrant Agreement).

[ ] Such Warrant is being transferred to the Company.

[ ] Such Warrant is being transferred to a qualified institutional buyer (as defined in Rule 144A under the Act), in reliance on Rule 144A.

[ ] Such Warrant is being transferred in reliance on Regulation S under the Act.

[ ] Such Warrant is being transferred in accordance with Rule 144 under the Act.

[ ] Such Warrant is being transferred in reliance on and in compliance with an exemption from the registration requirements of the Act.

_____
[INSERT NAME OF TRANSFEROR]

By: _____

Date: _____

- ----------

* Check applicable box.

EXHIBIT C

FORM OF CERTIFICATE TO BE
DELIVERED IN CONNECTION
WITH REGULATION S TRANSFERS

_____, _____

CenterPoint Energy, Inc.
1111 Louisiana
Houston, Texas
Attention: [_____]

Ladies and Gentlemen:

In connection with our proposed sale of Warrants of CenterPoint Energy, Inc. (the "Company"), we confirm that such sale has been effected pursuant to and in accordance with Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and, accordingly, we represent that:

(1) the offer of the Warrants was not made to a person in the United States;

(2) either (a) at the time the buy offer was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transferee was outside the United States, or (b) the transaction was executed in, on or through the facilities of a designated off-shore securities market and neither we nor any person acting on our behalf knows that the transaction has been pre-arranged with a buyer in the United States;

(3) no directed selling efforts have been made in the United States in contravention of the requirements of Rule 903(a) or Rule 904(a) of Regulation S under the Securities Act, as applicable;

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act;

(5) we have advised the transferee of the transfer restrictions applicable to the Warrants; and

(6) if the circumstances set forth in Rule 904(b) under the Securities Act are applicable, we have complied with the additional conditions therein, including (if applicable) sending a confirmation or other notice stating that the Warrants may be offered and sold during the distribution compliance period specified in Rule 903(b)(2) or (3), as applicable, in accordance with the provisions of Regulation S; pursuant to registration of the Warrants under the Securities Act; or pursuant to an available exemption from the registration requirements under the Securities Act.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Defined terms used herein without definition have the respective meanings provided in Regulation S under the Securities Act.

Very truly yours,

[Name of Transferor]

By: _____
[Authorized Signature]

Upon transfer the Warrants would be registered in the name of the new beneficial owner as follows:

Name:
_____

Address:
_____

Taxpayer ID Number:
_____

EXHIBIT D

FORM OF ACCREDITED INVESTOR CERTIFICATE
TRANSFEREE LETTER OF REPRESENTATION

CenterPoint Energy, Inc.
1111 Louisiana
Houston, Texas
Attention: [_____]

Ladies and Gentlemen:

In connection with our proposed purchase of [ ] Warrants (the "Warrants") entitling the holders thereof to purchase shares of common stock, par value $0.001 per share, of CenterPoint Energy, Inc. (the "Company"), we confirm that:

1. We are (a) an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act of 1933, as amended (the "Securities Act")), purchasing for our own account or for the account of such an institutional "accredited investor" as to which we exercise sole investment discretion, and we have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Warrants, and we and any account for which we are acting are each able to bear the economic risk of our or its investment, (b) a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) or (c) a non "U.S. person" (as defined in Rule 902 of the Securities Act).

2. We understand and acknowledge that the Warrants have not been registered under the Securities Act or any other applicable securities law, and that the Warrants may not be offered or sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any account for which we are acting, that if we should sell any Warrants within the time period referred to in Rule 144(k) of the Securities Act, we will do so only (A) to the Company or any subsidiary thereof, (B) to a "qualified institutional buyer" (as defined in Rule 144A of the Securities Act), or to an institutional "accredited investor" (as defined above) in either case that, prior to such transfer, furnishes to the Warrant Agent under the Warrant Agreement, dated as of [_____ __], 2003, governing the Warrants a signed letter containing certain representations and agreements relating to the restrictions on transfer of the Warrants (the form of which letter can be obtained from the Warrant Agent) and an opinion of counsel acceptable to the Company that such transfer is in compliance with the Securities Act, (C) outside the United States in accordance with Rule 904 of Regulation S under the Securities Act, (D) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (E) pursuant to an effective registration statement under the Securities Act, and we further agree to provide to any person purchasing any of the Warrants from us a notice advising such purchaser that resales of the Warrants are restricted as stated herein.

3. We understand that, on any proposed resale of any Warrants, we will be required to furnish to the Company and the Warrant Agent such certifications, opinions and other information as the Company and the Warrant Agent may reasonably require to confirm that the

proposed sale complies with the foregoing restrictions. We further understand that the Warrants purchased by us will bear a legend to the foregoing effect.

4. We are acquiring the Warrants for investment purposes and not with a view to distribution thereof or with any present intention of offering or selling any Warrants, except as permitted above; provided that the disposition of our property and property of any accounts for which we are acting as fiduciary will remain at all times within our control.

You and the Company are entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

THIS LETTER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF, OTHER THAN ANY MANDATING THE APPLICATION OF SUCH LAWS).

Very truly yours,

(Name of Purchaser)

By: _____
Name:
Title:

Date: _____

Upon transfer, the Warrants would be registered in the name of the new beneficial owner as follows:

By: _____

Date: _____
Taxpayer ID number: _____

EXHIBIT 4(f)(5)

# WARRANT REGISTRATION RIGHTS AGREEMENT

between

CENTERPOINT ENERGY, INC.

and

J.P. MORGAN SECURITIES INC. and
SALOMON SMITH BARNEY, INC.,

Dated as of [_____ __], 2003

WARRANT REGISTRATION RIGHTS AGREEMENT

This WARRANT REGISTRATION RIGHTS AGREEMENT (the "AGREEMENT") is made and entered into as of [_____ __], 2003, between Centerpoint Energy, Inc., a Texas corporation (the "COMPANY"), J.P. Morgan Securities Inc. ("JPMORGAN") and Salomon Smith Barney, Inc. ("SSB").

RECITALS

WHEREAS, the Company, the banks and other financial institutions from time to time parties thereto, Citibank, N.A. (the "SYNDICATION AGENT"), an affiliate of SSB, and JPMorgan Chase Bank (the "ADMINISTRATIVE AGENT"), an affiliate of JPMorgan, are parties to the Second Amendment, dated as of February 28, 2003 (the "SECOND AMENDMENT"), to the $3,850,000,000 Amended and Restated Credit Agreement dated as of October 10, 2002, among the Company, the banks and other financial institutions from time to time parties thereto, the Syndication Agent, as syndication agent, and the Administrative Agent, as administrative agent;

WHEREAS, in connection with, and in order to induce the Syndication Agent and the Administrative Agent to enter into, the Second Amendment, on the date hereof the Company is issuing [30,600,564.20] common stock purchase warrants (the "WARRANTS") pursuant to a Warrant Agreement, dated as of the date hereof, between the Company, the Syndication Agent, the Administrative Agent and the Company, as warrant agent, which in the aggregate initially entitle the holders thereof to purchase [30,600,564.20] shares of Common Stock, par value $0.01 per share (the "COMMON STOCK"), of the Company;

WHEREAS, in order to induce the Syndication Agent and the Administrative Agent to enter into the Second Amendment, the Company has also agreed to the registration rights set forth in this Agreement; and

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

1. Definitions.

Capitalized terms used herein without definition have the meanings assigned to them in the Credit Agreement. As used in this Agreement, the following capitalized terms shall have the following meanings:

ADVICE: See Section 5 hereof.

DTC: The Depository Trust Company.

EFFECTIVE DATE: See Section 3(b)(i) hereof.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended.

FILING DATE: See Section 3(b)(i) hereof.

HOLDER: Each holder (including JPMorgan and SSB) of any Warrants, Warrant Shares or Registrable Securities, and each of their successors, assigns and direct and indirect transferees who become registered or beneficial owners of such Warrants, Warrant Shares or Registrable Securities.

HOLDER INDEMNIFIED PARTIES: See Section 7(a) hereof.

INDEMNIFYING PARTY: See Section 7(c) hereof.

INITIATING HOLDER: See Section 3(a)(i) hereof.

LIQUIDATED DAMAGES: See Section 3(b)(iv) hereof.

NASD: National Association of Securities Dealers, Inc.

OTHER HOLDERS: The holders of Other Securities.

OTHER SECURITIES: All common equity of the Company, the holders of which have registration rights with respect to such common equity (other than the Registrable Securities).

PERSON: Any individual, partnership, limited liability company, corporation, trust, joint stock company, business trust, joint venture, or unincorporated organization, or a government or agency or political subdivision thereof.

PROSPECTUS: The prospectus included in any Registration Statement, as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments and all material incorporated by reference in such prospectus.

REGISTRABLE SECURITIES: The Registrable Warrants and the Registrable Warrant Shares, provided that a security ceases to be a Registrable Security when (i) a registration statement with respect to the sale by the holder of such securities shall have become effective under the Securities Act and such securities shall have been disposed of in accordance with such registration statement (excluding the original issuance of Warrant Shares upon exercise of the Warrant), (ii) such securities shall have been distributed to the public pursuant to Rule 144 (or any successor provision) under the Securities Act, or (iii) such securities cease to be outstanding. For purposes of this Agreement, any required calculation of the amount or percentage of Registrable Securities shall be based on the number of shares of Common Stock which are Registrable Securities, including

shares issuable upon the conversion, exchange or exercise of the Warrants or any other security convertible, exchangeable or exercisable into Common Stock.

REGISTRABLE WARRANT SHARES: All Warrant Shares issuable to the Holders of Warrants upon exercise of such Warrants.

REGISTRABLE WARRANTS: All Warrants issued pursuant to the Warrant Agreement.

REGISTRANT INDEMNIFIED PARTIES: See Section 7(b) hereof.

REGISTRATION DEFAULT: See Section 3(b)(iv) hereof.

REGISTRATION EXPENSES: See Section 6 hereof.

REGISTRATION STATEMENT: Any registration statement of the Company which covers any of the Registrable Securities, including the Prospectus, amendments and supplements to such Registration Statement, including post-effective amendments, all exhibits and all material incorporated by reference in such Registration Statement.

SEC: The Securities and Exchange Commission.

SECURITIES ACT: The Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as the same may be amended from time to time.

SHELF REGISTRATION: See Section 3(b)(i) hereof.

SHELF REGISTRATION STATEMENT: See Section 3(b)(i) hereof.

UNDERWRITTEN REGISTRATION or UNDERWRITTEN OFFERING: A registration in which securities of the Company are sold to an underwriter for reoffering to the public.

WARRANT SHARES: The shares of Common Stock of the Company, or any successor thereto, issuable to the Holders of Warrants upon exercise of the Warrants, together with any other securities or property that may in the future become issuable upon exercising the Warrants as set forth in Section 15 of the Warrant Agreement.

2. Securities Subject to this Agreement

(a) Registrable Securities. All Registrable Securities shall be entitled to the benefits of this Agreement.

3. Registration Rights.

(a) Piggyback Rights. (i) Piggyback Rights. If the Shelf Registration Statement has not been declared, and is not continuing to be, effective and the Company at any time after the Initial Repayment Date (as defined in the Warrant Agreement), with respect to the Adjusted

First Tranche Warrants (as defined in the Warrant Agreement) and any related Warrant Shares, and at any time after the Subsequent Repayment Date (as defined in the Warrant Agreement), with respect to the Adjusted Second Tranche Warrants (as defined in the Warrant Agreement) and any related Warrant Shares, and prior to [date three months after expiration of the Warrants], 2007, proposes to register warrants, common stock (including any offerings of common stock together with preferred stock) or any other capital stock under the Securities Act (other than (x) a registration on Form S-4 or S-8, or any successor or other forms promulgated for similar purposes, or any other registration with respect to an employee benefit plan or other compensation plan for the benefit of employees or directors, (y) a registration statement filed in order to register common stock with respect to an acquisition which constituted a part or all of the consideration for an acquisition or (z) a registration statement filed in connection with an offer of securities solely to the Company's existing security holders), other than pursuant to Section 3(b), whether or not for sale for its own account, it will, at each such time, give prompt written notice (no later than 15 days prior to the anticipated filing date or 10 days if the Company is required to file reports under the Exchange Act and able to use Form S-3 under the Securities Act) to the Holders of such Registrable Securities of its intention to do so and of the rights of the Holders under this Section 3(a). Upon the written request of Holders of Registrable Securities having an aggregate offering price at least equal to $25,000,000 made within 7 days after the receipt of any such notice (which request shall specify the number of Registrable Securities intended to be disposed of by each such Holder), the Company will use its reasonable efforts to effect the registration under the Securities Act of all Registrable Securities which the Company has been so requested to register by the Holders and to keep such registration continuously effective under the Securities Act in the qualifying jurisdictions until at least the earlier of (A) 90 days after the effective date thereof or (B) the consummation of the distribution by the Holders of all of the Registrable Securities covered thereby; provided that (1) if, at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company or any other holder of securities that initiated such registration (an "INITIATING HOLDER") shall determine for any reason not to proceed with the proposed registration of the securities to be sold by it, the Company or such Initiating Holder may, at its election, give written notice of such determination to the Holders and, thereupon, the Company shall be relieved of its obligation to register any Registrable Securities in connection with such registration (but not from its obligation to pay the Registration Expenses incurred in connection therewith), or the Company may elect to delay the registration, and (2) if such registration involves an underwritten offering, the Holders of Registrable Securities requesting to be included in the registration must sell their Registrable Securities to the underwriters selected by the Company or the Initiating Holders, as the case may be, on the same terms and conditions as apply to the Company or the Initiating Holders, as the case may be, with, in the case of a combined primary and secondary offering, such differences, including any with respect to indemnification and liability insurance, as may be customary or appropriate in combined primary and secondary offerings. If a registration requested pursuant to this Section 3(a)(i) involves an underwritten offering, any Holder requesting to be included in such registration may elect, in writing prior to the effective date of the registration statement filed in connection with such registration, not to register all or any portion of such securities in connection with such registration.

(ii) Expenses. The Company will pay all Registration Expenses in connection with each registration of Registrable Securities requested pursuant to this Section 3(a).

(iii) Priority in Piggyback Registrations. If a requested registration pursuant to this Section 3(a) involves an underwritten offering and the managing underwriter advises the Company in writing that, in its opinion, the number of securities requested to be included in such registration (including securities of the Company which are not Registrable Securities) exceeds the number that can be sold in such offering at a price acceptable to the Company or is such as to adversely affect the success of the offering, the Company will be required to include in such registration only the amount of securities which it is so advised should be included in such registration. In such event, securities shall be registered in such offering in the following order of priority: (i) FIRST, the securities which the Company proposes to register and, if any, Other Securities of any Initiating Holder, (ii) SECOND, provided that no securities sought to be included by the Company and any Initiating Holder, if any, have been excluded from such registration, the Registrable Securities which have been requested to be included in such registration by the Holders pursuant to this Agreement and the Other Securities of Other Holders entitled to exercise "piggy-back" registration rights pursuant to contractual commitments of the Company existing on the date hereof (such securities to be allocated pro rata based on the amount of Registrable Securities and Other Securities sought to be registered by such Holders and Other Holders) and (iii) THIRD, provided that no securities sought to be included by the Holders or Other Holders referred to in clause (ii) above have been excluded from such registration, the Other Securities of Other Holders entitled to exercise "piggy-back" registration rights pursuant to contractual commitments of the Company not existing on the date hereof (pro rata based on the amount of securities sought to be registered by such Other Holders). If, as a result of the provisions of this Section 3(a)(iii), any selling Holder shall not be entitled to include all Registrable Securities in a registration that such selling Holder has requested to be included, such selling Holder may elect to withdraw his request to include Registrable Securities in such registration.

(b) Shelf Registration. (i) Filing of Shelf Registration. The Company shall use its reasonable best efforts to file a "shelf" registration statement (the "SHELF REGISTRATION STATEMENT") on any appropriate form pursuant to Rule 415 (or similar rule that may be adopted by the SEC) under the Securities Act (a "SHELF REGISTRATION") in no event later than the date that is 120 days prior to the date the Warrants become exercisable (the "FILING DATE") with respect to the issuance of the Warrant Shares (if allowed by applicable rule or policy of the SEC) and to permit resales of all of the Registrable Securities. The Company agrees to use its reasonable best efforts to cause such Shelf Registration to become effective as soon as practicable after the filing thereof and in no event later than the date the Warrants become exercisable (the "EFFECTIVE DATE"), and thereafter to keep it continuously effective for the period (the "EFFECTIVENESS PERIOD") that will terminate upon the earlier of (1) the date on which all of the Warrants have been exercised and all of the Registrable Securities covered by the Shelf Registration have been resold pursuant to such Shelf Registration or cease to be Registrable Securities and (2) [three months after the expiration date of the Warrants], 2007. If the Shelf Registration Statement ceases to be effective for any reason at any time during the Effectiveness Period (other than

because of the sale of all of the securities registered thereunder), in addition to the actions required pursuant to Section 5(d), the Company shall use its reasonable best efforts to, within 7 days of such cessation of effectiveness, amend the Shelf Registration Statement in a manner to obtain the withdrawal of the order suspending the effectiveness thereof, or file an additional "shelf" registration statement pursuant to Rule 415 covering all of the Registrable Securities (a "SUBSEQUENT SHELF REGISTRATION STATEMENT"). If a Subsequent Shelf Registration Statement is filed, the Company shall use its best efforts to cause the Subsequent Shelf Registration to become effective as soon as practicable after such filing and to keep such Registration Statement continuously effective for the Effectiveness Period. As used herein the term "SHELF REGISTRATION STATEMENT" means the Shelf Registration Statement and any Subsequent Shelf Registration Statement.

(ii) Limitations on Shelf Registration. The Company shall not be required to file more than one Shelf Registration Statement, subject to the provisions set forth in Section 5 hereof. The Company shall not permit any securities other than the Registrable Securities to be included in the Shelf Registration Statement.

(iii) Form of Registration Statement. The Company shall select the registration statement form for any registration pursuant to this Section 3(b); provided that if any registration pursuant to this Section 3(b) is effected by the filing of a Registration Statement on Form S-3 (or any successor or similar short-form registration statement), and if the managing underwriter of an underwritten offering initiated pursuant to clause (iv) of this Section 3(b) advises the Company in writing that, in its opinion, additional disclosure is required in the Prospectus, the Company shall promptly amend or supplement the Registration Statement (including by post-effective amendment) or Prospectus.

(iv) Selection of Underwriter. If the Holders so elect, the offering of Registrable Warrant Shares pursuant to such Shelf Registration shall be in the form of an underwritten offering; provided, however, that the Company shall not be obligated to:

(A) effect more than an aggregate of two underwritten offerings pursuant to this Section 3(b)(iv) or more than one underwritten offering in any twelve-month period; or

(B) effect an underwritten offering pursuant to this Section 3(b)(iv) unless the aggregate offering price of the Registrable Warrant Shares being offered pursuant to such underwritten offering shall equal at least $25,000,000.

The Holders of a majority of the Registrable Securities covered by such Shelf Registration shall select one or more nationally recognized firms of investment bankers, who shall be reasonably acceptable to the Company, to act as the managing underwriter or underwriters in connection with such offering and shall select any additional investment bankers and managers to be used in connection with the offering.

(v) Expenses. The Company will pay all Registration Expenses in connection with each Shelf Registration pursuant to this Section 3(b).

4. Hold-Back Agreements

(a) Restrictions on Public Sale by Holder of Registrable Securities. Each Holder of Registrable Securities agrees, if requested by the managing underwriters in an underwritten offering not to effect any public sale or distribution of the Warrants or Warrant Shares, including a sale pursuant to Rule 144 under the Securities Act (except as part of such underwritten registration), during the 7-day period prior to, and during the 90-day period beginning on, the pricing date of each underwritten offering made pursuant to Section 3(b)(iii), to the extent timely notified by the Company or the managing underwriters. In order to enforce the foregoing covenant, the Company shall have the right to impose stop transfer instructions with respect to the Warrants or Warrant Shares until the end of such period. The provisions of this Section 4(a) shall be binding upon any transferee of any Warrants or Warrant Shares.

The foregoing provisions of the preceding paragraph shall not apply to any Holder of Registrable Securities if such Holder is prevented by applicable statute or regulation from entering any such agreement; provided, however, that any such Holder shall undertake, in its request to participate in any such underwritten offering, not to effect any public sale or distribution of any Registrable Securities held by such Holder and covered by a Registration Statement commencing on the date of sale of the Registrable Securities unless it has provided 30 days prior written notice of such sale or distribution to the underwriter or underwriters.

(b) Restrictions on Sale of Securities by the Company and Others. The Company agrees (1) not to effect any public or private offer, sale or distribution of any of its equity securities similar to the Warrants, including a sale pursuant to Regulation D under the Securities Act (other than any such sale or distribution of such securities in connection with any merger or consolidation by the Company or any subsidiary of the Company or the acquisition by the Company or a subsidiary of the Company of the capital stock or substantially all of the assets of any other Person or in connection with any employee stock option or other benefit plan), during the 90-day period beginning with the date the Warrants become exercisable to the extent timely notified in writing by a Holder or Holders which individually or in the aggregate hold a majority of the then outstanding Registrable Securities or during the 7-day period prior to, and during the 90-day period beginning with, the pricing date of each underwritten offering pursuant to Section 3(b)(iii), to the extent timely notified by the managing underwriters in such underwritten offering (except as part of such if permitted, or pursuant to registrations on Forms S-4 or S-8 or any successor form to such registration forms) and (2) during the aforementioned period to use its reasonable best efforts to cause each holder of each of its privately placed equity securities similar to the Warrants purchased from the Company at any time on or after the date of this Agreement to agree not to effect any public sale or distribution of any such securities during such period, including a sale pursuant to Rule 144 under the Securities Act (except as part of such registration, if permitted).

5. Registration Procedures.

If and whenever the Company is required to file a Registration Statement with respect to Registrable Securities pursuant to this Agreement, the Company will use its reasonable best efforts to effect such registration to permit the sale of such Registrable Securities in accordance with the intended method or methods of distribution thereof, and pursuant thereto the Company will, as expeditiously as possible, use reasonable best efforts to:

(a) prepare and file with the SEC, within the time period provided in Section 3, a Registration Statement or Registration Statements relating to such registration on any appropriate form under the Securities Act, which form shall be available for the sale by the Company of the Warrant Shares or the resale of Warrants and Warrant Shares by the Holders in accordance with the intended method or methods of distribution thereof and shall include all financial statements required by the SEC to be filed therewith, cooperate and assist in any filings required to be made with the NASD, and use its reasonable best efforts to cause such Registration Statement to become effective within such time period; provided that before filing a Registration Statement or any amendments or supplements thereto with respect to the Registrable Securities, the Company will furnish to the Holders of the Registrable Securities covered by such Registration Statement and the underwriters, if any, drafts of all such documents proposed to be filed (without exhibits or schedules), which documents will be subject to the review by such Holders and underwriters, and the Company will not file any Registration Statement or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities or such managing underwriters, if any shall reasonably object within 5 business days unless required by law in the reasonable judgment of the Company;

(b) prepare and file with the SEC such amendments and post-effective amendments to the Registration Statement as may be necessary to keep the Registration Statement effective to allow any Holder to sell its Registrable Securities thereunder for the applicable period set forth in Section 3; cause the Prospectus to be supplemented, and as so supplemented to be filed pursuant to Rule 424 under the Securities Act as required; and comply in all material respects with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in the Prospectus or supplement to the Prospectus;

(c) notify the selling Holders of Registrable Securities and the managing underwriters, if any, promptly, and (if requested by any such Person) confirm such advice in writing, (1) when the Prospectus or any supplement to the Prospectus or post-effective amendment has been filed, and, with respect to the Registration Statement or any post-effective amendment, when the same has become effective, (2) of any request by the SEC for amendments or supplements to the Registration Statement or the Prospectus or for additional information, (3) of the issuance by the SEC of any stop order which the Company has knowledge of suspending the effectiveness of the Registration Statement or the initiation or threat of any proceedings for that purpose, (4) if at any time the representations and warranties of the Company contemplated

by paragraph (n) below cease to be true and correct in any material respect, (5) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (6) of the Company's becoming aware that the Prospectus (including any document incorporated therein by reference), as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which such statement was made.

(d) avoid the issuance of or, if issued, to obtain the withdrawal of any order suspending the effectiveness of the Registration Statement or the use of a Prospectus or the lifting of any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities covered thereby for sale in any jurisdiction described in Section 5(h) hereof at the earliest possible moment;

(e) if reasonably requested by the managing underwriter or underwriters or a Holder of Registrable Securities being sold in connection with an underwritten offering, promptly incorporate in a supplement to the Prospectus or post-effective amendment such information as the managing underwriter or underwriters or the Holders of a majority of the Registrable Securities being sold agree should be included therein, including, without limitation, information relating to the plan of distribution with respect to such Registrable Securities, (including, without limitation, information with respect to the amount of Registrable Securities being sold to such managing underwriter or underwriters, the purchase price being paid therefor by such underwriters and any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Securities to be sold in such offering); and make all required filings of such supplement to the Prospectus or post-effective amendment as soon as notified of the matters to be incorporated in such supplement to the Prospectus or post-effective amendment;

(f) furnish to each selling Holder of Registrable Securities and each managing underwriter, if any, without charge, if requested, at least one copy of the Registration Statement and any post-effective amendment thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits (including those incorporated by reference);

(g) deliver to each selling Holder of Registrable Securities and the underwriters, if any, without charge, if requested, as many copies of the Prospectus (including each preliminary Prospectus) and any amendment or supplement thereto as such Persons may reasonably request; the Company consents to the use (subject to the limitations set forth in the last paragraph of this Section 5) of the Prospectus or any amendment or supplement thereto by each of the selling Holders of Registrable Securities and the underwriters, if any, in connection with the offering and sale of the Registrable Securities covered by the Prospectus or any amendment or supplement thereto;

(h) prior to any public offering of Registrable Securities, register or qualify, or

cooperate with the selling Holders of Registrable Securities, the underwriters, if any, and their respective counsel in connection with the registration or qualification, of such Registrable Securities for offer and sale under the securities or blue sky laws of such jurisdictions as any such selling Holder or underwriter reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of such Registrable Securities; keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective hereunder and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by the applicable Registration Statement; provided that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general service of process or taxation in any such jurisdiction where it is not then so subject;

(i) in connection with any sale or transfer of Registrable Securities that will result in such securities no longer being Registrable Securities, cooperate with the selling Holders of Registrable Securities and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing such Registrable Securities to be sold, which certificates shall not bear any restrictive legends whatsoever and shall be in a form eligible for deposit with DTC; and enable such Registrable Securities to be in such denominations and registered in such names as such managing underwriters may request at least two business days prior to any sale of such Registrable Securities to the underwriters;

(j) cause the Registrable Securities covered by the applicable Registration Statement to be registered with or approved by such other U.S. governmental agencies or U.S. authorities as may be necessary to enable the seller or sellers thereof or the underwriters, if any, to consummate the disposition of such Registrable Securities (subject to the proviso contained in clause (h) above);

(k) upon the occurrence of any event contemplated by paragraph (c)(6) above, prepare a supplement or post-effective amendment to the related Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the Holders of the Registrable Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances then existing;

(l) cause all Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which similar securities issued by the Company are then listed if such listing is permitted under the rules of such exchange;

(m) not later than the effective date of the Registration Statement, provide a CUSIP number for all Registrable Warrants and provide the transfer agent with printed certificates for the Registrable Securities which are in a form eligible for deposit with DTC;

(n) enter into such agreements (including an underwriting agreement) and take

all such other actions in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities which are reasonably required, and in such connection, in the case of an underwritten offering (1) make such representations and warranties (with reasonable exceptions) to the Holders of such Registrable Securities and the underwriters in form, substance and scope as are customarily made by issuers to underwriters in secondary underwritten offerings; (2) obtain opinions of counsel to the Company addressed to the underwriters covering the matters customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by the underwriters; (3) obtain "comfort" letters and updates thereof from the Company's independent certified public accountants addressed to such underwriters and to the extent that such independent certified public accounts agree, addressed to such Holders, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters given to underwriters in connection with primary underwritten offerings; (4) include indemnification provisions in such underwriters' customary form; and (5) deliver to the Holders copies of such documents and certificates as may be requested by the managing underwriters to evidence compliance with paragraph (k) above and with any customary conditions contained in the underwriting agreement. The above shall be done at each closing under such underwriting agreement or as and to the extent required thereunder;

(o) make available at reasonable times during normal business hours for inspection by any underwriter or the Administrative Agent for the benefit of any Holder participating in any disposition of such Registrable Securities, and any attorney or accountant retained by such underwriters or the Administrative Agent, if any, such financial and other records, pertinent corporate documents and properties of the Company as may be reasonably necessary to enable them to exercise their due diligence responsibilities, and provide reasonable access to appropriate officers of the Company in connection with such due diligence responsibilities;

(p) make appropriate officers of the Company available at reasonable times during normal business hours to such underwriters for meetings with prospective purchasers of the Registrable Securities and prepare and present to potential investors customary "road show" material in a manner consistent with issuances of other securities similar to the Registrable Securities; and

(q) comply with all applicable rules, regulations and policies of the SEC and make generally available to its security holders earnings statements satisfying the provisions of Section 1l(a) of the Securities Act and Rule 158 thereunder no later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Securities are sold to an underwriter or to underwriters in a firm commitment or reasonable efforts underwritten offering and (ii) if not sold to an underwriter or to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of the relevant Registration Statement, which statements shall cover said such period, consistent with the requirements of Rule 158 under the Securities Act.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish to the Company such information regarding the distribution of such securities as the Company may from time to time reasonably request in writing.

Each Holder of Registrable Securities agrees by acceptance of such Registrable Securities that, upon receipt of any notice from the Company of the happening of any event or the happening of any circumstances of the kind described in Section 5(c)(3), (5) or (6) hereof (or that the Company reasonably concludes bears a risk of being so considered) or that, in the reasonable judgment of the Company, it is advisable to suspend use of the prospectus for a discrete period of time due to pending corporate developments, public filings with the SEC or similar events, such Holder will forthwith discontinue disposition of Registrable Securities until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "ADVICE") by the Company that the use of such Prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in such Prospectus, and, if so directed by the Company such Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of such Prospectus covering such Registrable Securities current at the time of receipt of such notice. The Company shall use its reasonable best efforts to insure that the use of the Prospectus may be resumed as soon as practicable, and in any event shall not be entitled to require the Holder to suspend use of any Prospectus more than twice, and in each such case for no more than thirty (30) business days, in any twelve-month period.

6. Registration Expenses

All expenses incident to the Company's performance of or compliance with this Agreement, including without limitation all (i) registration and filing fees, fees and expenses associated with filings required to be made with the NASD (including, if applicable, the fees and expenses of any "qualified independent underwriter" and its one counsel as may be required by the rules and regulations of the NASD), (ii) fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel for the underwriters or selling Holders in connection with blue sky qualifications of the Registrable Securities and determination of their eligibility for investment under the laws of such jurisdictions as the managing underwriters or Holders of a majority of the Registrable Securities being sold may reasonably designate), (iii) printing expenses (including expenses of printing certificates for the Registrable Securities in a form eligible for deposit with DTC and of printing Prospectuses), messenger, telephone and delivery expenses, (iv) reasonable fees and disbursements of counsel for the Company and the Company's independent certified public accountants (including the expenses of any special audit and "comfort" letters required by or incident to such performance), (v) the reasonable frees and expenses (including up to $100,000 of the reasonable fees of one outside legal counsel) of the Holders and (vi) the cost of securities acts liability insurance if the Company so desires (all such expenses being herein called "REGISTRATION EXPENSES") will be borne by the Company regardless whether the Registration Statement becomes effective. The

Company will not be responsible for payment of any brokerage commissions, underwriting discount or other similar expenses of the Holders. The Company, in any event, will pay the Company's own internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), and the expense of any annual audit.

7. Indemnification

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each Holder of Registrable Securities, their officers, directors, counsel, advisors and each Person who controls such Holder (within the meaning of the Securities Act) (the "HOLDER INDEMNIFIED PARTIES") against all losses, claims, damages, liabilities and expenses reasonably incurred by such party in connection with any actual or threatened action arising out of or based upon any untrue or alleged untrue statement of a material fact contained in any Registration Statement, Prospectus or preliminary Prospectus or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus or a preliminary Prospectus, in light of the circumstances under which such statement was made) not misleading, except insofar as the same arise out of or are based upon any such untrue statement or omission made in reliance on and in conformity with any information furnished in writing to the Company by any underwriter or any Holder or any of their counsel or other representatives expressly for use therein; provided, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission in the preliminary Prospectus or Prospectus, if such untrue statement or alleged untrue statement or omission or alleged omission is completely corrected in the Prospectus or an amendment or supplement to the Prospectus, as applicable, and the Holder thereafter fails to deliver such Prospectus or Prospectus as so amended or supplemented, as applicable, prior to or concurrently with the sale of the Registrable Securities to the person asserting such loss, claim, damage, liability or expense if the Company has promptly complied with Sections 5(g) and 5(k) hereof. The Company shall also indemnify underwriters, their officers and directors and each Person who controls such Persons (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the Holder Indemnified Parties, if requested.

(b) Indemnification by Holder of Registrable Securities. In connection with the Registration of Registrable Securities, each Holder of Registrable Securities will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any Registration Statement or Prospectus and agrees to, severally and not jointly, indemnify and hold harmless, to the full extent permitted by law, the Company, its directors, managers and officers and each Person who controls the Company (within the meaning of the Securities Act) (the "REGISTRANT INDEMNIFIED PARTIES") against any losses, claims, damages, liabilities and expenses resulting from any untrue statement of a material fact contained in any Registration Statement or Prospectus or any omission of a material fact required to be stated in the Registration Statement or Prospectus or necessary to make the statements therein, in

light of the circumstances under which they were made, not misleading, to the extent, but only to the extent, that such untrue statement or omission relates to a Holder and is made in reliance on and in conformity with any information or affidavit furnished in writing by or on behalf of such Holder to the Company specifically for inclusion in such Registration Statement or Prospectus. In no event shall the liability of any selling Holder of Registrable Securities hereunder be greater in amount than the dollar amount of the proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation. The Registrant Indemnified Parties shall be entitled to receive indemnities from underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution of Registrable Securities to the same extent above with respect to information or affidavit furnished in writing by or on behalf of such Persons as provided specifically for any Prospectus or Registration Statement.

(c) Conduct of Indemnification Proceedings. Any Person entitled to indemnification hereunder will (i) give prompt notice to the Company or Holder of Registrable Securities, as the case may be (in either case, as applicable, an "INDEMNIFYING PARTY"), of any claim with respect to which it seeks indemnification and (ii) permit such Indemnifying Party to assume the defense of such claim with counsel reasonably satisfactory to such Person; provided, however, that any Person entitled to indemnification hereunder shall have the right to employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such Person unless (a) the Indemnifying Party has agreed to pay such fees or expenses, (b) the Indemnifying Party has failed to assume the defense of such claim or has not employed counsel satisfactory to such Person to represent such Person within a reasonable amount of time after notice of the institution of such action, (c) the use of counsel chosen by the Indemnifying Party to represent such Person would present such counsel with a conflict of interest or (d) the actual or potential defendants in, or targets of, any such action include both such Person and the Indemnifying Party and such Person shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the Indemnifying Party (in each of which case, if the Person notifies the Indemnifying Party in writing that such Person elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense of such claim on behalf of such Person). If such defense is not assumed by the Indemnifying Party, the Indemnifying Party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld). No Indemnifying Party will be required to consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Person entitled to indemnification a release from all liability in respect to such claim or litigation. Any Indemnifying Party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the reasonable fees and expenses of more than one counsel for all Persons entitled to indemnification by such Indemnifying Party (in addition to one local counsel with respect to such claim in any one jurisdiction), unless in the reasonable judgment of such Person a conflict of interest may exist between such Person and any other Person entitled to indemnification hereunder with respect to such claim and the representation of both would be inappropriate, in which event the Indemnifying Party shall be

obligated to pay the reasonable fees and expenses of such additional counsel or counsels, but only of one such additional counsel for each group of similarly situated Persons in any one jurisdiction.

(d) Contribution. If for any reason the indemnification provided for in the preceding paragraphs (a) and (b) is unavailable to a Person entitled to indemnification or is insufficient to hold it harmless as contemplated by the preceding paragraphs (a) and (b), then the Indemnifying Party shall contribute to the amount paid or payable by such Person as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect not only the relative benefits received by such Person and the Indemnifying Party, but also the relative fault of such Person and the Indemnifying Party, as well as any other relevant equitable considerations, provided that no Holder of Registrable Securities shall be required to contribute an amount greater than the dollar amount of the proceeds received by such Holder of Registrable Securities with respect to the sale of any securities. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

8. Rule 144 and Rule 144A

The Company covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder (or, if it is not required to file such reports, it will, upon the request of any Holder of Registrable Securities, make publicly available other information so long as necessary to permit sales pursuant to Rule 144 and Rule 144A under the Securities Act), and it will take such further reasonable action requested by a Holder of Registrable Securities, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144 and Rule 144A under the Securities Act, as such Rules may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the SEC. Upon the request of any Holder of Registrable Securities, the Company will deliver to such Holder a written statement as to whether it has complied with such information and filing requirements.

9. Participation in Underwritten Offerings.

No Holder of Registrable Securities may participate in any underwritten registration unless such Holder (a) agrees to sell such Holder's Registrable Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all customary questionnaires, powers of attorney, indemnities, underwriting agreements, lock-up letters and other documents reasonably required under the terms of such underwriting arrangements.

10. Miscellaneous.

(a) Remedies. Each Holder of Registrable Securities, in addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, in

connection with the breach by the Company of its obligations to register the Registrable Securities will be entitled to specific performance of its rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities which is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with, limits or prohibits the full and timely exercise by the Holders of the rights granted herein. The rights granted to the Holders of Registrable Securities hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any other agreements. Notwithstanding the foregoing, the Company shall not be deemed to have breached its obligations pursuant to this Section 10(b) solely as a result of its granting to any Person (a) "piggyback" registration rights that are junior in all respects to the rights granted under this Agreement or (b) "demand" registration rights.

(c) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions of this Agreement may not be given unless the Company has obtained the written consent of Holders of a majority of the outstanding Registrable Securities (excluding Registrable Securities held by the Company or one of its affiliates).

(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, facsimile or air courier guaranteeing overnight delivery:

(i) if to a Holder of Registrable Securities, at the most current address given by such Holder to the Company in accordance with the provisions of this Section 10(d), which address initially is, with respect to [___], the address set forth next to such its name in the Credit Agreement, with a copy (which will not constitute notice hereunder) to Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017, Attention: [____].; and

(ii) if to the Company, initially to it at the address set forth in the Credit Agreement and thereafter at such other address, notice of which is given in accordance with the provisions of this Section 8(d), with a copy (which will not constitute notice hereunder) to Baker Botts LLP, One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002, Attention: [____].

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid if mailed; when answered back, if delivered by facsimile; and on the next business day if timely delivered, postage prepaid, to an air courier guaranteeing overnight delivery.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, including without limitation and without the need for an express assignment, subsequent Holders of Registrable Securities.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Legend. Any certificate representing Warrants (or any other securities exercisable for or convertible into or exchangeable for Warrants) shall bear the following legend until such time as it is no longer applicable:

> "THE WARRANTS REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A REGISTRATION RIGHTS AGREEMENT BETWEEN CENTERPOINT ENERGY, INC. (THE "COMPANY"), AND J.P. MORGAN SECURITIES INC. AND SALOMON SMITH BARNEY, INC., A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY. NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH REGISTRATION RIGHTS AGREEMENT. THE HOLDER OF THIS CERTIFICATE, BY ACCEPTANCE OF THIS CERTIFICATE, AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF SUCH REGISTRATION RIGHTS AGREEMENT."

(i) New York Law; Submission to Jurisdiction. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH PARTY HERETO HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(j) Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in

any jurisdiction, the validity, legality and enforceability of any such provision in any jurisdiction in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement with respect to the subject matter contained herein and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Company with respect to the Registrable Securities. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the parties have executed this Warrant Registration Rights Agreement as of the date first written above.

CENTERPOINT ENERGY, INC.

By: _____
Name:
Title:

J.P. MORGAN SECURITIES INC.

By: _____
Name:
Title:

SALOMON SMITH BARNEY, INC.

By: _____
Name:
Title:

EXHIBIT 4(f)(6)

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PLEDGE AGREEMENT

made by

UTILITY HOLDING, LLC

in favor of

JPMORGAN CHASE BANK,
as Administrative Agent

Dated as of _____ __, 2003

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SCHEDULES

PLEDGE AGREEMENT

PLEDGE AGREEMENT, dated as of _____ __, 2003, made by UTILITY HOLDING, LLC (the "Grantor") in favor of JPMORGAN CHASE BANK, as Administrative Agent (in such capacity, the "Administrative Agent") for the banks and other financial institutions (the "Banks") from time to time parties to the Credit Agreement, dated as of October 10, 2002 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among CENTERPOINT ENERGY, INC. (the "Borrower"), the Banks and the Administrative Agent.

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Banks have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, the Borrower is a member of an affiliated group of companies that includes the Grantor;

WHEREAS, the proceeds of the extensions of credit under the Credit Agreement are used in part to enable the Borrower to make valuable transfers to the Grantor in connection with the operation of its business;

WHEREAS, the Borrower and the Grantor are engaged in related businesses, and the Grantor derives substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement; and

WHEREAS, it is a condition precedent to the obligation of the Banks to enter into the Second Amendment, providing for the extension of the Termination Date, among other things, that the Grantor shall have executed and delivered this Agreement to the Administrative Agent for the ratable benefit of the Banks;

NOW, THEREFORE, in consideration of the premises and to induce the Administrative Agent and the Banks to enter into the Second Amendment and to induce the Banks to make their respective extensions of credit to the Borrower under the Credit Agreement, the Grantor hereby agrees as follows:

SECTION 1. DEFINED TERMS

1.1 Definitions. (a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement, and the term "Certificated Security" is used herein as defined in the New York UCC.

(b) The following terms shall have the following meanings:

"Agreement": this Pledge Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Collateral": as defined in Section 2.

"Collateral Account": any collateral account established by the Administrative Agent as provided in Section 5.2 or 5.3.

"Credit Agreement Obligations": the collective reference to the unpaid principal of and interest on the Loans and Reimbursement Obligations and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and Reimbursement Obligations and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Administrative Agent or any Bank (or, in the case of any Specified Swap Agreement, any Affiliate of any Bank), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, the other Loan Documents, any Letter of Credit, any Specified Swap Agreement or any other document made, delivered or given in connection with any of the foregoing, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Banks that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

"Issuer": Texas Genco Holdings, Inc., as issuer of the Pledged Stock.

"New York UCC": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Pledged Stock": any shares, stock certificates, options, interests or rights of any nature whatsoever in respect of the Capital Stock of the Issuer that may be held by the Grantor from time to time while this Agreement is in effect, which, as of the date hereof, consists of the shares of Capital Stock listed on Schedule 2.

"Proceeds": all "proceeds" as such term is defined in Section 9-102(a)(64) of the New York UCC and, in any event, shall include, without limitation, all dividends or other income from the Pledged Stock, collections thereon or distributions or payments with respect thereto.

"RRI": Reliant Resources, Inc.

"RRI Option": the option relating to the Texas Genco Stock granted to RRI pursuant to the Texas Genco Option Agreement.

"Securities Act": the Securities Act of 1933, as amended.

"Texas Genco Option Agreement": the Texas Genco Option Agreement, dated as of December 31, 2000, between the Borrower and RRI, as amended, modified or supplemented on or prior to the date hereof, and, following the date hereof, from time to time in a manner consistent with Section 5.6.

1.2 Other Definitional Provisions. (a) The words "hereof," "herein", "hereto" 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 Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. GRANT OF SECURITY INTEREST

2.1 Grant of Security Interests. The Grantor hereby assigns and transfers to the Administrative Agent, and hereby grants to the Administrative Agent, for the ratable benefit of the Banks, a security interest in, all of the following property now owned or at any time hereafter acquired by the Grantor or in which the Grantor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Credit Agreement Obligations:

(a) all Pledged Stock;

(b) all shares, stock certificates, options, interests or rights of any nature whatsoever in respect of the Capital Stock of the Issuer that may be issued or granted to the Grantor while this Agreement is in effect; and

(c) to the extent not otherwise included, all Proceeds and products of any and all of the foregoing.

2.2 Maximum Liability.

(a) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of the Grantor hereunder and under the other Loan Documents shall in no event exceed the amount which is permitted under applicable federal and state laws relating to the insolvency of debtors.

(b) The Grantor agrees that the Credit Agreement Obligations may at any time and from time to time exceed the amount of the liability of the Grantor hereunder without impairing the Liens granted pursuant to this Section 2 or affecting the rights and remedies of the Administrative Agent or any Bank hereunder.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Banks to enter into the Second Amendment and to induce the Banks to make their respective extensions of credit to the Borrower under the Credit Agreement, the Grantor hereby represents and warrants to the Administrative Agent and each Bank that:

3.1 Title; No Other Liens. (a) The Grantor is the record and beneficial owner of, and has good and marketable title to, the Pledged Stock pledged by it hereunder, free and clear of any and all Liens or options in favor of, or claims of any other Person, except (x) the RRI Option and (y) the security interest created by this Agreement. No financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except such as have been filed in favor of the Administrative Agent, for the ratable benefit of the Banks, pursuant to this Agreement or as are permitted by the Credit Agreement.

(b) The shares of the Pledged Stock pledged by the Grantor hereunder constitute all of the issued and outstanding shares of all classes of the Capital Stock of the Issuer owned by the Grantor.

(c) All the shares of the Pledged Stock have been duly and validly issued and are fully paid and nonassessable.

3.2 Perfected First Priority Liens. The security interests granted pursuant to this Agreement (a) upon delivery in certificated form to the Administrative Agent of the Pledged Stock, together with undated stock powers covering each certificate duly executed in blank by the Grantor and the filing of financing statements with respect to the Collateral in the State of Delaware, will constitute valid perfected security interests in all of the Collateral in favor of the Administrative Agent, for the ratable benefit of the Banks, as collateral security for the Credit Agreement Obligations, enforceable in accordance with the terms hereof against all creditors of the Grantor and, subject to Section 7.13(b) hereof, any Persons purporting to purchase any Collateral from the Grantor and (b) are prior to all other Liens (other than the RRI Option) on the Collateral in existence on the date hereof.

3.3 Jurisdiction of Organization; Chief Executive Office. On the date hereof, the Grantor's jurisdiction of organization, identification number from the jurisdiction of organization (if any), and the location of the Grantor's chief executive office or sole place of business or principal residence, as the case may be, are specified on Schedule 3. The Grantor has furnished to the Administrative Agent a certified charter, certificate of incorporation or other organization document and long-form good standing certificate as of a date which is recent to the date hereof.

## SECTION 4. COVENANTS

The Grantor covenants and agrees with the Administrative Agent and the Banks that, from and after the date of this Agreement until the Credit Agreement Obligations shall have been paid in full, no Letter of Credit shall be outstanding and the Commitments shall have terminated:

4.1 Delivery of Instruments, Certificated Securities and Chattel Paper. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any Certificated Security, such Certificated Security shall be immediately delivered to the Administrative Agent, duly indorsed in a manner satisfactory to the Administrative Agent, to be held as Collateral pursuant to this Agreement.

4.2 Payment of Credit Agreement Obligations. The Grantor will pay and discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of income or profits therefrom, as well as all claims of any kind (including, without limitation, claims for labor, materials and supplies) against or with respect to the Collateral, except that no such taxes, assessments, charges, levies or claims need be paid if the amount or validity thereof is currently being contested in good faith by appropriate proceedings, reserves in conformity with GAAP with respect thereto have been provided on the books of the Grantor and such proceedings could not reasonably be expected to result in the sale, forfeiture or loss of any material portion of the Collateral or any material interest therein.

4.3 Maintenance of Perfected Security Interest; Further Documentation. (b) The Grantor shall, subject to the rights of the Grantor under the Loan Documents to issue, sell, assign, transfer or otherwise dispose of all or any part of the Collateral, (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 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 Administrative Agent and at the sole expense of the Grantor, the Grantor shall promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Administrative 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, (i) filing any financing or continuation statements under the Uniform Commercial Code (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby and (ii) taking any actions necessary to enable the Administrative Agent to obtain "control" (within the meaning of the applicable Uniform Commercial Code) with respect thereto.

4.4 Changes in Locations, Name, etc. The Grantor will not, except upon 15 days' prior written notice to the Administrative Agent and delivery to the Administrative Agent of all additional executed financing statements and other documents reasonably requested by the Administrative Agent to maintain the validity, perfection and priority of the security interests provided for herein:

(i) change its jurisdiction of organization or the location of its chief executive office or sole place of business or principal residence from that referred to in Section 3.3; or

(ii) change its name.

4.5 Notices. The Grantor will advise the Administrative Agent promptly after it becomes aware of such circumstance, in reasonable detail, of:

(a) any Lien (other than security interests created hereby or Liens permitted under the Credit Agreement) on any of the Collateral which would adversely affect the ability of the Administrative Agent to exercise any of its remedies hereunder; and

(b) the occurrence of any other event (other than any event or transaction permitted under the Credit Agreement) which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the security interests created hereby.

4.6 Collateral. (a) If the Grantor shall become entitled to receive or shall receive any certificate (including, without limitation, any certificate representing a dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate issued in connection with any reorganization), option or rights in respect of the Capital Stock of the Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any shares of the Pledged Stock, or otherwise in respect thereof, the Grantor shall accept the same as the agent of the Administrative Agent and the Banks, hold the same in trust for the Administrative Agent and the Banks and deliver the same forthwith to the Administrative Agent in the exact form received, duly indorsed by the Grantor to the Administrative Agent, if required, together with an undated stock power covering such certificate duly executed in blank by the Grantor and with, if the Administrative Agent so requests, signature guaranteed, to be held by the Administrative Agent, subject to the terms hereof, as additional collateral security for the Credit Agreement Obligations. Any sums paid upon or in respect of the Collateral upon the liquidation or dissolution of the Issuer shall be paid over to the Administrative Agent to be held by it hereunder as additional collateral security for the Credit Agreement Obligations, and in case any distribution of capital shall be made on or in respect of the Collateral or any property shall be distributed upon or with respect to the Collateral pursuant to the recapitalization or reclassification of the capital of the Issuer or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected security interest in favor of the Administrative Agent, be delivered to the Administrative Agent to be held by it hereunder as additional collateral security for the Credit Agreement Obligations. If any sums of money or property so paid or distributed in respect of the Collateral shall be

received by the Grantor, the Grantor shall, until such money or property is paid or delivered to the Administrative Agent, hold such money or property in trust for the Administrative Agent and the Banks, segregated from other funds of the Grantor, as additional collateral security for the Credit Agreement Obligations.

(b) Except in connection with (i) the security interests created by this Agreement, (ii) the RRI Option or (iii) any other transaction expressly permitted by the Credit Agreement, without the prior written consent of the Administrative Agent, the Borrower will not (i) vote to enable, or take any other action to permit, the Issuer to issue any Capital Stock of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any Capital Stock of any nature of the Issuer, (ii) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Collateral, (iii) 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 Collateral, or any interest therein or (iv) enter into any agreement or undertaking restricting the right or ability of the Grantor or the Administrative Agent to sell, assign or transfer any of the Collateral.

## SECTION 5. REMEDIAL PROVISIONS

5.1 Collateral. (a) Unless an Event of Default shall have occurred and be continuing and the Administrative Agent shall have given notice to the Grantor of the Administrative Agent's intent to exercise its corresponding rights pursuant to Section 5.1(b), the Grantor shall be permitted to receive and use all Proceeds, to the extent permitted in the Credit Agreement, and to exercise all voting and corporate or other organizational rights with respect to the Collateral.

(b) If an Event of Default shall occur and be continuing and the Administrative Agent shall have given notice to the Grantor of its intent to exercise such rights, (i) the Administrative Agent shall have the right to receive any and all Proceeds and make application thereof to the Credit Agreement Obligations in such order as the Administrative Agent may determine, and (ii) any or all of the Collateral shall be registered in the name of the Administrative Agent or its nominee, and the Administrative Agent or its nominee may thereafter exercise (x) all voting, corporate and other rights pertaining to such Collateral at any meeting of shareholders of the Issuer or otherwise and (y) subject to Section 5.6, any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to such Collateral as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Collateral upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other organizational structure of the Issuer, or upon the exercise by the Grantor or the Administrative Agent of any right, privilege or option pertaining to such Collateral, and in connection therewith, the right to deposit and deliver any and all of the Collateral with any committee, depositary, transfer agent, registrar or other designated agency upon such terms and conditions as the Administrative Agent may determine), all without liability except to account for property actually received by it, but the Administrative Agent shall have no duty to the Grantor to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(c) The Grantor hereby authorizes and instructs the Issuer to (i) comply with any instruction received by it from the Administrative Agent in writing that (x) states that an Event of Default has occurred and is continuing and (y) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from the Grantor, and (ii) following receipt of such instruction, pay any dividends or other payments with respect to the Collateral directly to the Administrative Agent.

5.2 Proceeds to be Turned Over To Administrative Agent. If an Event of Default shall occur and be continuing, all Proceeds received by the Grantor consisting of cash, checks and other near-cash items shall be held by it in trust for the Administrative Agent and the Banks, segregated from other funds of the Grantor, and shall, forthwith upon receipt by the Grantor, be turned over to the Administrative Agent in the exact form received by the Grantor (duly indorsed by the Grantor to the Administrative Agent, if required). All Proceeds received by the Administrative Agent hereunder shall be held by the Administrative Agent in a Collateral Account maintained under its sole dominion and control. All Proceeds while held by the Administrative Agent in a Collateral Account (or by the Grantor in trust for the Administrative Agent and the Banks) shall continue to be held as collateral security for all the Credit Agreement Obligations and shall not constitute payment thereof until applied as provided in Section 5.3.

5.3 Application of Proceeds. If an Event of Default shall have occurred and be continuing, at any time at the Administrative Agent's election, the Administrative Agent may apply all or any part of Proceeds constituting Collateral, whether or not held in any Collateral Account, in payment of the Credit Agreement Obligations in such order as the Administrative Agent may elect, and any part of such funds which the Administrative Agent elects not so to apply and deems not required as collateral security for the Credit Agreement Obligations shall be paid over from time to time by the Administrative Agent to the Grantor or to whomsoever may be lawfully entitled to receive the same. Any balance of such Proceeds remaining after the Credit Agreement Obligations shall have been paid in full, no Letters of Credit shall be outstanding and the Commitments shall have terminated shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive the same.

5.4 Code and Other Remedies. Subject to Section 5.6, if an Event of Default shall occur and be continuing, the Administrative Agent, on behalf of the Banks, may exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Credit Agreement Obligations, all rights and remedies of a secured party under the New York UCC or any other applicable law. Without limiting the generality of the foregoing, subject to Section 5.6, the Administrative 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 Grantor 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, lease, 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 Administrative Agent or any Bank 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. Subject to Section 5.6, the Administrative Agent or any Bank 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 Grantor, which right or equity is hereby waived and released. The Administrative Agent shall apply the net proceeds of any action taken by it pursuant to this Section 5.4, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Administrative Agent and the Banks hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Credit Agreement Obligations, in such order as the Administrative Agent may elect, and only after such application and after the payment by the Administrative 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 Administrative Agent account for the surplus, if any, to the Grantor. To the extent permitted by applicable law, the Grantor waives all claims, damages and demands it may acquire against the Administrative Agent or any Bank 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 at least 10 days before such sale or other disposition.

5.5 Sale of Collateral. (a) The Grantor recognizes that the Administrative Agent may be unable to effect a public sale of any or all the Pledged Stock, 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 Grantor 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 Administrative Agent shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit the Issuer to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Issuer would agree to do so.

(b) The Grantor agrees to use its best 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 Stock pursuant to this Section 5.5 valid and binding and in compliance with any and all other applicable Requirements of Law.

5.6 RRI Option. Notwithstanding anything to the contrary in this Agreement or any other Loan Document, the Administrative Agent, and any successor, transferee or assignee of the Administrative Agent, whether in connection with any foreclosure action or otherwise, shall be subject to all rights of RRI, and all restrictions relating to the Pledged Shares, set forth in the Texas Genco Option Agreement, until the expiration of the RRI Option; provided, however, that the Texas Genco Option Agreement shall not be amended in any manner that would adversely affect the Liens granted hereunder.

## SECTION 6. THE ADMINISTRATIVE AGENT

6.1 Administrative Agent's Appointment as Attorney-in-Fact, etc. (a) The Grantor hereby irrevocably constitutes and appoints the Administrative 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 Grantor and in the name of the Grantor 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, and, without limiting the generality of the foregoing, the Grantor hereby gives the Administrative Agent the power and right, on behalf of the Grantor, without notice to or assent by the Grantor, to do any or all of the following:

(i) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral,;

(ii) execute, in connection with any sale provided for in Section 5.4 or 5.5, any indorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral; and

(iii) (1) ask or demand for, collect, and receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of the Collateral; (2) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of the Collateral; (3) defend any suit, action or proceeding brought against the Grantor with respect to the Collateral; (4) settle, compromise or adjust any such suit, action or

proceeding and, in connection therewith, give such discharges or releases as the Administrative Agent may deem appropriate; and (5) subject to Section 5.6, generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with the Collateral as fully and completely as though the Administrative Agent were the absolute owner thereof for all purposes, and do, at the Administrative Agent's option and the Grantor's expense, at any time, or from time to time, all acts and things which the Administrative Agent deems necessary to protect, preserve or realize upon the Collateral and the Administrative Agent's and the Banks' security interests therein and to effect the intent of this Agreement, all as fully and effectively as the Grantor might do.

Anything in this Section 6.1(a) to the contrary notwithstanding, the Administrative Agent agrees that it will not exercise any rights under the power of attorney provided for in this Section 6.1(a) unless an Event of Default shall have occurred and be continuing.

(b) If the Grantor fails to perform or comply with any of its agreements contained herein, the Administrative Agent, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) The expenses of the Administrative Agent incurred in connection with actions undertaken as provided in this Section 6.1, together with interest thereon at a rate per annum equal to the highest rate per annum at which interest would then be payable on any category of past due ABR Loans under the Credit Agreement, from the date of payment by the Administrative Agent to the date reimbursed by the Grantor, shall be payable by the Grantor to the Administrative Agent on demand.

(d) The Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. 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.

6.2 Duty of Administrative Agent. The Administrative 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 Administrative Agent deals with similar property for its own account. Neither the Administrative Agent, any Bank nor any of their respective officers, directors, 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 Grantor 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 Administrative Agent and the Banks hereunder are solely to protect the Administrative Agent's and the Banks' interests in the Collateral and shall not impose any duty upon the Administrative Agent or any Bank to exercise any such powers. The Administrative Agent and the Banks shall be accountable only for amounts that they actually receive as a result of the exercise of such powers, and neither they nor any of their officers, directors, employees or agents shall be responsible to the Grantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

6.3 Execution of Financing Statements. Pursuant to any applicable law, the Grantor authorizes the Administrative 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 Grantor in such form and in such offices as the Administrative Agent reasonably determines appropriate to perfect the security interests of the Administrative Agent under this Agreement. The Grantor hereby ratifies and authorizes the filing by the Administrative Agent of any financing statement reasonably necessary to perfect such security interests made prior to the date hereof.

6.4 Authority of Administrative Agent. The Grantor acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by the Administrative Agent or the exercise or non-exercise by the Administrative Agent 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 Administrative Agent and the Banks, 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 Administrative Agent and the Grantor, the Administrative Agent shall be conclusively presumed to be acting as agent for the Banks with full and valid authority so to act or refrain from acting, and the Grantor shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

## SECTION 7. MISCELLANEOUS

7.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 11.1 of the Credit Agreement.

7.2 Notices. All notices, requests and demands to or upon the Administrative Agent or the Grantor shall be effected in the manner provided for in Section 11.2 of the Credit Agreement; provided that any such notice, request or demand to or upon any Grantor shall be addressed to such Grantor at its notice address set forth on Schedule 1.

7.3 No Waiver by Course of Conduct; Cumulative Remedies. Neither the Administrative Agent nor any Bank shall by any act (except by a written instrument pursuant to Section 7.1), 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. No failure to exercise, nor any delay in exercising, on the part of the Administrative Agent or any Bank, 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 the Administrative Agent or any Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Administrative Agent or such Bank would otherwise have on any future occasion. 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.

7.4 Enforcement Expenses; Indemnification. (a) The Grantor agrees to pay or reimburse each Bank and the Administrative Agent for all its costs and expenses incurred in enforcing or preserving any rights under this Agreement and the other Loan Documents to which the Grantor is a party, including, without limitation, the fees and disbursements of counsel (including the allocated fees and expenses of in-house counsel) to each Bank and of counsel to the Administrative Agent.

(b) The Grantor agrees to pay, and to save the Administrative Agent and the Banks 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 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.

(c) The Grantor agrees to pay, and to save the Administrative Agent and the Banks harmless from, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement to the extent the Borrower would be required to do so pursuant to Section 11.5 of the Credit Agreement.

(d) The agreements in this Section 7.4 shall survive repayment of the Credit Agreement Obligations and all other amounts payable under the Credit Agreement and the other Loan Documents.

7.5 Successors and Assigns. This Agreement shall be binding upon the successors and assigns of the Grantor and shall inure to the benefit of the Administrative Agent and the Banks and their successors and assigns; provided that the Grantor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

7.6 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

7.7 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.

7.8 Section Headings. The Section 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.

7.9 Integration. This Agreement and the other Loan Documents\ represent the agreement of the Grantor, the Administrative Agent and the Banks with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to subject matter hereof and thereof not expressly set forth or referred to herein or in the other Loan Documents.

7.10 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

7.11 Submission To Jurisdiction; Waivers. The Grantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, 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 Grantor at its address referred to in Section 7.2 or at such other address of which the Administrative 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.

7.12 Acknowledgements. The Grantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) neither the Administrative Agent nor any Bank has any fiduciary relationship with or duty to the Grantor arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Grantor, on the one hand, and the Administrative Agent and Banks, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Banks or among the Grantor and the Banks.

7.13 Releases. (a) At such time as the Loans, the Reimbursement Obligations and the other Credit Agreement Obligations (other than Credit Agreement Obligations in respect of Specified Swap Agreements) shall have been paid in full, the Commitments have been terminated and no Letters of Credit shall be outstanding, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Administrative Agent and the Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the Grantor. At the request and sole expense of the Grantor following any such termination, the Administrative Agent shall deliver to the Grantor any Collateral held by the Administrative Agent hereunder, and execute and deliver to the Grantor such documents as the Grantor shall reasonably request to evidence such release and termination.

(b) If any of the Collateral shall be sold, transferred, assigned, exchanged or otherwise disposed of by the Grantor in connection with the RRI Option or any other transaction permitted by the Credit Agreement, the Collateral shall be released from the Liens created hereby, and this Agreement and all obligations (other than those expressly stated to survive such termination) of the Administrative Agent and the Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the Grantor, and the Administrative Agent, at the request and sole expense of the Grantor, shall promptly deliver to the Grantor such Collateral held by the Administrative Agent hereunder, and execute and deliver to the Grantor all releases or other documents reasonably requested by the Grantor for the release of the Liens created hereby on such Collateral.

7.14 WAIVER OF JURY TRIAL. THE GRANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly executed and delivered as of the date first above written.

UTILITY HOLDING COMPANY, LLC

By: _____
Name:
Title:

Acknowledged and Agreed to
as of the date hereof:

CENTERPOINT ENERGY, INC.

By: _____
Name:
Title:

Schedule 1

NOTICE ADDRESS OF GRANTOR

1111 Louisiana
Houston, Texas 77002

Attention: Linda Geiger
Assistant Treasurer
(713) 207-3301

With a copy to: Marc Kilbride
Treasurer
(713) 207-3301

Schedule 2

DESCRIPTION OF PLEDGED STOCK

| Issuer | Class of Stock | Stock Certificate No. | No. of Shares |
|---|---|---|---|
| Texas Genco Holdings, Inc. | Common Stock | Uncertificated | 64,764,220 |

Schedule 3

LOCATION OF JURISDICTION OF ORGANIZATION AND CHIEF EXECUTIVE OFFICE

| Jurisdiction of Organization | Location of Chief Executive Office |
| --- | --- |
| Delaware | 1111 Louisiana<br>Houston, Texas 77002 |

ACKNOWLEDGEMENT AND CONSENT

The undersigned hereby acknowledges receipt of a copy of the Pledge Agreement dated as of _____, 200 (the "Agreement"), made by the Grantor for the benefit of _____, as Administrative Agent. The undersigned agrees for the benefit of the Administrative Agent and the Banks as follows:

1. The undersigned will be bound by the terms of the Agreement and will comply with such terms insofar as such terms are applicable to the undersigned.

2. The undersigned will notify the Administrative Agent promptly in writing of the occurrence of any of the events described in Section 4.6(a) of the Agreement.

3. The terms of Sections 5.1(c) and 5.5 of the Agreement shall apply to it, mutatis mutandis, with respect to all actions that may be required of it pursuant to Section 5.1(c) or 5.5 of the Agreement.

TEXAS GENCO HOLDINGS, INC.

By: _____
Name:
Title:

Address for Notices:

_____

_____

_____

Fax:

Annex 1-A to
Assumption Agreement

Supplement to Schedule 1

Supplement to Schedule 2

Supplement to Schedule 3

EXHIBIT 4(g)(1)

EXECUTION COPY

==========

$1,310,000,000 CREDIT AGREEMENT

Dated as of November 12, 2002

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Among

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,

as Borrower,

THE BANKS PARTIES HERETO

and

CREDIT SUISSE FIRST BOSTON,

as sole and exclusive Administrative Agent

---

CREDIT SUISSE FIRST BOSTON,

as Sole Lead Arranger and Bookrunner,

and

DEUTSCHE BANK SECURITIES INC.

and

BANC OF AMERICA SECURITIES LLC,

as Co-Arrangers

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# CREDIT AGREEMENT

This Credit Agreement, dated as of November 12, 2002 (this "Agreement"), among CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Borrower"), the banks and other lenders from time to time parties hereto (individually, a "Bank" and, collectively, the "Banks"), and Credit Suisse First Boston, as administrative agent (in such capacity, together with any successors thereto in such capacity, the "Administrative Agent").

NOW, THEREFORE, in consideration of the premises of the mutual agreements, representations and warranties herein set forth, and for other good and valuable consideration, the parties hereto agree as follows:

## ARTICLE I

## DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.1. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"ABR" or "Alternate Base Rate" means, for any day, an alternate base rate calculated as a fluctuating rate per annum as shall be in effect from time to time, equal to the greatest of:

(a) the Prime Rate in effect on such day;

(b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%; and

(c) 4.00%.

As used in this definition, the term "Prime Rate" means the rate of interest per annum announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate, for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms hereof, the ABR shall be determined without regard to clause (b) above until the circumstances giving rise to such inability no longer exist. Any change in the ABR due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective as of the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"ABR Loan" means a Loan that bears interest at the ABR as provided in Section 4.3(a).

"Administrative Agent" has the meaning specified in the introduction to this Agreement.

"Affiliate" means any Person that, directly or indirectly, Controls or is Controlled by or is under common Control with another Person.

"Asset Sale" means any Disposition of Property or series of related Dispositions of Property that yields Net Cash Proceeds to the Borrower or any of its Subsidiaries (valued at the initial principal amount thereof in the case of non-cash proceeds consisting of notes or other debt securities and valued at fair market value in the case of other non-cash proceeds).

"Assignment and Acceptance" has the meaning specified in Section 11.6(c).

"Bank" and "Banks" have the meanings specified in the introduction to this Agreement.

"Bank Affiliate" means, (a) with respect to any Bank (i) an Affiliate of such Bank that is a bank or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Bank or an Affiliate of such Bank and (b) with respect to any Bank that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Bank or by an Affiliate of such investment advisor.

"Board" means the Board of Governors of the Federal Reserve System of the United States (or any successor thereto).

"Borrowed Money" of any Person means any Indebtedness of such Person for or in respect of money borrowed or raised by whatever means (including acceptances, deposits, lease obligations under Capital Leases, Mandatory Payment Preferred Stock and synthetic 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 franchise bonds or other obligations incurred in the ordinary course of business that do not represent money borrowed or raised, in each case to the extent that such reimbursement obligations are payable in full within ten (10) Business Days after the date upon which such obligation arises, (c) trade payables, (d) any obligations of such Person under Swap Agreements, (e) customer advance payments and deposits arising in the ordinary course of business or (f) operating leases.

"Borrower" has the meaning specified in the introduction to this Agreement.

"Business Day" means 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; provided that when used in connection with a LIBOR Rate Loan, the term "Business Day" shall

also exclude any day on which commercial banks are not open for dealings in Dollar deposits in the London interbank market.

"Capital Lease" means a lease that, in accordance with GAAP, would be recorded as a capital lease on the balance sheet of the lessee.

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, and any and all equivalent ownership interests in a Person (other than a corporation), including without limitation, partnership interests in partnerships and member interests in limited liability companies, and any and all warrants or options to purchase any of the foregoing or securities convertible into any of the foregoing.

"Cash Equivalents" means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition; (b) certificates of deposit, time deposits, eurodollar time deposits or overnight bank deposits having maturities of six months or less from the date of acquisition issued by any Bank or by any commercial bank organized under the laws of the United States or any state thereof having combined capital and surplus of not less than $500,000,000; (c) commercial paper of an issuer rated at least A-1 by S&P or P-1 by Moody's, or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within six months from the date of acquisition; (d) repurchase obligations of any Bank or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government; (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's; (f) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any Bank or any commercial bank satisfying the requirements of clause (b) of this definition; (g) money market mutual or similar funds that invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition; or (h) money market funds that (i) comply with the criteria set forth in SEC Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least $5,000,000,000.

"CenterPoint" means CenterPoint Energy, Inc., a Texas corporation and utility holding company owning, through Subsidiaries, the Borrower and its Subsidiaries.

"CenterPoint Credit Agreement" means the $3,850,000,000 Credit Agreement, dated as of October 10, 2002, among CenterPoint, as borrower, JPMorgan Chase Bank, as administrative agent, and the other financial institutions parties thereto, as amended,

modified, supplemented, refinanced or replaced from time to time (without modifying the mandatory prepayment provisions of Section 5.7 thereof (or any similar sections of any refinancing or replacing facility) to increase the amounts that would be prepaid thereunder from the proceeds of Asset Sales, Capital Stock issuances or debt incurrences, in each case by the Borrower and its Subsidiaries or Securitization Subsidiaries, from the provisions of such Section 5.7 as in effect on the date hereof).

"CenterPoint Credit Facility" means the credit facilities provided under the CenterPoint Credit Agreement.

"Change in Control" means (i) with respect to CenterPoint, the acquisition by any Person or "group" (within the meaning of Rule 13d-5 of the Exchange Act) of beneficial ownership (determined in accordance with Rule 13d-3 of the Exchange Act) of Capital Stock of CenterPoint, the result of which is that such Person or group beneficially owns 30% or more of the aggregate voting power of all then issued and outstanding Capital Stock of CenterPoint or (ii) CenterPoint shall cease to own and control, of record and beneficially, directly or indirectly, 100% of each class of outstanding Capital Stock of the Borrower free and clear of all Liens. For purposes of the foregoing, the phrase "voting power" means, with respect to an issuer, the power under ordinary circumstances to vote for the election of members of the board of directors of such issuer.

"Closing Date" means the date, on or before November 15, 2002, all the conditions set forth in Section 6.1 are satisfied (or waived) in accordance with the terms hereof.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

"Collateral" has the meaning assigned to such term in the Pledge Agreement.

"Commitment" means, as to any Bank, the obligation of such Bank to make a Loan to the Borrower in a principal amount not to exceed the amount set forth under the heading "Commitment" opposite such Bank's name on Schedule 1.1. The aggregate amount of the Commitments is $1,310,000,000.

"Commonly Controlled Entity" means an entity, whether or not incorporated, that is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group that includes the Borrower and that is treated as a single employer under Section 414 of the Code.

"Confidential Information Memorandum" means the Confidential Information Memorandum, dated October 2002 and furnished to certain Banks, as supplemented prior to the date hereof.

"Consolidated Capitalization" means, as of any date of determination, the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and, without duplication, (c) Mandatory Payment Preferred Stock; provided that for the purpose of calculating compliance with Section 8.2(a), Consolidated

Capitalization shall be determined excluding any adjustment, non-cash charge to net income or other non-cash charges or writeoffs resulting thereto from application of SFAS No. 142.

"Consolidated Indebtedness" means, as of any date of determination, the sum of (i) the total Indebtedness as shown on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, determined without duplication of any Guarantee of Indebtedness of the Borrower by any of its Consolidated Subsidiaries or of any Guarantee of Indebtedness of any such Consolidated Subsidiary by the Borrower or any other Consolidated Subsidiary of the Borrower, plus (ii) any Mandatory Payment Preferred Stock.

"Consolidated Shareholders' Equity" means, as of any date of determination, the total assets of the Borrower and its Consolidated Subsidiaries, less all liabilities of the Borrower 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 (to the extent so classified), (a) Indebtedness; (b) deferred liabilities; and (c) Indebtedness of the Borrower or any of its Consolidated Subsidiaries that is expressly subordinated in right and priority of payment to other liabilities of the Borrower or such Consolidated Subsidiary, but in any case excluding as at such date of determination any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary).

"Consolidated Subsidiary" means, with respect to a specified Person at any date, any Subsidiary or any other Person, the accounts of which under GAAP would be consolidated with those of such specified Person in its consolidated financial statements as of such date.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any written agreement, instrument or other written undertaking to which such Person is a party or by which it or any of its property is bound.

"Controlled" means, 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" shall be similarly construed).

"Default" means any event that, with the lapse of time or giving of notice, or both, or any other condition, would constitute an Event of Default.

"Default Rate" means with respect to any overdue amount owed hereunder, a rate per annum equal to (a) in the case of overdue principal with respect to any Loan, the sum of the interest rate in effect at such time with respect to such Loan under Section 4.3, plus 2%; provided that in the case of overdue principal with respect to any LIBOR Rate Loan, after the end of the Interest Period with respect to such Loan, the Default Rate shall equal the rate set forth in clause (b) below and (b) in the case of overdue interest with respect to

any LIBOR Rate Loan or other amounts payable hereunder, the sum of the interest rate for ABR Loans in effect at such time plus 2%.

"Disposition" means with respect to any Property (excluding cash and Cash Equivalents), any sale, lease, sale and leaseback, assignment, conveyance, transfer or other disposition thereof. The terms "Dispose" and "Disposed of" shall have correlative meanings.

"Dollars" and the symbol "$" mean the lawful currency of the United States of America.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Event of Default" has the meaning specified in Section 9.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Excluded Asset Sales" means the following Dispositions of Property or series of related Dispositions of Property: (i) Permitted Asset Swaps; (ii) the sale or Disposition in the ordinary course of business of inventory, accounts receivable (in respect of the collection thereof) and obsolete assets; (iii) leases entered into in the ordinary course of business; (iv) non-exclusive license of patents, trademarks, registrations therefor and other similar intellectual property in the ordinary course of business; (v) intercompany Dispositions among the Borrower and its Subsidiaries in the ordinary course of business; (vi) sale leaseback transactions entered into by the Borrower or any of its Subsidiaries in the ordinary course of business and (vii) Dispositions to or by Securitization Subsidiaries consistent with the definition thereof.

"Excluded Transactions" means the incurrence or issuance by the Borrower and its Subsidiaries of the following:

(a) Indebtedness in respect of any refinancing, refundings, renewals or extensions (on or prior to the maturity thereof) of (without any increase in the principal amount thereof plus any expenses (including any redemption premium or penalty) or any shortening of the final maturity thereof) Indebtedness outstanding on the Closing Date (excluding Indebtedness in respect of the Reliant Energy FinanceCo II LP 7.40% Senior Notes due November 15, 2002 and the Existing Credit Facilities);

(b) Intercompany Indebtedness;

(c) Indebtedness permitted hereunder to the extent constituting (i) the issuance by the Borrower or any of its Subsidiaries of commercial paper, (ii) any backup credit or liquidity facilities in respect of any such commercial paper issuance, (iii) other short-term instruments in lieu of the issuance of commercial paper, (iv) letters of credit issued for the account of the Borrower or any of its Subsidiaries in respect of any of the foregoing and (v) drawings on letters of

credit, bonds or similar obligations permitted under this Agreement if the proceeds are applied to the underlying obligation secured or supported thereby;

(d) Indebtedness of the Borrower in respect of the Loans and the Pledged Bonds;

(e) Indebtedness in respect of performance, surety and similar bonds and completion guarantees provided by the Borrower or any of its Subsidiaries in the ordinary course of business;

(f) Indebtedness in respect of Capital Leases entered into by the Borrower or any of its Subsidiaries in the ordinary course of business;

(g) Indebtedness in respect of Swap Agreements entered into in the ordinary course of business and not entered into for speculative purposes;

(h) Capital Stock to employees, directors or consultants of the Borrower or any of its Subsidiaries under, or upon the exercise of any warrants, options, conversion rights or other rights in respect of, any employee stock option plan, other employee benefit or compensation plans, dividend reinvestment plans, including CenterPoint's Investors Choice Plan, or arrangements of the Borrower or any of its Subsidiaries existing on the Closing Date;

(i) Capital Stock issued by any Subsidiary of the Borrower solely to the Borrower or any of its Subsidiaries;

(j) Capital Stock of the Borrower to the extent issued as consideration to effect acquisitions permitted under Section 8.2(g) and expenses incurred in connection therewith; and

(k) Indebtedness incurred by the Borrower or any of its Subsidiaries after the date hereof at any time outstanding in aggregate principal amount not to exceed $300,000,000.

"Existing Credit Agreement" means the $850,000,000 Credit Agreement, dated as of October 10, 2002, among the Borrower, as the borrower, JPMorgan Chase Bank, as administrative agent, Citibank, N.A., as syndication agent, and the other financial institutions parties thereto, as amended, modified or supplemented from time to time.

"Existing Credit Facilities" means the credit facilities provided under the Existing Credit Agreement.

"Facility" means the Commitments and the Loans made thereunder.

"Federal Funds Effective Rate" means, for any day, a fluctuating rate per annum equal 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 on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if

such rate is not so published for any day that is a Business Day, the average of the quotations for such day for such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Borrower.

"FinanceCo" means Reliant Energy FinanceCo II LP.

"FinanceCo Permitted Facilities" means the $300,000,000 of FinanceCo 7.40% Senior Notes due November 15, 2002, issued pursuant to the Fiscal Agency Agreement dated as of November 12, 1999, among FinanceCo, Reliant Energy, Incorporated and Chase Bank of Texas, National Association.

"FinanceCo Permitted Refinancing" means the repayment, at maturity, by FinanceCo of the FinanceCo Permitted Facilities, together with accrued and unpaid interest thereon, with proceeds of the Loans either used by the Borrower to redeem preference shares of the Borrower held by FinanceCo or otherwise advanced to FinanceCo.

"Fitch" means Fitch Ratings and any successor rating agency.

"Funding Office" means the office of the Administrative Agent specified in Section 11.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Banks.

"GAAP" means generally accepted accounting principles in effect from time to time in the United States of America.

"Governmental Authority" means 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" means, 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 obligation") 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).

"Highest Lawful Rate" means, with respect to each Bank, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received with respect to any Loan or on other amounts, if any, due to such Bank pursuant to this Agreement or any other Loan Document under applicable law. "Applicable law" as used in this definition means, with respect to each Bank, that law in effect from time to time that permits the charging and collection by such Bank of the highest permissible lawful, nonusurious rate of interest on the transactions herein contemplated including, without limitation, the laws of each State that may be held to be applicable, and of the United States of America, if applicable.

"Hybrid Preferred Securities" means preferred stock issued by any Hybrid Preferred Securities Subsidiary.

"Hybrid Preferred Securities Subsidiary" means any Delaware business trust (or similar entity) (i) all of the common equity interest of which is owned (either directly or indirectly through one or more Wholly-Owned Subsidiaries) at all times by the Borrower, (ii) that has been formed for the purpose of issuing Hybrid Preferred Securities and (iii) substantially all of the assets of which consist at all times solely of the Junior Subordinated Debt and payments made from time to time on the Junior Subordinated Debt.

"Indebtedness" of any Person means 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, (b) all obligations of the Borrower or any Subsidiary, contingent or otherwise, as account party or applicant (or equivalent status) in respect of any standby letters of credit or equivalent instruments, and (c) without duplication, the amount of all Guarantees by such Person of items described in clauses (a) and (b); provided, however, that Indebtedness of a Person shall not include (i) any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary, (ii) any Guarantee by the Borrower of payments with respect to any Hybrid Preferred Securities or (iii) any Securitization Securities.

"Insolvency" means, with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA (and "Insolvent" shall be construed accordingly for such purposes).

"Interest Period" means, for each LIBOR Rate Loan, the period commencing on the date of such LIBOR Rate Loan or the date of the conversion of any Loan into such LIBOR Rate Loan, as the case may be, and ending on the last day of the period selected by the Borrower pursuant to Section 2.2 or 4.6, as the case may be, and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest

Period and ending on the last day of the period selected by the Borrower pursuant to Section 4.6. The duration of each such Interest Period shall be one, two, three, six or, with the consent of all the Banks, nine or twelve months or periods shorter than one month, as the Borrower may select by notice pursuant to Section 2.2(a) or 4.6 hereof; provided, however, that:

(i) any Interest Period in respect of a Loan that would otherwise extend beyond the Maturity Date shall end on the Maturity Date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month.

"Investment" has the meaning specified in Section 8.2(g).

"Junior Subordinated Debt" means subordinated debt of the Borrower or any Subsidiary of the Borrower (i) that is issued at par to a Hybrid Preferred Securities Subsidiary in connection with the issuance of Hybrid Preferred Securities, (ii) the payment of the principal of which and interest on which is subordinated (with certain exceptions) to the prior payment in full in cash or its equivalent of all senior indebtedness of the obligor thereunder and (iii) that has an original tenor no earlier than 30 years from the issuance thereof.

"Lead Arranger" means Credit Suisse First Boston, in its capacity as sole lead arranger and bookrunner.

"LIBOR Rate" means with respect to any LIBOR Rate Loan for any Interest Period, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m. (London time) on the date that is two Business Days prior to the beginning of the relevant Interest Period by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars (as set forth by the Bloomberg Information Service or any successor thereto or any other service selected by the Administrative Agent that has been nominated by the British Bankers' Association as an authorized information vendor for the purpose of displaying such rates) for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the "LIBOR Rate" shall be the interest rate per annum determined by the Administrative Agent to be the average of the rates per annum at which deposits in dollars are offered for such relevant Interest Period to major banks in the London interbank market in London, England by the

Administrative Agent at approximately 11:00 a.m. (London time) on the date that is two Business Days prior to the beginning of such Interest Period; provided further that, if the LIBOR Rate determined as provided above with respect to any Loan for any Interest Period would be less than 3.00% per annum, then the "LIBOR Rate" with respect to such Loan for such Interest Period shall be deemed to be 3.00% per annum.

"LIBOR Rate Loan" means a Loan that bears interest at the LIBOR Rate as provided in Section 4.3(b).

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, charge, security interest, encumbrance or lien of any kind whatsoever (including any Capital Lease).

"Loans" means the loans made by the Banks to the Borrower pursuant to this Agreement.

"Loan Documents" means this Agreement, the Pledge Agreement, any Notes, the Second Mortgage Indenture, the Pledged Bonds and any document or instrument executed in connection with the foregoing.

"Long-Term Debt Rating" means the rating assigned by a Rating Agency to the long-term senior unsecured debt securities of CenterPoint or the Borrower (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).

"Majority Banks" means, at any time, Banks having in excess of 50% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the aggregate unpaid principal amount of Loans then outstanding at such time; provided that if a single Bank, together with its Bank Affiliates, has in excess of 50%, but less than 100%, of (x) such Commitments then in effect or (y) such aggregate unpaid principal amount of Loans then outstanding, then "Majority Banks" shall mean such Bank plus at least one other Bank that is not a Bank Affiliate of such Bank.

"Mandatory Payment Preferred Stock" means any preference or preferred stock of the Borrower or of any Consolidated Subsidiary (in each case other than (x) any preference or preferred stock issued to the Borrower or its Subsidiaries, (y) Hybrid Preferred Securities and (z) Junior Subordinated Debt) that is subject to mandatory redemption, sinking fund or retirement provisions (regardless of whether any portion thereof is due and payable within one year).

"Margin Stock" has the meaning assigned to such term in Regulation U or X, as the case may be.

"Material Adverse Effect means any material adverse effect on (a) the business, financial condition or operations of the Borrower and its Consolidated Subsidiaries, taken as a whole, (b) the legality, validity or enforceability of the Loan Documents or (c) the perfection or priority of the Lien of the Second Mortgage Indenture or the Pledge Agreement.

"Maturity Date" means (a) November 11, 2005 or (b) any earlier date on which all unpaid principal amounts of the Loans hereunder have been declared due and payable in accordance with this Agreement.

"Moody's" means Moody's Investors Service, Inc. and any successor rating agency.

"Mortgage" means the Mortgage and Deed of Trust dated as of November 1, 1944 by the Borrower to South Texas Commercial National Bank of Houston, as Trustee (JPMorgan Chase Bank, successor Trustee), as amended and supplemented from time to time.

"Mortgaged Property" has the meaning assigned to such term in the Second Mortgage Indenture.

"Multiemployer Plan" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" means (a) as consideration for any Asset Sale or any Recovery Event, the proceeds thereof in the form of cash and cash equivalents (including any such proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or otherwise, but only as and when received) of such Asset Sale or Recovery Event, net of brokerage fees, attorneys' fees, accountants' fees, investment banking fees, amounts required to be applied to the repayment of Indebtedness or other obligation or pursuant to Contractual Obligations of the Borrower or any of its Subsidiaries existing on the Closing Date and other customary fees and expenses actually incurred in connection therewith and net of taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), all distributions and payments required to be made to minority interest holders in Subsidiaries as a result of such Asset Sale and deduction of amounts established by the Borrower or any of its Subsidiaries as a reserve for liabilities retained by the Borrower or any of its Subsidiaries after such Asset Sale, which liabilities are associated with the asset or assets being sold or otherwise retained in connection with such transaction, including, without limitations, in respect of the sale price of such asset or assets, pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations or other retained liabilities or obligations associated with such Asset Sale and (b) in connection with any issuance or sale of Capital Stock or any incurrence of Indebtedness, the cash proceeds received from such issuance or incurrence, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts, escrow fees reserves, related swap costs and commissions and other customary fees and expenses actually incurred in connection therewith and other similar payment obligations resulting therefrom (other than the obligations under this Agreement) that are required to be repaid concurrently or otherwise as a result of such issuance or incurrence.

"Note" means the collective reference to any promissory note evidencing Loans.

"Notice of Borrowing" has the meaning specified in Section 2.2(a).

"Notice of Interest Conversion/Continuation" has the meaning specified in Section 4.6(a).

"Other Taxes" has the meaning specified in Section 5.3(b).

"Participant" has the meaning specified in Section 11.6(b).

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

"Permitted Asset Swaps" means substantially contemporaneous purchases or exchanges of Property (other than cash or cash equivalents) owned by a Person that is not the Borrower or an Affiliate of the Borrower for Property of substantially equivalent value owned by the Borrower or any of its Subsidiaries.

"Permitted Liens" means with respect to any Person:

(a) Liens for current taxes, assessments or other governmental charges that are not delinquent or remain payable without any penalty, or the validity or amount of which is contested in good faith by appropriate proceedings, provided, however, that, adequate reserves with respect thereto are maintained on the books of such Person in accordance with GAAP, and provided, further, that, subject to Section 8.1(d), any right to seizure, levy, attachment, sequestration, foreclosure or garnishment with respect to Property of such Person or any Subsidiary of such Person by reason of such Lien has not matured, or has been, and continues to be, effectively enjoined or stayed;

(b) landlord Liens for rent not yet due and payable and Liens for materialmen, mechanics, warehousemen, carriers, employees, workmen, repairmen and other similar nonconsensual Liens imposed by operation of law, for current wages or accounts payable or other sums not yet delinquent, in each case arising in the ordinary course of business, provided, however, that, subject to Section 8.1(d), any right to seizure, levy, attachment, sequestration, foreclosure or garnishment with respect to Property of such Person or any Subsidiary of such Person by reason of such Lien has not matured, or has been, and continues to be, effectively enjoined or stayed;

(c) Liens (other than any Lien imposed pursuant to Section 401(a)(29) or 412(n) of the Code, ERISA or any environmental law, order, rule or regulation) incurred or deposits made, in each case, in the ordinary course of business, (i) in connection with workers' compensation, unemployment insurance and other types of social security or (ii) to secure (or to obtain letters of credit that secure) the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, performance or payment bonds, purchase, construction, sales contracts and other similar obligations, in each case not incurred or made in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property;

(d) Liens arising out of or in connection with any litigation or other legal proceeding that is being contested in good faith by appropriate proceedings; provided, however, that adequate reserves with respect thereto are maintained on the books of such Person in accordance with GAAP; and provided, further, that, subject to Sections 8.1(d) and 9.1(i) (so long as such lien is discharged or released within 90 days of attachment thereof), any right to seizure, levy, attachment, sequestration, foreclosure or garnishment with respect to Property of such Person or any Subsidiary of such Person by reason of such Lien has not matured, or has been, and continues to be, effectively enjoined or stayed;

(e) precautionary filings under the applicable Uniform Commercial Code made by a lessor with respect to personal property leased to such Person or any Subsidiary of such Person;

(f) other minor Liens or encumbrances none of which secures Borrowed Money or interferes materially with the use of the Property affected in the ordinary conduct of Borrower's or its Subsidiaries' business and which individually or in the aggregate do not have a Material Adverse Effect;

(g) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business that, in the aggregate, do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower and its Subsidiaries, taken as a whole;

(h) (i) Liens created by Capital Leases provided that the Liens created by any such Capital Lease attach only to the Property leased to the Borrower or one of its Subsidiaries pursuant thereto, (ii) purchase money Liens securing Indebtedness (including such Liens securing Indebtedness incurred within 12 months of the date on which such Property was acquired) provided that all such Liens attach only to the Property purchased with the proceeds of the Indebtedness secured thereby and only secure the Indebtedness incurred to finance such purchase, (iii) Liens on receivables, customer charges, notes, ownership interests, contracts or contract rights created in connection with a sale, securitization or monetization of such receivables, customer charges, notes, ownership interests, contracts or contract rights, and Liens on rights of the Borrower or any Subsidiary related to such receivables, customer charges, notes, ownership interests, contracts or contract rights which are transferred to the purchaser of such receivables, customer charges, notes, ownership interests, contracts or contract rights in connection with such sale, securitization or monetization, provided that such Liens secure only the obligations of the Borrower or any of its Subsidiaries in connection with such sale, securitization or monetization and (iv) Liens created by leases that do not constitute Capital Leases at the time such leases are entered into provided that the Liens created thereby attach only to the Property leased to the Borrower or one of its Subsidiaries pursuant thereto;

(i) Liens on cash and short-term investments (i) deposited by the Borrower or any of its Subsidiaries in margin accounts with or on behalf of futures contract brokers or

other counterparties or (ii) pledged by the Borrower 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; and

(j) Liens on (i) Property owned by a Project Financing Subsidiary or (ii) equity interests in a Project Financing 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.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, government (or any political subdivision or agency thereof) or any other entity of whatever nature.

"Plan" means, at a particular time with respect to the Borrower, any employee benefit plan that is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreement" means the Pledge Agreement to be executed and delivered by the Borrower and the Administrative Agent, substantially in the form of Exhibit 1.1.

"Pledged Bonds" has the meaning assigned to such term in the Pledge Agreement.

"Project Financing" means any Indebtedness or lease obligations that do not constitute Capital Leases at the time such leases are entered into, in each case that are incurred to finance a project or group of projects (including any construction financing) to the extent that such Indebtedness (or other obligations) expressly are not recourse to the Borrower or any of its Subsidiaries (other than a Project Financing Subsidiary) or any of their respective Property other than the Property of a Project Financing Subsidiary and equity interests in a Project Financing Subsidiary (including in each case a pledge of a partnership interest, common stock or a membership interest in a limited liability company).

"Project Financing Subsidiary" means any Subsidiary of the Borrower (or any other Person in which Borrower directly or indirectly owns a 50% or less interest) whose principal purpose is to incur Project Financing or to become an owner of interests in a Person so created to conduct the business activities for which such Project Financing was incurred, and substantially all the fixed assets of which Subsidiary or Person are those fixed assets being financed (or to be financed) in whole or in part by one or more Project Financings.

"Pro Rata Percentage" means, as to any Bank at any time, the percentage which such Bank's Commitment then constitutes of the aggregate Commitments (or, at any time after the Closing Date, the percentage which the aggregate principal amount of such

Bank's Loans then outstanding constitutes of the aggregate principal amount of the Loans then outstanding).

"Property" means 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.

"Purchasing Banks" has the meaning specified in Section 11.6(c).

"Rating Agencies" means (a) S&P; (b) Moody's; and (c) Fitch.

"Recovery Event" means any settlement of or payment in respect of any Property or casualty insurance claim or any condemnation proceeding for any asset or related assets of the Borrower or its Subsidiaries that yields Net Cash Proceeds to the Borrower or any of its Subsidiaries (valued at the initial principal amount thereof in the case of non-cash proceeds consisting of notes or other debt securities and valued at fair market value in the case of other non-cash proceeds) for any such settlement or payment or series of related settlements or payments in excess of $30,000,000.

"Register" has the meaning specified in Section 11.6(d) hereof.

"Regulation U" and "Regulation X" means Regulation U and X, respectively, of the Board or any other regulation hereafter promulgated by the Board to replace the prior Regulation U or X, as the case may be, and having substantially the same function.

"Reinvestment Deferred Amount" means with respect to any Reinvestment Event, the aggregate Net Cash Proceeds received by the Borrower or any of its Subsidiaries in connection therewith that are not applied to prepay the Loans pursuant to Section 5.6(b) as a result of the delivery of a Reinvestment Notice.

"Reinvestment Event" means any Asset Sale or Recovery Event in respect of which the Borrower or any of its Subsidiaries has delivered a Reinvestment Notice.

"Reinvestment Notice" means a written notice executed by a Responsible Officer stating that no Event of Default has occurred and is continuing and that the Borrower (directly or indirectly through a Subsidiary) intends to use all or a specified portion of the Net Cash Proceeds of an Asset Sale or Recovery Event to repair or replace the affected Property or to acquire Property useful in its or one of its Subsidiaries' business.

"Reinvestment Prepayment Amount" means with respect to any Reinvestment Event, the Reinvestment Deferred Amount relating thereto less any amount expended prior to the relevant Reinvestment Prepayment Date to acquire or repair assets useful in the Borrower's or its Subsidiary's business, as the case may be.

"Reinvestment Prepayment Date" means with respect to any Reinvestment Event, the earlier of (a) the date occurring 180 days after such Reinvestment Event and (b) the date on which the Borrower or one of its Subsidiaries shall have determined not to, or shall have otherwise ceased to, acquire, replace or repair assets useful in the

Borrower's or one of its Subsidiaries' business with all or any portion of the relevant Reinvestment Deferred Amount.

"Reorganization" means, with respect to any Multiemployer Plan, the condition that such Plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA and PBGC Reg. Section 4043, other than those events as to which the thirty-day notice period is waived under subsections .27, .28, .29, .30, .31, .32, .34, or .35 of PBGC Reg. Section 4043.

"Responsible Officer" means, 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.

"S&P" means Standard & Poor's Ratings Group and any successor rating agency.

"SEC" means the Securities and Exchange Commission and any successor thereto.

"Second Mortgage Indenture" means the general mortgage indenture dated October 10, 2002, as supplemented, between the Borrower and the Trustee.

"Secured Indebtedness" means, with respect to any Person, all Indebtedness secured (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured) by any Lien on any Property (including, without limitation, accounts and contract rights) owned by such Person or any of its Subsidiaries, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"Securities Act" means the Securities Exchange Act of 1934, as amended.

"Securitization Securities" means transition bonds issued pursuant to the Texas Electric Choice Plan if (and only if) no recourse may be had to the Borrower or any of its Subsidiaries (or to their respective assets) for the payment of such obligations, other than the issuer of the bonds and its assets, provided that, payment of such transition charges by any retail electric provider ("REP") in accordance with such legislation, whether or not such REP has collected such charges from the retail electric customers, shall not be deemed "recourse" hereunder, including any REP that is a division of an Affiliate of the Borrower or any Affiliate of the Borrower.

"Securitization Subsidiary" means a special purpose subsidiary created to issue Securitization Securities.

"Significant Subsidiary" means (i) for the purposes of determining what constitutes an "Event of Default" under Sections 9.1(g), (h), (i), (j) and (k), a Subsidiary of the Borrower, whose total assets, as determined in accordance with GAAP, represent

at least 10% of the total assets of the Borrower, 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 the Borrower, on a consolidated basis, as determined in accordance with GAAP, for the Borrower's most recently completed fiscal year and identified in the certificate most recently delivered pursuant to Section 8.1(a)(iv)(C); provided further that no Securitization Subsidiary shall be deemed to be a Significant Subsidiary or subject to the restrictions, covenants or Events of Default under this Agreement.

"Single Employer Plan" means any Plan that is covered by Title IV of ERISA, but that is not a Multiemployer Plan.

"Solvent" means, as used in Section 7.1(s), with respect to any Person on a particular date, the condition 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 as such debts and liabilities 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 amount of capital. The term "Solvency" shall be construed accordingly for such purpose.

"Subsidiary" means, as to any Person, a corporation, partnership, limited liability company or other entity of which more than 50% of the outstanding shares of Capital Stock or other ownership interests having ordinary voting power (other than Capital 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 such corporation, partnership or other entity are at the time owned, directly or indirectly, through one or more Subsidiaries of such Person, by such Person; provided, however, that no Securitization Subsidiary shall be deemed to be a Subsidiary for purposes of this Agreement.

"Supermajority Banks" means, at any time, Banks having in excess of 66 2/3% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the aggregate unpaid principal amount of Loans then outstanding; provided that if a single Bank, together with its Bank Affiliates, has in excess of 66 2/3%, but less than 100%, of (x) such Commitments then in effect or (y) such aggregate unpaid principal amount of Loans then outstanding, then "Supermajority Banks" shall mean such Bank plus at least one other Bank that is not a Bank Affiliate of such Bank.

"Supplemental Indenture" means the Ninth Supplemental Indenture to be executed and delivered by the Borrower and the Trustee, substantially in the form of Exhibit 1.2.

"Swap Agreement" means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or any of its Subsidiaries shall be a "Swap Agreement".

"Taxes" has the meaning specified in Section 5.3(a).

"Tranche" means the collective reference to LIBOR Rate Loans, the Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

"Transferee" has the meaning specified in Section 11.6(f).

"Transfer Effective Date" has the meaning specified in Section 11.6(c).

"Triggering Event" has the meaning specified in Section 5.8(b).

"Trustee" means JPMorgan Chase Bank, as trustee under the Second Mortgage Indenture.

"Type" refers to the determination of whether a Loan is an ABR Loan or a LIBOR Rate Loan (or a borrowing comprised of such Loans).

"United States" means the United States of America.

"Wholly-Owned" means, with respect to any Subsidiary of any Person, all the outstanding Capital Stock (other than directors' qualifying shares required by law) or other ownership interest of such Subsidiary which are at the time owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person, or both.

SECTION 1.2. Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms relating to the Borrower or any of its Subsidiaries not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP, (ii) the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation", (iii) the word "incur" shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words "incurred" and "incurrence" shall have correlative meanings), (iv) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues,

accounts, leasehold interests and contract rights, and (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time.

(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, Schedule and Exhibit 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.

## ARTICLE II

## AMOUNTS AND TERMS OF THE LOANS

SECTION 2.1. Commitments. Subject to the terms and conditions hereof, each Bank severally agrees to make a term loan (a "Loan") to the Borrower on the Closing Date in an amount not to exceed the amount of the Commitment of such Bank. The Loans may from time to time be LIBOR Rate Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 4.6.

SECTION 2.2. Procedure for Loan Borrowing. The Borrower shall give the Administrative Agent irrevocable notice of borrowing (the "Notice of Borrowing"), substantially in the form of Exhibit 2.2 hereto, on or prior to 1:00 P.M. (New York City time) on the day immediately prior to the proposed day of borrowing, specifying the amount and Type of Loan comprising the borrowing to be made on the Closing Date and with respect to any LIBOR Rate Loan, the Interest Period for such Loan, and the Borrower shall have been deemed to have made the representations and warranties contained in the Notice of Borrowing. Upon receipt of the Notice of Borrowing the Administrative Agent shall promptly notify each Bank thereof. Not later than 1:00 P.M. (New York City time), on the Closing Date, each Bank shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Loan to be made by such Bank. The Administrative Agent shall credit the account of the Borrower on the books of the Funding Office of the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Banks in immediately available funds.

SECTION 2.3. Repayment of Loans. The Borrower hereby unconditionally promises to pay to each Bank, through the Administrative Agent, on the Maturity Date, the then outstanding principal amount of the Loans of such Bank, together with accrued and unpaid interest thereon as provided herein.

SECTION 2.4. Minimum and Maximum Tranches. All Borrowings, prepayments, conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (a) the aggregate principal amount of the Loans comprising each Tranche of

LIBOR Rate Loans shall be equal to $10,000,000 or an integral multiple of $1,000,000 in excess thereof and (b) not more than three separate Tranches of LIBOR Rate Loans shall be outstanding at any time.

## ARTICLE III

## [INTENTIONALLY OMITTED]

## ARTICLE IV

## PROVISIONS RELATING TO ALL LOANS

SECTION 4.1. The Loans. (a) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank from time to time, including, without limitation, the amounts of principal and interest payable and paid to such Bank from time to time under this Agreement.

(b) The Administrative Agent shall maintain the Register pursuant to Section 11.6(d) and a subaccount therein for each Bank, in which shall be recorded (i) the amount of each Loan made by each Bank through the Administrative Agent hereunder, the type thereof and each Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) both the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Bank's share thereof.

(c) The entries made in the Register and the accounts of each Bank maintained pursuant to Section 4.1(a) shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amount of the obligations of the Borrower therein recorded; provided, however, that the failure of any Bank or the Administrative Agent to maintain the Register or any such account, or any error therein, shall not in any manner affect the obligation of the Borrower to repay (with applicable interest) the Loans actually made to the Borrower by such Bank in accordance with the terms of this Agreement.

SECTION 4.2. Fees. The Borrower shall pay to the Administrative Agent, for its own account, the fees in the amounts and on the dates previously agreed to in writing by the Borrower and the Administrative Agent.

SECTION 4.3. Interest. The Borrower shall pay interest on the unpaid principal amount of each Loan made by each Bank from the date of such Loan until such principal amount shall be paid in full, at the times and at the rates per annum set forth below:

(a) ABR Loans. Each ABR Loan shall bear interest at a rate per annum equal at all times to the lesser of (i) the ABR plus 8.75% and (ii) the Highest Lawful Rate, payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing on the last Business Day of December 2002, and on the Maturity Date.

(b) LIBOR Rate Loans. Each LIBOR Rate Loan shall bear interest at a rate per annum equal at all times to the lesser of (A) the sum of the LIBOR Rate for the applicable Interest Period for such Loan plus 9.75% and (B) the Highest Lawful Rate, payable on the last day of such Interest Period and, with respect to Interest Periods of six, nine or twelve months, each day during such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, and on the Maturity Date.

(c) Calculations. Interest that is determined by reference to the Alternate Base Rate shall be calculated by the Administrative Agent on the basis of a 365- or 366-day year, as the case may be, for the actual days (including the first day but excluding the last day) occurring in the period in which such interest is payable and otherwise shall be calculated by the Administrative Agent on the basis of a 360-day year for the actual days (including the first day and excluding the last day) occurring in the period for which such interest is payable.

(d) Default Rate. Notwithstanding the foregoing, if all or a portion of (i) the principal amount of any Loan, (ii) any interest payable thereon, or (iii) any other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest, payable from time to time on demand, at a rate per annum equal to the lesser of (A) the Highest Lawful Rate and (B) the Default Rate, in each case from the date of such non-payment until such amount is paid in full (after as well as before judgment).

(e) Determination Conclusive. Each determination of an interest rate by the Administrative Agent pursuant to any provisions of this Agreement shall be conclusive and binding on the Borrower and the Banks in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing in reasonable detail the basis upon which the LIBOR Rate was determined.

SECTION 4.4. Reserve Requirements. (a) The Borrower agrees to pay to each Bank that requests compensation under this Section 4.4 in accordance with the provisions set forth in Section 5.7(b), so long as such Bank shall be required to maintain reserves against "Eurocurrency liabilities" under Regulation D of the Board (or, so long as such Bank shall be required by the Board or by any other Governmental Authority to maintain reserves against any other category of liabilities that includes deposits by reference to which the interest rate on LIBOR Rate Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Bank that includes any LIBOR Rate Loans), an additional amount (determined by such Bank and notified to the Borrower pursuant to the provisions set forth in Section 5.7(b)) representing such Bank's calculation or, if an accurate calculation is impracticable, reasonable estimate (using such method of allocation to such Loans of the Borrower as such Bank shall determine in accordance with Section 5.7(a)) of the actual costs, if any, incurred by such Bank during the relevant Interest Period, as a result of the applicability of the foregoing reserves to such LIBOR Rate Loans, which amount in any event shall not exceed the product of the following for each day of such Interest Period:

(i) the principal amount of the relevant LIBOR Rate Loans made by such Bank outstanding on such day; and

(ii) the difference between (A) a fraction, the numerator of which is the LIBOR Rate (expressed as a decimal) applicable to such LIBOR Rate Loan (expressed as a decimal), and the denominator of which is one minus the maximum rate (expressed as a decimal) at which such reserve requirements are imposed by the Board or other Governmental Authority on such date, minus (B) such numerator; and

(iii) a fraction, the numerator of which is one and the denominator of which is 360.

(b) The agreements in this Section 4.4 shall survive the termination of this Agreement and the payment all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 4.4 for any period prior to the date that is 90 days before the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

SECTION 4.5. Interest Rate Determination and Protection. (a) The rate of interest for each LIBOR Rate Loan shall be determined by the Administrative Agent two (2) Business Days before the first day of each Interest Period applicable to such Loan. The Administrative Agent shall give prompt notice to the Borrower and the Banks of the applicable interest rate determined by the Administrative Agent for purposes of Sections 4.3(a) and (b).

(b) If, with respect to any LIBOR Rate Loans, prior to the first day of an Interest Period (i) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the London interbank market, adequate and reasonable means do not exist for ascertaining the LIBOR Rate for such Interest Period or (ii) the Administrative Agent shall have received notice from the Majority Banks that the LIBOR Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Banks (as determined in good faith and certified by such Banks) of making or maintaining their affected LIBOR Rate Loans during such Interest Period, the Administrative Agent shall give facsimile or telephonic notice thereof (with written notice to follow promptly) to the Borrower and the Banks as soon as practicable thereafter. If such notice is given, (A) any LIBOR Rate Loans requested to be made on the first day of such Interest Period shall be made as ABR Loans, (B) any Loans that were to have been converted on the first day of such Interest Period to LIBOR Rate Loans shall be continued as ABR Loans and (C) any outstanding LIBOR Rate Loans shall be converted, on the first day of such Interest Period, to ABR Loans. Until such notice has been withdrawn by the Administrative Agent, no further LIBOR Rate Loans shall be made or continued as such, nor shall the Borrower have the right to convert Loans to LIBOR Rate Loans.

SECTION 4.6. Voluntary Interest Conversion or Continuation of Loans. (a) The Borrower may on any Business Day, upon the Borrower's irrevocable oral or written notice of interest conversion/continuation given by the Borrower to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed interest conversion or continuation in the case of a LIBOR Rate Loan, (i) convert Loans of one Type into Loans of another Type; (ii) convert LIBOR Rate Loans for a specified Interest Period into LIBOR Rate Loans for a different Interest Period; or (iii) continue LIBOR Rate Loans for a specified Interest Period as LIBOR Rate Loans for the same Interest Period;

provided, however, that (A) any conversion of any LIBOR Rate Loans into LIBOR Rate Loans for a different Interest Period, or into ABR Loans, or any continuation of LIBOR Rate Loans for the same Interest Period shall be made on, and only on, the last day of an Interest Period for such LIBOR Rate Loans; (B) no Loan may be converted into or continued as a LIBOR Rate Loan by the Borrower so long as an Event of Default has occurred and is continuing; (C) no Loan may be converted into or continued as a LIBOR Rate Loan after the date that is one month prior to the Maturity Date, and (D) no Loan may be converted into or continued as a LIBOR Rate Loan if, after giving effect thereto, Section 2.4 would be contravened. With respect to any oral notice of interest conversion/continuation given by the Borrower under this Section 4.6(a), the Borrower shall promptly thereafter confirm such notice in writing. Each written notice of interest conversion/continuation given by the Borrower under this Section 4.6(a) and each confirmation of an oral notice of interest conversion/continuation given by the Borrower under this Section 4.6(a) shall be in substantially the form of Exhibit 4.6 hereto ("Notice of Interest Conversion/Continuation"). Each such Notice of Interest Conversion/Continuation shall specify therein the requested (x) date of such interest conversion or continuation; (y) the Loans to be converted or continued; and (z) if such interest conversion or continuation is into LIBOR Rate Loans, the duration of the Interest Period for each such LIBOR Rate Loan. Upon receipt of any such Notice of Interest Conversion/Continuation, the Administrative Agent shall promptly notify each Bank thereof. Each Notice of Interest Conversion/Continuation shall be irrevocable and binding on the Borrower.

(b) If the Borrower shall fail to deliver to the Administrative Agent a Notice of Interest Conversion/Continuation in accordance with Section 4.6(a) hereof, or to select the duration of any Interest Period for the principal amount outstanding under any LIBOR Rate Loan by 11:00 A.M. (New York City time) on the third Business Day prior to the last day of the Interest Period applicable to such Loan in accordance with Section 4.6(a), the Administrative Agent will forthwith so notify the Borrower and the Banks (provided that the failure to give such notice shall not affect the conversion referred to below) and such Loans will automatically, on the last day of the then existing Interest Period therefor, convert into LIBOR Rate Loans with a one month Interest Period.

SECTION 4.7. Funding Losses Relating to LIBOR Rate Loans. (a) The Borrower agrees, without duplication of any other provision under this Agreement, to indemnify each Bank and to hold each Bank harmless from any loss or expense that such Bank may sustain or incur as a consequence of (i) default by the Borrower in payment when due of the principal amount of or interest on any LIBOR Rate Loan, (ii) default by the Borrower in making a borrowing of, conversion into or continuation of any LIBOR Rate Loan after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (iii) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (iv) the making of a prepayment of LIBOR Rate Loans or the conversion of LIBOR Rate Loans into ABR Loans, on a day that is not the last day of an Interest Period with respect thereto (excluding any prepayment made pursuant to Section 4.8), including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. The calculation of all amounts payable to a Bank under this Section 4.7(a) shall be made pursuant to the method described in Section 5.7(a), but in no event shall such amounts payable with respect to any LIBOR Rate Loan exceed the amounts that would

have been payable assuming such Bank had actually funded its relevant LIBOR Rate Loan through the purchase of a deposit bearing interest at the LIBOR Rate in an amount equal to the amount of such LIBOR Rate Loan and having a maturity comparable to, with respect to any LIBOR Rate Loan, the relevant Interest Period; provided that each Bank may fund each of its LIBOR Rate Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section 4.7(a).

(b) The agreements in this Section 4.7 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 Bank for amounts contemplated by this Section 4.7 for amounts accruing prior to the date that is 90 days prior to the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

SECTION 4.8. Change in Legality. (a) Notwithstanding any other provision of this Agreement, if any Bank shall notify the Administrative Agent that it has determined in good faith that the introduction of or any change in or in the interpretation or application of any law or regulation by any Governmental Authority (in each case occurring after the date of this Agreement) makes it unlawful, or any central bank or other Governmental Authority asserts after the date of this Agreement that it is unlawful, for any Bank or its applicable lending office to perform its obligations hereunder to make LIBOR Rate Loans or to fund or maintain LIBOR Rate Loans hereunder, (i) the obligation of such Bank to make, or to convert Loans into, or to continue LIBOR Rate Loans as, LIBOR Rate Loans shall be suspended until the Administrative Agent shall notify the Borrower that the circumstances causing such suspension no longer exist and (ii) the Borrower shall, at its option, either prepay in full all LIBOR Rate Loans of such Bank then outstanding, or convert all such Loans to ABR Loans, on the respective last days of the then current Interest Periods with respect to such Loans (or within such earlier period as required by law), accompanied, in the case of any prepayments, by interest accrued thereon and any amounts payable under Section 4.7(a). Each Bank agrees that it will use reasonable efforts to designate a different lending office for the LIBOR Rate Loans due to it affected by this Section 4.8, if such designation will avoid the illegality described in this Section 4.8 so long as such designation will not be disadvantageous to such Bank as determined by such Bank in its sole discretion acting in good faith.

(b) For purposes of this Section 4.8, a notice to the Borrower (with a copy to the Administrative Agent) by any Bank pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Borrower.

## ARTICLE V

## INCREASED COSTS, TAXES, PAYMENTS AND PREPAYMENTS

SECTION 5.1. Increased Costs; Capital Adequacy. (a) If after the date of this Agreement the adoption of or any change in any law or regulation or in the interpretation or application thereof by any Governmental Authority or application thereof or compliance by any Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date of this Agreement:

(i) shall subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note, any other Loan Document, or any LIBOR Rate Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for (A) Taxes covered by Section 5.3, (B) net income taxes and franchise taxes imposed on such Bank as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and such Bank other than a connection arising solely from such Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Loans and (C) changes in the rate of tax on the overall net income of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Bank that is not otherwise included in the determination of the LIBOR Rate hereunder (except for amounts covered by Section 4.4 or any other Section hereof); or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the actual cost to such Bank, by an amount that such Bank deems to be material, of making, converting into, continuing or maintaining LIBOR Rate Loans or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Bank, upon its demand in the manner set forth in Section 5.7(b), any additional amounts, computed by such Bank in accordance with Section 5.7(a), necessary to compensate such Bank for such actual increased cost or reduced amount receivable that is attributable to Loans or Commitments (to the extent that such Bank has not already been compensated or reimbursed for such amounts pursuant to any other provision of this Agreement). If any Bank becomes entitled to claim any additional amounts pursuant to this Section 5.1(a) from the Borrower, it shall promptly notify the Borrower, through the Administrative Agent, of the event by reason of which it has become so entitled in the manner set forth in Section 5.7(b).

(b) If any Bank determines in good faith that the introduction of or any change in or in the interpretation or application by any Governmental Authority of any law or regulation regarding capital adequacy after the date of this Agreement or compliance by such Bank or any corporation controlling such Bank with any law or regulation or any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) made or issued after the date of this Agreement does or shall have the effect, as a result of such Bank's obligations under this Agreement, of reducing the rate of return on such Bank's or such corporation's capital to a level below that which such Bank or such corporation could have achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, the Borrower shall pay to the Administrative Agent for the account of such Bank, from time to time as specified by such Bank in the manner set forth in Section 5.7(b), additional amounts, computed by such Bank in accordance with Section 5.7(a), sufficient to compensate such Bank or such corporation in the light of such circumstances, to the extent that such Bank

reasonably determines such reduction in rate of return is allocable to the existence of such Bank's obligations hereunder.

(c) The agreements contained in this Section 5.1 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 Bank for amounts contemplated by this Section 5.1 for any period prior to the date that is 90 days prior to the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

SECTION 5.2. Pro Rata Treatment and Payments. (a) Each borrowing by the Borrower from the Banks hereunder shall be made pro rata according to the Pro Rata Percentages of the Banks. Except to the extent expressly provided in Section 5.5 or 5.6, each payment by the Borrower on account of principal of and interest on the Loans shall be made pro rata according to the respective Pro Rata Percentages of the Banks. Amounts prepaid on account of the Loans may not be reborrowed.

(b) The Borrower shall make each payment (including each mandatory prepayment) hereunder, whether on account of principal, interest, fees or otherwise, without setoff or counterclaim, not later than 12:00 Noon (New York City time) on the day when due, in Dollars to the Administrative Agent at the Funding Office in immediately available funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest (to the extent received by the Administrative Agent) ratably to the Banks according to the amounts of their respective Loans in respect of which such payment is made and like funds relating to the payment of any other amount payable to any Bank (to the extent received by the Administrative Agent) to such Bank, in each case to be applied in accordance with the terms of this Agreement.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; provided, however, if such extension would cause payment of interest on or principal of LIBOR Rate Loans to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Bank shall pay to the Administrative Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate during such period, times (ii) the Pro Rata Percentage of such payment, times (iii) a fraction, the numerator of which is the number of days that elapse from and including the date such amount is distributed to such Bank to the date on

which such Bank's Pro Rata Percentage of such payment shall have become immediately available to the Administrative Agent and the denominator of which is 360.

SECTION 5.3. Taxes. (a) Any and all payments by the Borrower hereunder or under the Loan Documents shall be made, in accordance with Section 5.2, free and clear of and without deduction or withholding for or on account of any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Bank and the Administrative Agent, net income taxes and franchise taxes imposed on it as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Administrative Agent or such Bank other than a connection arising solely from the Administrative Agent or such Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any Note (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Bank or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.3) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made; (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law; provided, however, that the Borrower shall not be required to increase any such sums payable to any Bank with respect to any Taxes (i) that are attributable to such Bank's failure to comply with the requirements of Section 5.3(d) or (ii) that are United States withholding taxes imposed on sums payable to such Bank at the time such Bank becomes a party to this Agreement except to the extent that any such Bank's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Taxes pursuant to this Section 5.3. Whenever any Taxes or Other Taxes (as defined in Section 5.3(b)) are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for the account of the relevant Bank or Administrative Agent, as the case may be, either (A) official tax receipts or notarized copies of such receipts to such Bank within thirty (30) days after payment of any applicable tax or (B) a certificate executed by a Responsible Officer of the Borrower confirming that such Taxes or Other Taxes have been paid, together with evidence of such payment.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under any Note or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, any other Loan Document, or the Loans and for which such Bank or the Administrative Agent (as the case may be) has not been otherwise reimbursed by the Borrower under this Agreement (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.3) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, including, without limitation or duplication,

any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Bank as a result of any failure by the Borrower to pay any Taxes or Other Taxes when due to the appropriate taxing authority or to remit to any Bank the receipts or other evidence of payment of Taxes or Other Taxes.

(d) Each Bank registered in the Register that is not a U.S. Person as defined in Section 7701(a)(30) of the Code agrees that it will deliver to the Borrower and the Administrative Agent on the Closing Date, or on the date which it becomes a party to this Agreement, two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI (or other appropriate corresponding form) or any successor applicable form, as the case may be. Each such Bank also agrees to deliver to the Borrower and the Administrative Agent two further copies of the said Form W-8BEN or W-8ECI, or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Administrative Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank so advises the Borrower and the Administrative Agent. Each such Bank shall certify in the case of a Form W-8BEN or W-8ECI that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. In the event that any such Bank fails to deliver any forms required under this Section 5.3(d), the Borrower's obligation to pay additional amounts shall be reduced to the amount that it would have been obligated to pay had such forms been provided.

(e) If any Taxes or Other Taxes are not correctly or legally asserted and the Administrative Agent or any Bank determines, in its sole discretion, that it has received a refund of those Taxes or Other Taxes as to which it has been indemnified by the Borrower, the Administrative Agent or such Bank shall within 20 days after such refund pay to the Borrower the amount of such refund to the extent that the Borrower indemnified the Administrative Agent or such Bank for such Taxes or Other Taxes pursuant to this Section 5.3, net of any out-of-pocket costs of the Administrative Agent or such Bank and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Bank in the event the Administrative Agent or such Bank is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent or any Bank to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

(f) The agreements in this Section 5.3 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that (i) in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 5.3 for any period before the date that is 180 days before the date

upon which such Bank requests in writing such reimbursement or compensation from the Borrower (other than any amounts as to which the ultimate amount of the reimbursement due could not then be determined) and (ii) nothing contained in this Section 5.3 shall require the Borrower to pay any amount to any Bank or the Administrative Agent in addition to that for which it has already reimbursed any Bank or the Administrative Agent under any other provision of this Agreement.

SECTION 5.4. Sharing of Payments, Etc. If any Bank (a "benefitted Bank") shall at any time receive any payment (other than pursuant to Section 4.4, 4.7, 5.1 or 5.3 or as expressly contemplated by Section 5.5 or 5.6) of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by setoff, pursuant to events or proceedings of the nature referred to in Section 9.1(g) or 9.1(h), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Loans, or interest thereon, such benefitted Bank shall purchase for cash from the other Banks a participating interest in such portion of each such other Bank's Loans or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 5.4 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

SECTION 5.5. Voluntary Prepayments. The Borrower may, upon written notice delivered to the Administrative Agent at least 10 days prior to the proposed date of prepayment stating the aggregate principal amount of the Loans to be prepaid and the proposed prepayment price thereof, offer to prepay the outstanding principal amounts of the Loans comprising part of the same borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that no Bank shall be obligated to accept such offer. To the extent one or more Banks accepts any such offer ("Accepting Banks") and one or more Banks rejects such offer ("Rejecting Banks"), the amounts that would have been allocable to the Rejecting Banks may (if accepted by the Accepting Banks) be paid to the Accepting Banks in accordance with their Pro Rata Percentages. Any Bank that shall have failed to respond to an offer described in this Section 5.5 shall be deemed to have rejected such offer. If any Bank shall have rejected (or been deemed to have rejected) any offer to prepay described above and the Borrower shall thereafter vary the offer, the Borrower shall make the modified offer available to the Rejecting Banks for a period of at least three Business Days before making the contemplated prepayment. Except as provided in this Section 5.5, the Borrower shall not have the right to prepay the Loans.

SECTION 5.6. Mandatory Repayments and Prepayments and Commitment Reductions. (a) Subject to paragraph (d) below, if any Capital Stock or Indebtedness shall be issued or incurred by the Borrower or any of its Subsidiaries after the Closing Date (other than Excluded Transactions), an amount equal to 100% of the Net Cash Proceeds thereof shall be applied within

two (2) Business Days after such issuance or incurrence toward the prepayment of the Loans as set forth in Section 5.6(c); provided that, notwithstanding the foregoing, the Net Cash Proceeds from all such issuances and incurrences made in accordance with the terms of this Agreement, other than Excluded Transactions and any issuance or incurrence by a Securitization Subsidiary, shall be used to prepay the loans outstanding under the CenterPoint Credit Facility to the extent subject to the mandatory prepayment requirements of the CenterPoint Credit Agreement. Solely for purposes of this Section 5.6, Securitization Subsidiaries shall be deemed to be "Subsidiaries" of the Borrower, and the sale or contribution of assets to a Securitization Subsidiary, together with the issuance of Securitization Securities, shall be deemed to be an incurrence of Indebtedness (and not an Excluded Asset Sale or otherwise subject to Section 5.6(b)).

(b) Subject to paragraph (d) below, if the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Asset Sale (other than (x) an Excluded Asset Sale and (y) any Asset Sale yielding Net Cash Proceeds of $30,000,000 or less, provided that the aggregate amount of Net Cash Proceeds from all Asset Sales excluded by this clause (y) shall not exceed $100,000,000) or Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, within two (2) Business Days after such Asset Sale or Recovery Event, the Borrower shall, or shall cause the applicable Subsidiary to, apply such Net Cash Proceeds toward the prepayment of the Loans as set forth in Section 5.6(c); provided that, notwithstanding the foregoing, (i) the aggregate Net Cash Proceeds of Asset Sales that may be excluded from the foregoing pursuant to a Reinvestment Notice shall not exceed $120,000,000, (ii) on each Reinvestment Prepayment Date, an amount equal to the Reinvestment Prepayment Amount with respect to the relevant Reinvestment Event shall be applied toward the prepayment of the Loans as set forth in Section 5.6(c) and (iii) such Net Cash Proceeds shall be used to prepay the loans outstanding under the CenterPoint Credit Facility to the extent subject to the mandatory prepayment requirements of the CenterPoint Credit Agreement.

(c) The Borrower shall deliver to the Administrative Agent, at the time of each prepayment required under this Section 5.6, (i) a certificate signed by a Responsible Officer of the Borrower setting forth in reasonable detail the calculation of the amount of such prepayment and (ii) to the extent practicable, at least three days prior written notice of such prepayment. Each notice of prepayment shall specify the prepayment date, the Type of each Loan being prepaid and the principal amount of each Loan (or portion thereof) to be prepaid. All prepayments of borrowings under this Section 5.6 shall be subject to Section 4.7, but shall otherwise be without premium or penalty.

(d) Each Bank may, by notice to the Administrative Agent in writing no later than 3:00 p.m., New York City time, at least one Business Day prior to any prepayment required to be made by the Borrower for the account of such Bank pursuant to this Section 5.6, elect either to accept or to refuse all or a portion of such prepayment (and any Bank that shall have failed so to notify the Administrative Agent shall be deemed to have refused such prepayment). Any amounts so refused by the Banks may be retained by the Borrower.

SECTION 5.7. Mitigation of Losses and Costs. Any Bank claiming reimbursement from the Borrower under any of Sections 4.4, 4.7, 5.1 and 5.3 hereof shall use reasonable efforts (including, without limitation, if requested by the Borrower, reasonable efforts to designate a different lending office of such Bank) to mitigate the amount of such losses, costs, expenses and

liabilities, if such efforts can be made and such mitigation can be accomplished without such Bank suffering (a) any economic disadvantage for which such Bank does not receive full indemnity from the Borrower under this Agreement or (b) any legal or regulatory disadvantage.

SECTION 5.8. Determination and Notice of Additional Costs and Other Amounts. (a) In determining the amount of any claim for reimbursement or compensation under Sections 4.4, 4.7 and 5.1, each Bank may use any reasonable averaging, attribution and allocation methods consistent with such methods customarily employed by such Bank in similar situations.

(b) Each Bank or, with respect to compensation claimed by it pursuant to Section 5.3, the Administrative Agent, as the case may be, will (i) use its best efforts to notify the Borrower through the Administrative Agent (in the case of each Bank) of any event occurring after the date of this Agreement promptly after the occurrence thereof and (ii) notify the Borrower through the Administrative Agent (in the case of each Bank) promptly after such Bank or the Administrative Agent, as the case may be, becomes aware of any event occurring after the date of this Agreement, in either case if such event (for purposes of this Section 5.8(b), a "Triggering Event") will entitle such Bank or the Administrative Agent, as the case may be, to compensation pursuant to Section 4.4, 4.7, 5.1 or 5.3, as the case may be. Each such notification of a Triggering Event shall be accompanied by a certificate of such Bank or the Administrative Agent, as the case may be, setting forth the calculations and justification in reasonable detail such amount or amounts as shall be necessary to compensate such Bank or the Administrative Agent, as the case may be, as specified in Section 4.4, 4.7, 5.1 or 5.3, as the case may be, and certifying that such costs are generally being charged by such Bank to other similarly situated borrowers under similar credit facilities, which certificate shall be conclusive absent manifest error. The Borrower shall pay to the Administrative Agent for the account of such Bank or to the Administrative Agent for its own account, as the case may be, the amount shown as due on any such certificate within ten (10) Business Days after its receipt of the same.

## ARTICLE VI

## CONDITIONS OF LENDING

SECTION 6.1. Conditions Precedent to Effectiveness and Loans. The agreement of each Bank to make the extension of credit requested to be made by it is subject to the satisfaction, prior to or concurrently with the making of such extension of credit on the Closing Date, of the following conditions precedent:

(a) The Administrative Agent (or its counsel) shall have received (i) this Agreement executed and delivered by the Borrower and each Bank and (ii) the Pledge Agreement executed and delivered by the Borrower.

(b) The Administrative Agent (or its counsel) shall have received a certificate dated as of the Closing Date of the Secretary or an Assistant Secretary of the Borrower certifying (i) the names and true signatures of the Responsible Officers of the Borrower authorized to sign each Loan Document to which the Borrower is a party and the notices and other documents to be delivered by the Borrower pursuant to any such Loan Document; (ii) the bylaws and articles of incorporation of the Borrower as in effect on the date of such certification; (iii) the resolutions of

the Board of Directors of the Borrower approving and authorizing the execution, delivery and performance by the Borrower of each Loan Document to which it is a party and any Notes from time to time issued hereunder and authorizing the borrowings and other transactions contemplated hereunder and (iv) that all authorizations, approvals and consents by any Governmental Authority or other Person necessary in connection with the execution, delivery and performance of the Loan Documents and any other regulatory approvals in respect thereof required to be obtained prior to the Closing Date, have been obtained and are in full force and effect.

(c) The Administrative Agent (or its counsel) shall have received a certificate dated as of the Closing Date of a Responsible Officer of the Borrower certifying that, as of the Closing Date and except as disclosed on Schedule 6.1(c), the Borrower owns, directly or indirectly through one or more of its Subsidiaries, all of the outstanding Capital Stock of each of its Significant Subsidiaries, free and clear of any Liens.

(d) The Administrative Agent shall have received an executed legal opinion, dated the Closing Date, of (i) Baker Botts LLP, counsel to the Borrower, (ii) the Deputy General Counsel of the Borrower and (iii) such other special and local counsel as may be required by the Administrative Agent. Each such legal opinion shall cover such matters incident to the transactions contemplated by this Agreement as the Administrative Agent may reasonably require and shall otherwise be in form and substance reasonably satisfactory to the Administrative Agent.

(e) The Administrative Agent (or its counsel) shall have received certificates dated on or about the Closing Date of the Secretary of State of the State of Texas as to the existence and good standing of the Borrower.

(f) (i) The Administrative Agent shall have received the Pledged Bonds in an aggregate principal amount equal to the amount of the Loans made on the Closing Date, registered in the name of the Administrative Agent and duly executed by the Borrower and authenticated by the Trustee; and

(ii) Each document (including any Uniform Commercial Code financing statement) required by the Pledge Agreement or under law or reasonably requested by the Administrative Agent to be delivered, filed, registered or recorded in order to create in favor of the Administrative Agent, for the benefit of the Banks, a perfected Lien on the Collateral described therein, prior and superior in right to any other Person (other than with respect to Liens expressly permitted by Section 8.2), and the Supplemental Indenture, shall be in proper form for filing, registration or recordation.

(g) The Administrative Agent shall have received satisfactory evidence that the Existing Credit Facilities shall have been terminated and all amounts thereunder shall have been paid in full.

(h) All governmental and third-party approvals necessary in connection with the execution, delivery and performance by the Borrower of this Agreement, if any, shall have been obtained and be in full force and effect, and there shall be no litigation, governmental,

administrative or judicial action, actual or threatened, that could reasonably be expected to restrain, prevent or impose burdensome conditions on the transactions contemplated hereby.

(i) The Administrative Agent shall have received all financial statements and other information as the Administrative Agent shall reasonably request, including projections and pro forma balance sheets adjusted to give effect to the financing contemplated hereby, and such financial statements shall not, in the reasonable judgment of the Banks, reflect any material adverse change in the consolidated financial condition of the Borrower and its Subsidiaries, as reflected in the financial statements or projections contained in the Confidential Information Memorandum.

(j) The Administrative Agent shall have received such other customary supporting documents as the Administrative Agent or the Banks, through the Administrative Agent, may reasonably request.

(k) The Administrative Agent shall have received all fees and reimbursement of all expenses required to be paid on or before the Closing Date.

(l) The representations and warranties of the Borrower contained in Section 7.1 of this Agreement shall be true and correct in all material respects, before and after giving effect to the making of the Loans on the Closing Date, and to the application of the proceeds therefrom.

(m) The Facility shall be rated (i) BBB- or better by Fitch and (ii) Baa3 or better by Moody's.

(n) No Default or Event of Default shall have occurred and be continuing or would result from the making of the Loans on the Closing Date.

The Administrative Agent shall notify the Borrower and the Banks of the effectiveness of this agreement, and such notice shall be conclusive and binding.

## ARTICLE VII

## REPRESENTATIONS AND WARRANTIES

SECTION 7.1. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Corporate Status of the Borrower. The Borrower (i) is validly organized and existing as a limited liability company and in good standing under the laws of its jurisdiction of organization; (ii) is duly authorized or qualified to do business in and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Property requires it to be so authorized or qualified to do business, except where the failure to be so duly authorized or qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect; and (iii) has the corporate or other requisite power and authority to conduct its business, as presently conducted.

(b) Corporate Status of Subsidiaries of the Borrower. Each Subsidiary of the Borrower (i) is validly organized and existing and in good standing under the laws of the jurisdiction of its organization and is duly authorized or qualified to do business in and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Property requires it to be so authorized or qualified to do business, except where the failure to be so validly organized and existing or duly authorized or qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect and (ii) has the corporate, partnership or other requisite power and authority to conduct its business, as presently conducted, except where the failure to have such power and authority, individually or in the aggregate, would not have a Material Adverse Effect.

(c) Corporate Powers. The Borrower has the corporate or other requisite power to execute, deliver and perform and comply with its obligations under this Agreement, any Notes and the other Loan Documents to which it is a party. This Agreement has been, and each other Loan Document to which the Borrower is a party will be, duly executed and delivered on behalf of the Borrower.

(d) Authorization; No Conflict, Etc. The borrowings by the Borrower contemplated by this Agreement, the execution and delivery by the Borrower of this Agreement and the other Loan Documents to which it is a party and the performance by the Borrower of its obligations hereunder and thereunder have been duly authorized by all requisite corporate or other requisite action on the part of the Borrower and CenterPoint and do not and will not (i) violate any law, any order to which the Borrower or CenterPoint or any of their respective Subsidiaries is subject of any court or other Governmental Authority, or the articles of incorporation or bylaws or other organizational documents (each as amended from time to time) of CenterPoint, the Borrower or any of their respective Subsidiaries; (ii) violate, conflict with, result in a breach of or constitute (with due notice or lapse of time or both, or any other condition) a default under, any indenture, loan agreement or other agreement to which CenterPoint, the Borrower or any of their respective Subsidiaries is a party or by which CenterPoint, the Borrower or any of their respective Subsidiaries, or any of their respective Property, is bound (except for such violations, conflicts, breaches or defaults that, individually or in the aggregate, do not have or would not have a Material Adverse Effect); or (iii) result in, or require, the creation or imposition of any material Lien upon any of the Properties of the Borrower or any Significant Subsidiary.

(e) Governmental Approvals and Consents. No authorization or approval or action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents to which it is a party.

(f) Obligations Binding. This Agreement and the other Loan Documents to which the Borrower is a party are the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms (assuming due and valid authorization, execution and delivery of this Agreement by any party other than the Borrower), except as such enforceability may be (i) limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) subject to the effect of general principles of

equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(g) Use of Proceeds; Margin Stock. The proceeds of the Loans will be used by the Borrower (a) to repay all amounts due or outstanding under the Existing Credit Agreement, (b) to consummate the FinanceCo Permitted Refinancing, (c) to pay fees and expenses incurred in relation to the Facility and (d) for other general corporate purposes. Neither the Borrower nor any Subsidiary of the Borrower is principally engaged in, or has as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any Margin Stock, and no part of the proceeds of any Loan made to the Borrower will be used for any purpose that would violate the provisions of the margin regulations of the Board.

(h) Title to Properties. The issued and outstanding Capital Stock owned by the Borrower of each of its Significant Subsidiaries whether such stock is owned directly or indirectly through one or more of its Subsidiaries, is owned free and clear of any Lien. In addition, each of the Borrower and each Significant Subsidiary of the Borrower has good title to the Properties reflected in the financial statements referred to in Section 7.1(m) and in any financial statements delivered pursuant to Section 8.1(a), except for such Properties that have been disposed of subsequent to the dates of the balance sheets included in such financial statements and that are no longer used or useful in the conduct of the business of the Borrower or any Significant Subsidiary of the Borrower or that have been disposed of pursuant to Section 8.2(b) or (c) or that have been disposed of in the ordinary course of their respective business, and all such Properties are free and clear of any Lien except (i) in the case of the Property of the Borrower, the Mortgage and the Second Mortgage Indenture and the Liens permitted thereby and hereby; (ii) Liens that do not interfere with the use of such Properties for the purposes for which they are held; (iii) minor Liens and defects of title that are not material either individually or in the aggregate; and (iv) Permitted Liens.

(i) Investment Company Act. Neither the Borrower nor any Subsidiary of the Borrower is an "investment company" as defined in, or otherwise subject to regulation under, the Investment Company Act of 1940, as amended.

(j) Material Adverse Change. Except as otherwise disclosed prior to the date hereof in writing to the Banks or in the Borrower's public filings with the SEC, since December 31, 2001, there has been no event, development or circumstance that has or would reasonably be expected to have a Material Adverse Effect, it being agreed that, on and after the Closing Date, this representation shall apply, with respect to periods prior to the Closing Date, to the portion of the business included in the business of the Borrower and the Consolidated Subsidiaries on the Closing Date.

(k) Litigation. There is no litigation, action, suit or other legal or governmental proceeding pending or, to the best knowledge of the Borrower, threatened, at law or in equity, or before or by any arbitrator or Governmental Authority (i) relating to the transactions under this Agreement or (ii) in which there is a reasonable possibility of an adverse decision that would have a Material Adverse Effect.

(l) ERISA. Neither the Borrower nor any of its Significant Subsidiaries has incurred any material liability or deficiency arising out of or in connection with (i) any Reportable Event or "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) with respect to any Plan that has occurred during the five-year period immediately preceding the date on which this representation is made or deemed made, (ii) any failure of a Plan to comply with the applicable provisions of ERISA and the Code, (iii) any termination of a Single Employer Plan, (iv) any complete or partial withdrawal by the Borrower or any Commonly Controlled Entity from any Multiemployer Plan or (v) any Lien in favor of the PBGC or any Plan that has arisen during the five-year period referred to in clause (i) above. In addition, no Multiemployer Plan is in Reorganization or is Insolvent, where such Reorganization or Insolvency, individually or when aggregated with the events described in the first sentence of this Section 7.1(l), is likely to result in a material liability or deficiency of the Borrower or any of its Significant Subsidiaries. As used in this Section 7.1(l), any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this Section 7.1(l) at any one time outstanding, individually and in the aggregate, is less than $25,000,000.

(m) Financial Statements. The pro forma, unaudited, condensed, consolidated financial statements of the Borrower as of and for the six months ended June 30, 2002 filed with the SEC on September 6, 2002 as Exhibit 99.1 to the Borrower's Form 8-K/A dated August 31, 2002, copies of which have been delivered to the Banks, present fairly the pro forma, condensed, consolidated financial condition and results of operations of the Borrower and its Consolidated Subsidiaries as of such date and for the period then ended, in conformity with, as applicable, GAAP and the regulations promulgated under the Securities Act and, except as otherwise stated therein, consistently applied (in the case of such unaudited statements, subject to year-end adjustments and the exclusion of detailed footnotes).

(n) Accuracy of Information. None of the documents or written information (excluding estimates, financial projections and forecasts) provided by the Borrower to the Banks in connection with or pursuant to this Agreement contains as of the date thereof or will contain as of the date thereof any untrue statement of a material fact or omits or will omit to state as of the date thereof a material fact (other than industry wide risks normally associated with the types of businesses conducted by the Borrower and its Subsidiaries) necessary to make the statements therein, in the light of the circumstances under which they were made, not materially misleading, as a whole. The estimates, financial projections and forecasts furnished to the Banks by the Borrower with respect to the transactions contemplated under this Agreement were prepared in good faith and on the basis of information and assumptions that the Borrower believed to be reasonable as of the date of such information, it being recognized by the Banks that such estimates, financial projections and forecasts as they relate to future events are not to be viewed as fact and that actual results during the period or periods covered by such estimates, financial projections and forecasts may differ from the projected results set forth therein by a material amount.

(o) No Violation. The Borrower is not in violation of any order, writ, injunction or decree of any court or any order, regulation or demand of any Governmental Authority that, individually or in the aggregate, reasonably could be expected to have a Material Adverse Effect.

(p) Subsidiaries. Schedule 1.1(A) attached hereto sets forth each Significant Subsidiary of the Borrower as of the Closing Date.

(q) The Pledge Agreement; Second Mortgage Indenture. The Pledge Agreement is effective to create in favor of the Administrative Agent, for the benefit of the Banks, a legal, valid and enforceable security interest in the Collateral described therein and proceeds thereof. When financing statements and other filings specified on Schedule 7.1(q) in appropriate form are filed in the offices specified on Schedule 7.1(q), the Pledge Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and the proceeds thereof, as security for the Obligations (as defined in the Pledge Agreement), in each case prior and superior in right to any other Person (except Liens permitted by Section 8.2). The Second Mortgage Indenture is effective to create in favor of the Trustee, for the ratable benefit of the bondholders from time to time under the Second Mortgage Indenture, a legal, valid and enforceable Lien on all the Borrower's right, title and interest in and to the Mortgaged Property and the proceeds thereof, and the Second Mortgage Indenture constitutes a fully perfected Lien on, and security interest in, all right, title and interest of the Borrower and in such Mortgaged Property and the proceeds thereof, in each case prior and superior in right to any other Person (except Liens permitted by Section 8.2).

(r) Taxes. The Borrower and each of its Subsidiaries has filed or caused to be filed all Federal, state and other material tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its Property and all other taxes, fees or other charges imposed on it or any of its Property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries), except where the failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; no tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges (other than any Liens or claims that could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect).

(s) Solvency. On and as of the Closing Date, after giving effect to the borrowings of Loans on the Closing Date and the other transactions contemplated hereby and thereby, the Borrower will be Solvent.

## ARTICLE VIII

## AFFIRMATIVE AND NEGATIVE COVENANTS

SECTION 8.1. Affirmative Covenants of the Borrower. The Borrower covenants that, as long as any amount is owing hereunder or under any other Loan Documents is outstanding or any Bank shall have any Commitment outstanding under this Agreement:

(a) Delivery of Financial Statements, Notices and Certificates. The Borrower shall deliver to the Administrative Agent for distribution to the Banks sufficient copies for each of the Banks of the following:

(i) as soon as practicable and in any event within 120 days after the end of each fiscal year of the Borrower (beginning with fiscal 2002), a consolidated balance sheet of the Borrower and the Consolidated Subsidiaries of the Borrower as of the end of such fiscal year and the related statements of consolidated income, retained earnings and cash flows prepared in conformity with GAAP consistently applied, setting forth in comparative form the figures for the previous fiscal year, together with a report thereon (which shall not contain any "going concern" or similar qualifications) by independent certified public accountants of nationally recognized standing selected by the Borrower (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 SEC);

(ii) 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 Borrower (beginning with the quarter ending September 30, 2002), unaudited consolidated financial statements of the Borrower and the Consolidated Subsidiaries of the Borrower consisting of at least consolidated balance sheets as at the close of such quarter and statements of consolidated income, retained earnings and cash flows for such quarter and for the period from the beginning of such fiscal year to the close of such quarter (which requirement may be satisfied by delivering the Borrower's Quarterly Report on Form 10-Q with respect to such fiscal quarter as filed with the SEC); such financial statements shall be accompanied by a certificate of a Responsible Officer of the Borrower to the effect that such unaudited financial statements present fairly in all material respects the consolidated financial condition and results of operations of the Borrower and the Consolidated Subsidiaries of the Borrower as of such date for the period then ending, and have been prepared in conformity with GAAP in a manner consistent with the financial statements referred to in paragraph (a)(i) above (subject to year-end adjustments and exclusion of detailed footnotes);

(iii) with each set of statements to be delivered above, a certificate in a form reasonably satisfactory to the Administrative Agent, signed by a Responsible Officer of the Borrower confirming compliance with Section 8.2(a) 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; and

(iv) (A) 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 Borrower with the SEC; (B) promptly, and in any event within seven (7) days after a Responsible Officer of the Borrower becomes aware of the occurrence thereof, written notice of (x) any Event of Default or any Default, (y) the institution of any litigation, action, suit or other legal or governmental proceeding involving the Borrower or any Subsidiary of the Borrower as to which there is a reasonable possibility of an adverse decision that would have a Material Adverse Effect on the Borrower or any final adverse

determination in any litigation, action, suit or other legal or governmental proceeding involving the Borrower or any Significant Subsidiary of the Borrower that would have a Material Adverse Effect, or (z) the incurrence by the Borrower or any Subsidiary of a material liability or deficiency, or the existence of a reasonable possibility of incurring a material liability or deficiency, arising out of or in connection with (1) any Reportable Event with respect to any Plan, (2) the failure to make any required contribution to a Plan, (3) the creation of any Lien in favor of the PBGC or a Plan, (4) any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (5) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan; provided that, as used in this clause (z), any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this clause (z) at any one time outstanding, individually and in the aggregate, is less than $25,000,000; (C) with each set of statements delivered pursuant to Section 8.1(a)(i), a certificate signed by a Responsible Officer of the Borrower identifying those Subsidiaries which, determined as of the date of such financial statements, are Significant Subsidiaries; and (D) such other information relating to the Borrower or its business, properties, condition and operations as the Administrative Agent (or any Bank through the Administrative Agent) may reasonably request.

Information required to be delivered pursuant to the foregoing Sections 8.1(a)(i), (ii), and (iv)(A) shall be deemed to have been delivered on the date on which the Borrower provides notice (including notice by e-mail) to the Administrative Agent (which notice the Administrative Agent will convey promptly to the Banks) that such information has been posted on the SEC website on the Internet at sec.gov/edgar/searches.htm or at another website identified in such notice and accessible by the Banks without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 8.1(a)(iii) and (ii) the Borrower shall deliver paper copies of such information to the Administrative Agent, and the Administrative Agent shall deliver paper copies of such information to any Bank that requests such delivery.

(b) Use of Proceeds. The Borrower will use the proceeds of any Loan made by the Banks to it for the purposes set forth in the first sentence of Section 7.1(g), and it will not use the proceeds of any Loan made by the Banks for any purpose that would violate the provisions of the margin regulations of the Board. Without limiting the foregoing, the Borrower shall consummate the FinanceCo Permitted Refinancing on November 15, 2002, and, pending such refinancing, shall maintain the proceeds of the Loans to be used therefor in Cash Equivalents in an account in its own name. The Borrower will not, and will not 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.

(c) Existence; Laws. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary (i) to preserve, renew and keep in full force and effect its legal existence and all rights, licenses, permits and franchises (except to the extent otherwise permitted by Sections 8.2(c) or 8.2(e)) and (ii) to comply with all laws and regulations

applicable to it, except in each case where the failure to do so, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(d) Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including any tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to have a Material Adverse Effect.

(e) Maintenance of Properties. The Borrower will, and will cause each of its Significant Subsidiaries to, preserve and maintain all of its Property that is material to the conduct of its business and keep the same in good repair, working order and condition, and from time to time to make, or cause to be made, such repairs, renewals and replacements thereto as in the good faith judgment of the Borrower or such Subsidiary, as the case may be, are necessary or proper so that the business carried on in connection therewith may be properly conducted at all times, provided, however, that nothing in this Section 8.1(e) shall prevent (a) the Borrower or any of its Subsidiaries from selling, abandoning or otherwise disposing of any Properties (including the Capital Stock of any Subsidiary of the Borrower that is not a Significant Subsidiary of the Borrower), the retention of which in the good faith judgment of the Borrower or such Subsidiary is inadvisable or unnecessary to the business of the Borrower and its Subsidiaries, taken as a whole, as the case may be or (b) any other transaction that is expressly permitted by the terms of any other provision of this Agreement.

(f) Maintenance of Business Line. The Borrower will maintain its fundamental business of providing services and products in the energy market.

(g) Books and Records; Access. The Borrower will, and will cause each Significant Subsidiary to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities as required by GAAP. The Borrower will, and will cause each of its Subsidiaries to, at any reasonable time and from time to time, permit up to six representatives of the Banks designated by the Majority Banks, or representatives of the Administrative Agent, 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, the Borrower and each Significant Subsidiary and to discuss the general business affairs of the Borrower and each of its Subsidiaries with their respective officers and independent certified public accountants; subject, however, in all cases to the imposition of such conditions as the Borrower and each of its Subsidiaries shall deem necessary based on reasonable considerations of safety and security; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to disclose to the Administrative Agent, any Bank 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 and be continuing.

(h) Insurance. The Borrower will and will cause each of its Subsidiaries to, maintain insurance with responsible and reputable insurance companies or associations, or to the extent that the Borrower or such Subsidiary deems it prudent to do so, through its own program of self-insurance, in such amounts and covering such risks as is usually carried by companies engaged in similar businesses, of comparable size and financial strength and with comparable risks.

(i) Long-Term Debt Rating. The Borrower will deliver to the Administrative Agent notice of any change by a Rating Agency in the Long-Term Debt Rating or in any rating by a Rating Agency for the Facility, promptly upon the effectiveness of any such change.

SECTION 8.2. Negative Covenants of the Borrower. The Borrower covenants that, so long as any amount is owing to the Banks hereunder or under any other Loan Document to which it is a party, the Borrower will not:

(a) Financial Ratio. Permit the ratio of Consolidated Indebtedness for Borrowed Money to Consolidated Capitalization to exceed 0.68:1.00.

(b) Certain Liens. And will not permit any of its Subsidiaries to, pledge, mortgage, hypothecate or grant a Lien upon, or permit any mortgage, pledge, security interest or other Lien upon, any Property of the Borrower or any Subsidiary of the Borrower now or hereafter owned directly or indirectly by the Borrower; provided, however, that this restriction shall neither apply to nor prevent the creation or existence of:

(i) Permitted Liens;

(ii) Liens on preference stock or related rights securing any FinanceCo Permitted Facility;

(iii) any Lien in existence on the date hereof, provided that no such Lien encumbers any additional Property after the Closing Date and that the amount of Indebtedness secured thereby is not increased;

(iv) Liens securing first mortgage bonds pursuant to the Mortgage (or second or subordinated Liens in lieu thereof) issued after the Closing Date so long as the net cash proceeds of such issuances are (A) applied to replace first mortgage bonds issued under the Mortgage and outstanding on the Closing Date or (B) proceeds of Indebtedness for Borrowed Money in an aggregate principal amount at any time outstanding not in excess of (x) $300,000,000 less (y) the amount of outstanding Indebtedness secured by Liens pursuant to Section 8.2(b)(xv);

(v) Liens required to be granted pursuant to "equal and ratable" clauses under Contractual Obligations of the Borrower and its Significant Subsidiaries existing on the Closing Date;

(vi) Liens on fixed or capital assets and related inventory and intangible assets acquired, constructed, improved, altered or repaired by the Borrower or any of its Significant Subsidiaries; provided that (i) such Liens secure Indebtedness otherwise permitted by this Agreement, (ii) such Liens and the Indebtedness secured thereby are incurred prior to or within 365 days after such acquisition or the later of the completion of such construction, improvement, alteration or repair or the date of commercial operation of the assets constructed, improved, altered or repaired, (iii) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing, improving, altering or repairing such fixed or capital assets, as the case may be, and (iv) such Lien shall not apply to any other property or assets of the Borrower or of its Significant Subsidiaries (other than repairs, renewals, replacements, additions, accessions, improvements and betterments thereto);

(vii) Liens on Property and repairs, renewals, replacements, additions, accessions, improvements and betterments thereto existing at the time such Property is acquired by the Borrower or any of its Significant Subsidiaries and not created in contemplation of such acquisition (or on repairs, renewals, replacements, additions, accessions and betterments thereto), and Liens on the Property of any Person at the time such Person becomes a Subsidiary of the Borrower and not created in contemplation of such Person becoming a Subsidiary of the Borrower (or on repairs, renewals, replacements, additions, accessions and betterments thereto);

(viii) rights reserved to or vested in any Governmental Authority by the terms of any right, power, franchise, grant, license or permit, or by any Requirements of Law, to terminate such right, power, franchise, grant, license or permit or to purchase, condemn, expropriate or recapture or to designate a purchaser of any of the Property of the Borrower or any of its Subsidiaries;

(ix) rights reserved to or vested in (or exercised by) any Governmental Authority to control, regulate or use any Property of a Person or its activities, including zoning, planning and environmental laws and ordinances and municipal regulations;

(x) Liens on Property of the Borrower or any of its Subsidiaries securing non-recourse Indebtedness of the Borrower or any such Subsidiary;

(xi) Liens on the stock or assets of Securitization Subsidiaries;

(xii) any extension, renewal or refunding of any Lien permitted by clauses (i) through (xi) above on the same Property previously subject thereto; provided that no extension, renewal or refunding of any such Lien shall increase the principal amount of any Indebtedness secured thereby immediately prior to such extension, renewal or refunding, unless such Indebtedness is permitted by Section 8.2(a);

(xiii) Liens on cash collateral provided in lieu of repayment of pollution control bonds until the remarketing of such bonds;

(xiv) Liens on cash collateral to secure obligations of the Borrower and its Subsidiaries in respect of cash management arrangements with any Bank or Affiliate thereof; and

(xv) Liens not otherwise permitted by this Section 8.2(b) securing Indebtedness of the Borrower and its Significant Subsidiaries so long as the aggregate outstanding principal amount of the obligations secured thereby does not at any time exceed (as to the Borrower and all of its Subsidiaries) $15,000,000 at such time.

(c) Consolidation, Merger or Disposal of Assets. And will not permit any of its Significant Subsidiaries 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 Properties, or the Capital Stock of any Significant Subsidiary of the Borrower, to any Person; provided, however, that nothing contained in this Section 8.2(c) shall prohibit (A) a merger involving a Subsidiary of the Borrower other than the Borrower (including mergers to reincorporate or change the domicile of such Subsidiary) if the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower is the surviving entity thereof; (B) the liquidation, winding up or dissolution of a Significant Subsidiary of the Borrower (other than the Borrower) if all of the Properties of such Significant Subsidiary are conveyed, transferred or distributed to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower or (C) the conveyance, sale, transfer or other disposal of all or substantially all (or any lesser portion) of the Properties of any Significant Subsidiary (other than the Borrower) to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower or (D) the transfer of assets in connection with the issuance of Securitization Securities; provided that, in each case, 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.

(d) Takeover Bids. And will not permit any of its Subsidiaries to, use the proceeds of any Loan made to it to participate in any unsolicited control bid for any other Person.

(e) Sale of Significant Subsidiary Stock. And will not permit any Significant Subsidiary to sell, assign, transfer or otherwise dispose of any of the Capital Stock of any Significant Subsidiary other than to a Wholly-Owned Subsidiary of the Borrower that constitutes a Significant Subsidiary after giving effect to such transaction; provided that immediately before and after giving effect to such sale, assignment, transfer or other disposition, no Event of Default or Default shall have occurred and be continuing. Notwithstanding the foregoing provisions of this Section 8.2(e), any Significant Subsidiary shall have the right to issue, sell, assign, transfer or otherwise dispose of for value its preference or preferred stock in one or more bona fide transactions to any Person.

(f) Agreements Restricting Dividends. And will not permit any of its Significant Subsidiaries to enter into, incur or permit to exist any agreement or other arrangement that explicitly prohibits or restricts the payment by any of its Significant Subsidiaries of dividends or other distributions with respect to any shares of its Capital Stock; 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 Capital Stock or assets of such Subsidiary.

(g) Certain Investments, Loans, Advances, Guarantees and Acquisitions. And will not permit any of its Subsidiaries to, purchase, or acquire (including pursuant to any merger) any Capital Stock, evidences of indebtedness or other securities of or other interest in (including any option, warrant or other right to acquire any of the foregoing), make any loans or advances to, Guarantee any obligations of, or make any investment or other interest in or capital contribution to, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit (any of the foregoing, an "Investment"), in each case after the Closing Date, except that, notwithstanding the foregoing, the Borrower and its Subsidiaries may make Investments (a) in Cash Equivalents; (b) in any Wholly-Owned Subsidiary of the Borrower; (c) in pollution control bonds which are the obligation of the Borrower in connection with and until the remarketing of such bonds, (d) otherwise if, after giving effect thereto, the Borrower would be in compliance with its covenants contained in Section 8.2(a) on a pro forma basis and the aggregate amount of all such Investments (including, without limitation, any Guarantee, loan, advance or any assumed Indebtedness) described in this clause (d) shall not exceed $100,000,000 outstanding at any time.

(h) Maintenance of Corporate Separateness. (i) And will not permit any of its Subsidiaries (as used in this paragraph, the Borrower and its Subsidiaries are referred to collectively as the "Borrower Parties") to commingle any of their respective bank accounts with any bank account of CenterPoint or any of its Subsidiaries (as used in this paragraph, CenterPoint and its Subsidiaries (other than the Borrower Parties) are referred to collectively as the "CenterPoint Parties"); (ii) any financial statements distributed to any creditors of any Borrower Party shall, to the extent permitted under GAAP, clearly establish the corporate separateness of the Borrower Parties from the CenterPoint Parties; and (iii) no Borrower Party shall take any action, or conduct its affairs in a manner, which is reasonably likely to result in the corporate existence of the Borrower Parties (or any of them), on the one hand, and the CenterPoint Parties (or any of them), on the other hand, being ignored, or in the assets and liabilities of the Borrower Parties (or any of them) being substantively consolidated with those of the CenterPoint Parties (or any of them) in a bankruptcy, reorganization or other insolvency proceeding.

(i) Changes in Lines of Business. Enter into any business, either directly or through any of its Subsidiaries, except for those businesses in which the Borrower and its Subsidiaries are engaged on the date of this Agreement or that are directly related thereto.

## ARTICLE IX

## EVENTS OF DEFAULT

SECTION 9.1. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default":

(a) Non-Payment of Principal and Interest. The Borrower fails to pay, in the manner provided in this Agreement, (i) any principal payable by it hereunder when due or (ii) any interest payment, or the fee payable pursuant to Section 4.2 payable by it hereunder, within five (5) Business Days after its due date; or

(b) Non-Payment of Other Amounts. The Borrower fails to pay, in the manner provided in this Agreement, any other amount (other than the amounts set forth in Section 9.1(a) above) payable by it hereunder within ten (10) Business Days after notice of such payment is received by the Borrower from the Administrative Agent; or

(c) Breach of Representation or Warranty. Any representation or warranty by the Borrower in Section 7.1 or in any certificate, document or instrument delivered under this Agreement shall have been incorrect in any material respect when made or when deemed hereunder to have been made; or

(d) Breach of Certain Covenants. The Borrower fails to perform or comply with any one or more of its obligations under Section 8.1(a)(iv)(B)(x), 8.2 or Section 5 of the Pledge Agreement; or

(e) Breach of Other Obligations. The Borrower does not perform or comply with any one or more of its other obligations under this Agreement (other than those set forth in Section 9.1(a), (b) or (d) above) and such failure to perform or comply shall not have been remedied within 30 days after the earlier of notice thereof to it by the Administrative Agent or the Majority Banks or discovery thereof by a Responsible Officer of the Borrower; or

(f) Other Indebtedness. (i) The Borrower or any of its Significant Subsidiaries fails to pay when due (either at stated maturity or by acceleration or otherwise but subject to applicable grace periods) any principal or interest in respect of any Indebtedness for Borrowed Money, Secured Indebtedness (including Indebtedness under the Mortgage and the Second Mortgage Indenture) or Junior Subordinated Debt (other than Indebtedness of the Borrower under this Agreement) if the aggregate principal amount of all such Indebtedness for which such failure to pay shall have occurred and be continuing exceeds $50,000,000 or (ii) any default, event or condition shall have occurred and be continuing with respect to any Indebtedness for Borrowed Money, Secured Indebtedness (including Indebtedness under the Mortgage and the Second Mortgage Indenture) or Junior Subordinated Debt of the Borrower or any of its Significant Subsidiaries (other than Indebtedness of the Borrower under this Agreement), the

effect of which default, event or condition is to cause, or to permit the holder thereof to cause, (A) such Indebtedness to become due prior to its stated maturity (other than in respect of mandatory prepayments required thereby) or (B) in the case of any Guarantee of Indebtedness for Borrowed Money of any Person or Junior Subordinated Debt by the Borrower or any of its Significant Subsidiaries the primary obligation (as such term is defined in the definition of "Guarantee" in Section 1.1) to which such Guarantee relates to become due prior to its stated maturity, if the aggregate amount of all such Indebtedness or primary obligations (as the case may be) that is or could be caused to be due prior to its stated maturity exceeds $50,000,000; or

(g) Involuntary Bankruptcy, Etc. (i) There shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action (A) seeking a decree or order for relief in respect of the Borrower or any of its Significant Subsidiaries under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, (B) seeking a decree or order adjudging the Borrower or any of its Significant Subsidiaries a bankrupt or insolvent, (C) except as permitted by clause (B) of the proviso to Section 8.2(c), seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief of or in respect of the Borrower or any of its Significant Subsidiaries or their respective debts under any applicable domestic or foreign law or (D) seeking the appointment of a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or any of its Significant Subsidiaries or of any substantial part of their respective Properties, or the liquidation of their respective affairs, and such petition is not dismissed within 90 days or (ii) a decree, order or other judgment is entered in respect of any of the remedies, reliefs or other matters for which any petition referred to in (i) above is presented or (iii) there shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged or stayed or bonded pending appeal within 90 days from the entry thereof; or

(h) Voluntary Bankruptcy, Etc. (i) The commencement by the Borrower or any of its Significant Subsidiaries of a voluntary case, proceeding or other action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law (A) seeking to have an order of relief entered with respect to it, (B) seeking to be adjudicated a bankrupt or insolvent, (C) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief with respect to it or its debts under any applicable domestic or foreign law or (D) seeking the appointment of or the taking possession by a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or similar official of the Borrower or any of its Significant Subsidiaries of any substantial part of its Properties; or (ii) the making by the Borrower or any of its Significant Subsidiaries of a general assignment for the benefit of creditors; or (iii) the Borrower or any of its Significant Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in clause (i) or (ii) above or in Section 9.1(g); or (iv) the admission by the Borrower or any of its Significant Subsidiaries in writing of its inability to pay its debts generally as they become due or the failure by the Borrower or any of its Significant Subsidiaries generally to pay its debts as such debts become due; or

(i) Enforcement Proceedings. A final judgment or decree for the payment of money which, together with all other such judgments or decrees against the Borrower or any of its Significant Subsidiaries then outstanding and unsatisfied, exceeds $25,000,000 in aggregate amount shall be rendered against the Borrower or any of its Significant Subsidiaries and the same shall remain undischarged for a period of 60 days, during which the execution thereon shall not effectively be stayed, released, bonded or vacated; or

(j) ERISA Events. (i) The Borrower or any Significant Subsidiary shall incur any liability arising out of (A) any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (B) the occurrence of any "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) by a Plan, whether or not waived, or any Lien in favor of the PBGC or a Plan on the assets of the Borrower or any Commonly Controlled Entity, (C) the occurrence of a Reportable Event with respect to, or the commencement of proceedings under Section 4042 of ERISA to have a trustee appointed, or the appointment of a trustee under Section 4042 of ERISA, to administer or to terminate any Single Employer Plan, which Reportable Event, commencement of proceedings or appointment of a trustee is likely to result in the termination of such Plan for purposes of Title IV of ERISA, (D) the termination of any Single Employer Plan for purposes of Title IV of ERISA, (E) withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (F) the occurrence of any other event or condition with respect to a Plan, and any of such items (A) through (F) above results in or is likely to result in a material liability or deficiency of the Borrower or any Significant Subsidiary; provided, however, that for purposes of this Section 9.1(j), any liability or deficiency of the Borrower or any Significant Subsidiary shall be deemed not to be material so long as the sum of all liabilities or deficiencies referred to in this Section 9.1(j) at any one time outstanding, individually and in the aggregate, is less than $25,000,000, or (ii) the occurrence of any one or more of the events specified in clauses (A) through (F) above if, individually or in the aggregate, such event or events would have a Material Adverse Effect on the Borrower; or

(k) Change in Control of the Borrower. A Change in Control shall have occurred.

SECTION 9.2. Cancellation/Acceleration. If at any time and for any reason (whether within or beyond the control of any party to this Agreement):

(a) either of the Events of Default specified in Section 9.1(g) or 9.1(h) occurs with respect to the Borrower, then automatically, all Loans made hereunder, all unpaid accrued interest or fees and any other sum payable under this Agreement shall become immediately due and payable; or

(b) any other Event of Default specified in Section 9.1 occurs and, while such Event of Default is continuing, the Administrative Agent, having been so instructed by the Majority Banks, by notice to the Borrower, shall so declare that either (i) all Loans made hereunder, all unpaid accrued interest or fees and any other sum payable under this Agreement shall become immediately due and payable or (ii) all Loans made hereunder, all unpaid accrued interest or fees and any other sum payable under this Agreement shall become due and payable at

any time thereafter immediately on demand by the Administrative Agent (acting on the instructions of the Majority Banks).

Except as expressly provided above in this Section 9.2, presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind whatsoever are hereby expressly waived by the Borrower.

## ARTICLE X

## THE ADMINISTRATIVE AGENT

SECTION 10.1. Appointment. Each Bank hereby irrevocably designates and appoints Credit Suisse First Boston as the Administrative Agent of such Bank under this Agreement and the other Loan Documents, and each such Bank irrevocably authorizes Credit Suisse First Boston, as the Administrative Agent for such Bank, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent and (b) neither the Lead Arranger or any other Person listed as a "Co-Arranger" on the cover page hereof shall have any duties or responsibilities hereunder, or any fiduciary relationship with any bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Lead Arranger or such other Person.

SECTION 10.2. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

SECTION 10.3. Exculpatory Provisions. Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or such Person's own gross negligence or willful misconduct) or (b) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Bank to ascertain or to inquire

as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower.

SECTION 10.4. Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, facsimile, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note or any loan account in the Register as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Majority Banks as it deems appropriate or it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Majority Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the amounts owing hereunder.

SECTION 10.5. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Banks. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Majority Banks; provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

SECTION 10.6. Non-Reliance on Administrative Agent and Other Banks. Each Bank expressly acknowledges that neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Bank. Each Bank represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and

information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower that may come into the possession of the Administrative Agent or any of its officers, directors, employees, Administrative Agents, attorneys-in-fact or Affiliates.

SECTION 10.7. Indemnification. The Banks agree to indemnify the Administrative Agent and Lead Arranger in their respective capacities as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective applicable Pro Rata Percentages in effect on the date on which indemnification is sought under this Section 10.7, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (including, without limitation, at any time following the payment of all amounts owing hereunder) be imposed on, incurred by or asserted against the Administrative Agent or the Lead Arranger, as the case may be, in any way relating to or arising out of this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent or the Lead Arranger, as the case may be, under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements to the extent they are found by a final judgment of a court of competent jurisdiction to have resulted primarily from the Administrative Agent's or the Lead Arranger's, as the case may be, gross negligence or willful misconduct. The agreements in this Section 10.7 shall survive the payment of all amounts payable hereunder.

SECTION 10.8. Administrative Agent in Its Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though the Administrative Agent were not the Administrative Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it, the Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Bank and may exercise the same as though it were not the Administrative Agent, and the terms "Bank" and "Banks" shall include the Administrative Agent in its individual capacity.

SECTION 10.9. Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Banks and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Majority Banks shall appoint from among the Banks a successor agent for the Banks, which successor agent shall be approved by the Borrower, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as

Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of any amounts payable hereunder; provided that if an Event of Default has occurred and is continuing, no consent of the Borrower shall be required. If a successor Administrative Agent shall not have been so appointed within said 30-day period, the Administrative Agent may then appoint a successor Administrative Agent who shall be a financial institution engaged or licensed to conduct banking business under the laws of the United States with an office in New York City and that has total assets in excess of $500,000,000 and who shall serve as Administrative Agent until such time, if any, as an Administrative Agent shall have been appointed as provided above. After any retiring Administrative Agent's resignation or removal as Administrative Agent, the provisions of this Article X shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

SECTION 10.10 Notwithstanding anything to the contrary contained herein, no Bank identified as an "Agent" or "Arranger" other than the Administrative Agent, shall have the right, power, obligation, liability, responsibility or duty under this Agreement or any Loan Document other than those applicable to all Banks as such. Without limiting the foregoing, none of the Banks so identified shall have or be deemed to have any fiduciary relationship with any Bank. Each Bank acknowledges that it has not relied, and will not rely, on any of the Banks so identified in deciding to enter into this Agreement or not taking action hereunder.

## ARTICLE XI

## MISCELLANEOUS

SECTION 11.1. Amendments and Waivers. Neither this Agreement, any Note, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except pursuant to an instrument or instruments in writing executed in accordance with the provisions of this Section 11.1. The Majority Banks may, or, with the written consent of the Majority Banks, the Administrative Agent may, from time to time, (a) enter into with the Borrower written amendments, supplements or modifications hereto and to any Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or any Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or (b) waive, on such terms and conditions as the Majority Banks or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or any Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall:

(i) reduce the amount or extend the scheduled date of maturity of any Note or Loan, or reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or increase the amount or extend the expiration date of any Bank's Commitments, in each case without the consent of each Bank affected thereby;

(ii) amend, modify or waive any provision of this Section or of Section 5.2 in a manner that would alter the pro rata sharing of payments required thereby or in a

manner that would eliminate or limit a Bank's right to reject prepayments under Section 5.5 or 5.6 or reduce the percentage specified in the definition of Majority Banks or Supermajority Banks, or consent to the assignment or transfer by the Borrower of any of its respective rights and obligations under this Agreement and the other Loan Documents, or release any material portion of the Collateral, in each case without the written consent of all the Banks;

(iii) amend, modify or waive any provision of Section 5.6 or amend, modify or waive any provision of Section 8.2(c) to permit a merger involving the Borrower not otherwise permitted in such Section, in each case without the consent of the Supermajority Banks; or

(iv) amend, modify or waive any provision of Article X without the written consent of then Administrative Agent.

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Administrative Agent and all future holders of the amounts payable hereunder. In the case of any waiver, the Borrower, the Banks and the Administrative Agent shall be restored to their former position and rights hereunder and under any outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing, but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

SECTION 11.2. Notices. Unless otherwise expressly provided herein, all notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by facsimile followed by any original sent by mail or delivery), and, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in Schedule 1.1 in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the amounts payable hereunder:

| | |
|---|---|
| Borrower: | 1111 Louisiana<br>Houston, Texas 77002 |
| Attention: | Linda Geiger<br>Assistant Treasurer |
| Telecopy: | (713) 207-3301 |
| With a copy to: | Marc Kilbride<br>Treasurer |
| Telecopy: | (713) 207-3301 |

| | |
|---|---|
| The Administrative Agent: | Credit Suisse First Boston<br>Eleven Madison Avenue<br>New York, New York 10010 |
| Attention: | Julia Kingsbury |
| Telecopy: | (212) 325-8304 |

provided that any notice, request or demand to or upon the Administrative Agent or the Banks shall not be effective until received.

SECTION 11.3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Bank, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

SECTION 11.4. Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

SECTION 11.5. Payment of Expenses and Taxes; Indemnity. The Borrower agrees (a) to pay or reimburse (i) the Administrative Agent and its Affiliates for all their reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation and execution of, and any amendment, supplement or modification to, this Agreement and any Notes and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of special counsel to the Administrative Agent and (ii) the Banks for the reasonable fees and disbursements of special counsel to the Banks in connection with the same, (b) to pay or reimburse each Bank and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, any Notes, the other Loan Documents and any such other documents, including, without limitation, the reasonable fees and disbursements of the several special counsel to the Banks and the Administrative Agent, (c) without duplication of any other provision contained in this Agreement or any Notes, to pay, indemnify, and hold each Bank and the Administrative Agent harmless from, any and all recording and filing fees, if any, and any and all liabilities (for which each Bank has not been otherwise reimbursed under this Agreement) with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any Notes, the other Loan Documents and any such other documents, and (d) without duplication of any other provision contained in this Agreement or any Notes, to pay, indemnify, and hold each Bank and the Administrative Agent together with their respective directors, officers, employees, agents and

affiliates (collectively, "Indemnified Persons") harmless from and against, any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, any Notes, the other Loan Documents or the use, or proposed use, of proceeds of the Loans and any such other documents (all the foregoing in this clause (d), collectively, the "Indemnified Liabilities"); provided that the Borrower shall have no obligation hereunder to an Indemnified Person with respect to Indemnified Liabilities to the extent they are found in a final judgment of a court of competent jurisdiction to have resulted primarily from the gross negligence or willful misconduct of such Indemnified Person, AND PROVIDED FURTHER THAT IT IS THE INTENTION OF THE BORROWER TO INDEMNIFY THE INDEMNIFIED PERSONS AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE. The agreements in this Section 11.5 shall survive repayment of the Loans and all other amounts payable hereunder.

SECTION 11.6. Effectiveness; Successors and Assigns; Participations; Assignments. (a) This Agreement shall become effective on the Closing Date and thereafter shall be binding upon and inure to the benefit of the Borrower, the Banks, the Administrative Agent, all future holders of the Loans and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Bank.

(b) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions or Bank Affiliates (a "Participant") participating interests in any Loan owing to such Bank, any Note held by such Bank, any Commitment of such Bank or any other interest of such Bank hereunder and under the other Loan Documents. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Loan and Commitment or other interest for all purposes under this Agreement and the other Loan Documents, the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement and the other Loan Documents and except with respect to the matters set forth in Section 11.1, the amendment of which requires the consent of all of the Banks, the participation agreement between the selling Bank and the Participant may not restrict such Bank's voting rights hereunder. The Borrower agrees that each Participant, to the extent provided in its participation, shall be entitled to the benefits of Sections 4.4, 4.7, 5.1 and 5.3 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the selling Bank would have been entitled to receive in respect of the amount of the participation sold by such selling Bank to such Participant had no such sale occurred. Except as expressly provided in this Section 11.6(b), no Participant shall be a third-party beneficiary of or have any rights under this Agreement or under any of the other Loan Documents.

(c) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more additional banks ("Purchasing Banks") all or any part of its rights and obligations under this Agreement pursuant

to an Assignment and Acceptance, substantially in the form of Exhibit 11.6(c) ("Assignment and Acceptance"), executed by such Purchasing Bank and such transferor Bank (and, in the case of a Purchasing Bank that is not a Bank Affiliate, by the Administrative Agent) and delivered to the Administrative Agent for its acceptance and recording in the Register; provided that each such sale hereunder shall be in an aggregate amount of not less than $1,000,000. Upon such execution, delivery, acceptance and recording, from and after the Closing Date determined pursuant to such Assignment and Acceptance (the "Transfer Effective Date"), (i) the Purchasing Bank thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder with the Commitments as set forth therein and (ii) the transferor Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of a transferor Bank's rights and obligations under this Agreement, such transferor Bank shall cease to be a party hereto). Such Assignment and Acceptance shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Bank and the resulting adjustment of Pro Rata Percentages arising from the purchase by such Purchasing Bank of all or a portion of the rights and obligations of such transferor Bank under this Agreement. On or prior to the Transfer Effective Date determined pursuant to such Assignment and Acceptance, (i) appropriate entries shall be made in the accounts of the transferor Bank and the Register evidencing such assignment and releasing the Borrower from any and all obligations to the transferor Bank in respect of the assigned Loan or Loans and (ii) appropriate entries evidencing the assigned Loan or Loans shall be made in the accounts of the Purchasing Bank and the Register as required by Section 4.1 hereof. In the event that any Notes have been issued in respect of the assigned Loan or Loans, such Notes shall be marked "cancelled" and surrendered by the transferor Bank to the Administrative Agent for return to the Borrower.

(d) The Administrative Agent shall maintain at its address referred to in Section 11.2 a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of the Banks and the Commitments of, and principal amount of the Loans owing to, each Bank from time to time. To the extent permitted by applicable law, the entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Banks may (and, in the case of any Loan or other obligations hereunder not evidenced by a Note, shall) treat each Person whose name is recorded in the Register as the owner of a Loan or other obligation hereunder as the owner thereof for all purposes of this Agreement and the other Loan Documents, notwithstanding any notice to the contrary. Any assignment of any Loan or other obligation hereunder not evidenced by a Note shall be effective only upon appropriate entries with respect thereto being made in the Register. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an Assignment and Acceptance executed by a transferor Bank and Purchasing Bank (and, in the case of a Purchasing Bank that is not then a Bank Affiliate, by the Administrative Agent) together with payment to the Administrative Agent of a registration and processing fee of (i) $3,000 with respect to (and payable by) any Purchasing Bank that is not already a Bank or a Bank Affiliate and (ii) $1,000 with respect to any Purchasing Bank that is already a Bank or a Bank Affiliate, the Administrative Agent shall promptly accept such Assignment and Acceptance on the Transfer Effective Date determined

pursuant thereto, record the information contained therein in the Register and give notice of such acceptance and recordation to the Borrower.

(f) Each of the Banks and the Administrative Agent agrees to exercise its best efforts to keep, and to cause any third party recipient of the information described in this Section 11.6(f) to keep, any information delivered or made available by the Borrower to it (including any information obtained pursuant to Section 8.1), confidential from anyone other than Persons employed or retained by such party who are or are expected to become engaged in evaluating, approving, structuring or administering the transactions contemplated hereunder; provided that nothing herein shall prevent any Bank or the Administrative Agent from disclosing such information (i) to any other Bank or any Affiliate of any Bank, (ii) pursuant to subpoena or upon the order of any court or administrative agency, (iii) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (iv) if such information has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which either the Administrative Agent, any Bank, the Borrower or their respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to the Administrative Agent's or such Bank's, as the case may be, legal counsel, independent auditors and other professional advisors and (viii) to any actual or proposed Participant or Purchasing Bank (each, a "Transferee") that has agreed in writing to be bound by the provisions of this Section 11.6(f). Unless prohibited from doing so by applicable law, in the event that any Bank or the Administrative Agent is legally requested or required to disclose any confidential information pursuant to clause (ii), (iii), or (v) of this Section 11.6(f), such party shall promptly notify the Borrower of such request or requirement prior to disclosure so that Borrower may seek an appropriate protective order and/or waive compliance with the terms of this Agreement. If, however, in the opinion of counsel for such party, such party is nonetheless, in the absence of such order or waiver, compelled to disclose such confidential information or otherwise stand liable for contempt or suffer possible censure or other penalty or liability, then such party may disclose such confidential information without liability to the Borrower; provided, however, that such party will use its best efforts to minimize the disclosure of such information. Subject to the exceptions above to disclosure of information, each of the Banks and the Administrative Agent agrees that it shall not publish, publicize, or otherwise make public any information regarding this Agreement or the transactions contemplated hereby without the written consent of the Borrower, in its sole discretion.

(g) If, pursuant to this Section, any interest in this Agreement or any Loan is transferred to any Transferee that is organized under the laws of any jurisdiction other than the United States or any state thereof, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer, (i) to deliver to the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Administrative Agent and the Borrower) either U.S. Internal Revenue Service Form W-8BEN or U.S. Internal Revenue Service Form W-8ECI, or successor applicable forms (wherein such Transferee claims entitlement to complete exemption from U.S. federal withholding tax on all interest payments hereunder) and (ii) to agree (for the benefit of the transferor Bank, the Administrative Agent and the Borrower) to deliver to the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Administrative Agent and the Borrower) a new duly executed and completed Form W-8BEN or Form W-8ECI, or successor applicable forms or other manner of certification, as the case may be, upon the expiration or obsolescence of any previously delivered form in accordance with

applicable U.S. laws and regulations and amendments, unless in any such case any change in treaty, law or regulation has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Transferee from duly completing and delivering any such form with respect to it and such Transferee so advises the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Administrative Agent and the Borrower).

(h) Nothing herein shall prohibit any Bank from pledging or assigning all or any portion of its Loans to any Federal Reserve Bank in accordance with applicable law. In order to facilitate such pledge or assignment, the Borrower hereby agrees that, upon request of any Bank at any time and from time to time after the Borrower has made its initial borrowing hereunder, the Borrower shall provide to such Bank, at the Borrower's own expense, a promissory note, substantially in the form of Exhibit 11.6(h) evidencing the Loans owing to such Bank.

SECTION 11.7. Setoff. In addition to any rights and remedies of the Banks provided by law, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Loans to which it is a party (whether at the stated maturity, by acceleration or otherwise) to setoff and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank or any branch or agency thereof to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such setoff and application.

SECTION 11.8. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be maintained with the Borrower and the Administrative Agent.

SECTION 11.9. Severability. Any provision of this Agreement that 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.

SECTION 11.10. Integration. This Agreement and the other Loan Documents represent the agreement of the Borrower, the Administrative Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

SECTION 11.11. GOVERNING LAW. (a) THIS AGREEMENT AND ANY NOTES OR OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS

OF THE PARTIES UNDER THIS AGREEMENT AND ANY NOTES AND ANY OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

(b) Notwithstanding anything in Section 11.11(a) to the contrary, nothing in this Agreement or in any Note or any other Loan Documents shall be deemed to constitute a waiver of any rights which any Bank may have under applicable federal law relating to the amount of interest which any Bank may contract for, take, receive or charge in respect of any Loans, including any right to take, receive, reserve and charge interest at the rate allowed by the laws of the state where such Bank is located. To the extent that Texas law is applicable to the determination of the Highest Lawful Rate, the Banks and the Borrower agree that (i) if Chapter 303 of the Texas Finance Code, as amended, is applicable to such determination, the weekly rate ceiling (formerly known as the indicated (weekly) rate ceiling in Article 1.04, Subtitle 1, Title 79, of the Revised Civil Statutes of Texas, as amended, as computed from time to time shall apply, provided that, to the extent permitted by such Article, the Administrative Agent may from time to time by notice to the Borrower revise the election of such interest rate ceiling as such ceiling affects then current or future balances of the Loans; and (ii) the provisions of Chapter 346 of the Texas Finance Code, as amended (formerly found in Chapter 15 of Subtitle 3, Title 79, of the Revised Civil Statutes of Texas, 1925, as amended, shall not apply to this Agreement or any Note issued hereunder.

SECTION 11.12. Submission to Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, 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 Borrower at its address set forth in Section 11.2 or at such other address of which the Administrative 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 permitted by applicable law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 11.12 any special, exemplary, punitive or consequential damages.

SECTION 11.13. Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, any Notes and the other Loan Documents;

(b) neither the Administrative Agent nor any Bank has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Administrative Agent and the Banks, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or among the Borrower and the Banks.

SECTION 11.14. Limitation on Agreements. All agreements between the Borrower, the Administrative Agent or any Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made in respect of an amount due under any Loan Document or otherwise, shall the amount paid, or agreed to be paid, to the Administrative Agent or any Bank for the use, forbearance, or detention of the money to be loaned under this Agreement, any Notes or any other Loan Document or otherwise or for the payment or performance of any covenant or obligation contained herein or in any other Loan Document exceed the Highest Lawful Rate. If, as a result of any circumstances whatsoever, fulfillment of any provision hereof or of any of such documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if, from any such circumstance, the Administrative Agent or any Bank shall ever receive interest or anything that might be deemed interest under applicable law that would exceed the Highest Lawful Rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing on account of such Bank's Loans or the amounts owing on other obligations of the Borrower to the Administrative Agent or any Bank under any Loan Document and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of such Bank's Loans and the amounts owing on other obligations of the Borrower to the Administrative Agent or any Bank under any Loan Document, as the case may be, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Administrative Agent or any Bank for the use, forbearance or detention of the indebtedness of the Borrower to the Administrative Agent or any Bank shall, to the fullest extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full of the principal (including the period of any renewal or extension thereof) so that the interest on account of such indebtedness shall not exceed the Highest Lawful Rate. Notwithstanding anything to the contrary contained in any Loan Document, it is understood and agreed that if at any time the rate of interest that accrues on the outstanding principal balance of any Loan shall exceed the Highest Lawful Rate, the rate of interest that accrues on the outstanding principal balance of any Loan shall be limited to the Highest Lawful Rate, but any subsequent reductions in the rate of interest that accrues on the outstanding principal balance of any Loan shall not reduce the rate of interest that accrues on the outstanding principal balance of any Loan below the Highest Lawful Rate until the total amount of interest accrued on the outstanding principal

balance of any Loan equals the amount of interest that would have accrued if such interest rate had at all times been in effect. The terms and provisions of this Section 11.14 shall control and supersede every other provision of all Loan Documents.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or Administrative Agents thereunto duly authorized, as of the date first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,

By: /s/ MARC KILBRIDE
---
Name: Marc Kilbride
Title: Vice President and Treasurer

Signature page to CenterPoint Energy Houston
Electric, LLC $1,310,000,000 credit agreement,
dated as of November 12, 2002,

CREDIT SUISSE FIRST BOSTON, acting
through its Cayman Islands Branch,
as Administrative Agent, and as a Bank,

By: /s/ JAMES P. MORAN
---
Name: James P. Moran
Title: Director

By: /s/ VANESSA GOMEZ
---
Name: Vanessa Gomez
Title: Associate

Signature page to CenterPoint Energy Houston
Electric, LLC $1,310,000,000 credit agreement,
dated as of November 12, 2002,

GOVERNMENT EMPLOYEES INSURANCE COMPANY,
as a Bank,

By: /s/ THOMAS M. WELLS
---
Name: Thomas M. Wells
Title: Senior Vice President, Controller and
Chief Financial Officer

Signature page to CenterPoint Energy Houston
Electric, LLC $1,310,000,000 credit agreement,
dated as of November 12, 2002,

GENERAL RE CORPORATION,
as a Bank

By: /s/ ELIZABETH A. MONRAD
---
Name: Elizabeth A. Monrad
Title: Senior Vice President, Treasurer and
Chief Financial Officer

EXHIBIT 4(g)(2)

EXECUTION COPY

PLEDGE AGREEMENT
(Series I Bonds)

PLEDGE AGREEMENT, dated as of November 12, 2002, made by and among CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), with and in favor of the Administrative Agent (as defined below).

W I T N E S S E T H:
- - - - - - - - - -

WHEREAS, pursuant to the Credit Agreement, the Banks thereunder have respectively agreed to make Loans to the Company, upon the terms and subject to the conditions set forth therein;

NOW, THEREFORE, in consideration of the premises and to induce the Banks to make Loans 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:

"Administrative Agent": Credit Suisse First Boston, in its capacity as administrative agent under the Credit Agreement.

"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 Bonds, (ii) all Investment Property constituting or arising from any Collateral, and (iii) all Proceeds of any of the foregoing.

"Credit Agreement": the Credit Agreement, dated as of November 12, 2002, among CenterPoint Energy Houston Electric, LLC, the Banks party thereto, and Credit Suisse First Boston, as administrative agent, as amended, supplemented or otherwise modified from time to time.

"Indenture": the General Mortgage Indenture, dated as of October 10, 2002, by 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 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": the collective reference to the unpaid principal of and interest on the Loans under the Credit Agreement and all other obligations and liabilities of the Company (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Company, whether or not a claim for post-filing or post-petition interest is allowed or allowable in such proceeding) to the Administrative Agent or any other Secured Party, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, any other Loan Documents, or any other document made, delivered or given in connection with any of the foregoing, in each case whether on account of principal, interest, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Banks that are required to be paid by the Company pursuant to the terms of any of the foregoing agreements).

"Pledged Bonds": the Series I Bonds, initially authenticated and delivered in the aggregate principal amount of One Billion Three Hundred Ten Million Dollars ($1,310,000,000), established in the Ninth Supplemental Indenture, dated as of November 12, 2002, between the Company and the Trustee.

"Proceeds": all "proceeds" as such term is defined in Section 9-102(a)(64) of the New York UCC as in effect 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.

"Secured Party": each Bank under the Credit Agreement and the Administrative Agent, and each of their successors and assigns.

"Securities Act": the Securities Act of 1933, as amended.

"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 issues, delivers, transfers and assigns to the Administrative Agent, for the ratable benefit of the Secured Parties, the Pledged Bonds, 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, and hereby grants a first priority security interest in the Collateral to the Administrative Agent for the ratable benefit of the Secured Parties. The Company hereby agrees that (i) subject to the terms hereof, the Administrative 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 Administrative 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. The Pledged Bonds shall be registered in the name of the Administrative Agent, and shall be held by the Administrative Agent for the ratable benefit of the Secured Parties. Notwithstanding anything herein to the contrary, should the Company become the subject of a case, proceeding or action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, the Pledged Bonds shall not be considered to be property of the Company's estate and the Administrative Agent and the Secured Parties shall be free to exercise all remedies hereunder respecting the Pledged Bonds or otherwise.

(b) The Company shall cause the physical delivery of the Pledged Bonds in certificated form to the Administrative Agent, registered in its name as Administrative 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 Administrative 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 Majority Banks, where consent of holders of Bonds of the Company is sought, the Administrative Agent shall vote, or shall consent with respect thereto, as follows: (i) the Administrative 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 Administrative Agent shall vote all Pledged Bonds then held by it, or consent with respect thereto, in accordance with the written direction of the Majority Banks (or such greater percentage of Banks as provided in the Credit Agreement). Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, the Administrative 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 Administrative Agent and registered in its name as Administrative Agent, and the other Bonds described in Schedule 1 attached hereto represent, in the aggregate, all of the Bonds authenticated and delivered as of 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 Administrative Agent of the Pledged Bonds, (i) subject to Section 3(b) hereof, the Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative Agent, be delivered to the Administrative 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 Administrative Agent, hold such money or property in trust for the Administrative 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 Administrative 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 Administrative Agent with respect to the Company and the Collateral shall include (without limitation of the other rights and remedies available to the Administrative Agent or any Secured Party under the Credit Agreement or otherwise available to it) (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, (iii) the right to vote the Pledged Bonds in accordance with the terms of the Indenture at the written direction of the Majority Banks, (iv) the right to issue consents and waivers with respect to the Pledged Bonds at the written direction of the Majority Banks, (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 at the written direction of the Majority Banks, and (vi) the right to exercise all other rights and remedies of a "holder" of a Pledged Bond under the Indenture.

(b) If an Event of Default shall have occurred and be continuing at any time at the election of the Administrative Agent, the Administrative Agent may apply all or any part of Proceeds constituting Collateral in payment of the Obligations in such order as the Administrative Agent may determine consistent with the provisions of this Section 6. Application of Proceeds by the Administrative Agent hereunder, or any other application by the Administrative Agent of sums or property hereunder to be made to or for the benefit of the Secured Parties, shall be made first to the fees, costs, expenses or losses of the Administrative Agent in connection with this Agreement or its administration or enforcement or in any way relating to the Collateral or the rights of the Administrative Agent and the other Secured Parties hereunder, including, without limitation, reasonable attorneys' fees and disbursements of counsel to the Administrative Agent and the other Secured Parties hereunder, and then to the Secured Parties pro rata based on the aggregate amount of Obligations held by or owed to them (whether or not then due and payable). All Proceeds while held by the Administrative Agent (or by the Company in trust for the Administrative Agent) shall continue to be held as collateral security for the Obligations and shall not constitute payment thereof until applied as provided in this Section 6. Subject to the other applicable provisions hereof, any balance of such Proceeds remaining after the Obligations shall have been paid in full shall be paid over to the Company or to whomsoever may be lawfully entitled to receive the same.

(c) If an Event of Default shall have occurred and be continuing, the Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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 Administrative 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. The Company shall remain liable for any deficiency if the proceeds of any sale or other disposition of Collateral are insufficient to pay the Obligations.

(d) (i) The Company recognizes that the Administrative 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 Administrative 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(d) valid and binding and in compliance with any and all other applicable requirements of law.

7. Administrative 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 Administrative 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 Administrative Agent. The Administrative 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 Administrative Agent deals with similar securities and property for its own accounts. None of the Administrative Agent, any Bank, each of their successors and assigns, 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 Administrative Agent hereunder are solely to protect the Secured Parties' interests in the Collateral and shall not impose any duty upon the Administrative Agent to exercise any such powers. The Administrative 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 Administrative Agent. The Company acknowledges that the rights and responsibilities of the Administrative 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 Administrative 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 Administrative Agent and the Company, the Administrative Agent shall be conclusively presumed to be acting as an agent for the Banks 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 Administrative 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 Administrative Agent reasonably determines appropriate to perfect the security interests of the Administrative 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 Administrative 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 Administrative Agent at the following:

(x) if to the Company: 1111 Louisiana, Houston, Texas 77002, Attention of Linda Geiger, Assistant Treasurer (Telecopy No. 713-207-3301); and

(y) if to the Administrative Agent: Credit Suisse First Boston, 11 Madison Avenue, New York, New York 10010, Attention of Julia Kingsbury (Telecopy No. 212-325-8304).

12. Return of Documents; Cooperation. Upon the payment in full of all Obligations and termination of this Agreement, the Administrative Agent shall (a) surrender the Pledged Bonds to the Trustee and (b) return to the Company all other Collateral previously delivered to the Administrative 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 Administrative 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 Administrative Agent (as instructed by the Majority Banks or such other percentage of Banks as may be required pursuant to the terms of the Credit Agreement).

(b) The Administrative 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 Loan 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 Loan 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 the other Loan 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 Administrative 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. Release. At any time when the unpaid principal amount of the Loans under the Credit Agreement shall have been repaid in whole or in part, an amount of Pledged Bonds under this Agreement shall be released (whether by virtue of a reduction in the aggregate principal amount of the Pledged Bonds pursuant to the terms of such Pledged Bonds, or otherwise) from the security interests created hereby in the principal amount by which such Obligations are repaid, and all obligations (other than those expressly stated to survive such repayment) of the Administrative Agent and the Company in relation to such released Collateral shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to such released Collateral shall revert to the Company. At the request and sole expense of the Company following any such repayment, the Administrative Agent shall deliver to the Company any Collateral (including certificates representing Pledged Bonds released as part of such Collateral) released under the terms of this Section 21 and held by the Administrative Agent hereunder, and execute and deliver to the Company such documents (including appropriate notations to any Pledged Bond confirming the amount of any reduction in the aggregate principal amount of such Pledged Bond) as the Company shall reasonably request to evidence such release. The Company agrees that if at any time payment, or any part thereof, of any Obligation is rescinded or must otherwise be restored by the Administrative Agent or any other Secured Party, upon the bankruptcy or reorganization of the Company or otherwise, Pledged Bonds, in a principal amount equal to the amount rescinded or otherwise required to be restored, and all rights thereto, shall revert to the Administrative Agent for the ratable benefit of the Secured Parties.

22. WAIVER OF JURY TRIAL. THE COMPANY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be duly executed and delivered as of the date first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ MARC KILBRIDE
---
Name: Marc Kilbride
---
Title: Vice President and Treasurer
---

CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands branch, as Administrative Agent

By: /s/ S. WILLIAM FOX
---
Name: S. William Fox
---
Title: Vice President
---

By: /s/ JAMES P. MORAN
---
Name: James P. Moran
---
Title: Director
---

SCHEDULE 1
to Pledge Agreement

BONDS AUTHENTICATED AND DELIVERED UNDER THE INDENTURE

(1) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Eight Hundred Fifty Million Dollars ($850,000,000) established in the First Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the First Supplemental Indenture;

(2) the series of Securities (as defined in the Indentures), initially authenticated and delivered in the aggregate principal amount of Fifty Million Dollars ($50,000,000) established in the Second Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Second Supplemental Indenture;

(3) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Sixty Eight Million Dollars ($68,000,000) established in the Third Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Third Supplemental Indenture;

(4) the series of Securities, initially authenticated and delivered in the aggregate principal amount of One Hundred Million Dollars ($100,000,000) established in the Fourth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Fourth Supplemental Indenture;

(5) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Ninety Million Dollars ($90,000,000) established in the Fifth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Fifth Supplemental Indenture;

(6) the series of Securities, initially authenticated and delivered in the aggregate principal amount of One Hundred Million Dollars ($100,000,000) established in the Sixth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Sixth Supplemental Indenture;

(7) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Nineteen Million Two Hundred Thousand Dollars ($19,200,000) established in the Seventh Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Seventh Supplemental Indenture;

(8) the series of Securities, initially authenticated and delivered in the aggregate principal amount of One Hundred Million Dollars ($100,000,000) established in the Eighth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Eighth Supplemental Indenture; and

(9) the Pledged Bonds.

EXHIBIT 10(j)(11)

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Established Effective September 1, 1985)

Tenth Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend Section 1.2(n) of the Plan effective January 1, 2001, as follows:

"Notwithstanding the foregoing, Resources Participants shall be offered the opportunity to make a one-time, irrevocable election to treat such Participant's future employment, if any, with Reliant Resources, Inc. ('RRI') and its subsidiaries following completion of the spin-off of RRI from the Company ('RRI Employment') as 'Employment' with an Employer hereunder (to the extent such Resources Participant commenced RRI Employment prior to the spin-off of RRI from the Company) for all purposes except any such Employee shall not be eligible to make any additional deferrals of Compensation under the Plan during any period of RRI Employment in which a Resources Participant is also eligible to participate in a deferred compensation program or plan sponsored by RRI. For this purpose, 'Resources Participant' includes (i) each and every Participant as of December 1, 2000, in which case the election must be made on or before December 31, 2000 and (ii) each and every individual who becomes a Participant after December 1, 2000, in which case the election must be made on or before December 31, 2001; provided that the Committee may allow individuals electing not to treat RRI Employment as 'Employment' hereunder to make a subsequent, one-time election to transfer benefits under this Plan to a deferred compensation program or plan sponsored by RRI. Any such one-time irrevocable election shall be made on such form and in such manner as prescribed by the Committee under uniform procedures equally applicable to all Resources Participants."

IN WITNESS WHEREOF, The Company has caused these presents to be executed by its duly authorized 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, this 27th day of September, 2002, but effective as of the date specified herein.

CENTERPOINT ENERGY, INC.

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
Vice Chairman

ATTEST:

/s/ RUFUS S. SCOTT
- ---
Assistant Secretary

CENTERPOINT ENERGY, INC.
DEFERRED COMPENSATION PLAN

(As Established Effective September 1, 1985)

Eleventh Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having established the Houston Industries Incorporated Deferred Compensation Plan, effective September 1, 1985, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of August 31, 2002, the Plan is hereby amended to provide that all references to "Houston Industries Incorporated" are deleted and replaced in lieu thereof with "CenterPoint Energy, Inc." and the definition of "Company" in Article I of the Plan is hereby amended to read as follows:

"1.2(f) 'Company' means CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets."

2. Effective as of October 2, 2002, the Plan is hereby renamed the CenterPoint Energy, Inc. Deferred Compensation Plan, with all references in the Plan amended accordingly, and the definition of "Plan" in Article I of the Plan is hereby amended to read as follows:

"1.2(s) 'Plan' means the CenterPoint Energy, Inc. Deferred Compensation Plan, as established effective September 1, 1985, and as set forth herein, as the same may hereafter be amended from time to time."

3. Effective as of December 4, 2002, Article V of the Plan is hereby amended to add the following Section 5.9 to the end thereof:

"5.9 Terminations under the 2002 Voluntary Early Retirement Program.

(a) Prior to Early Retirement Date. Notwithstanding any other provisions of the Plan to the contrary, if a Participant who fulfills the requirements of an 'Eligible

VERP Employee' pursuant to Section 8.6 of the CenterPoint Energy, Inc. Retirement Plan is terminated prior to the first day of the month coincident with or next following the date of the Participant's 60th birthday and the Participant consents to the election of this amendment to the Plan, distribution shall not be made as described in Section 5.1 (a)-(c), but the Employer (x) shall pay the Participant the sum or sums of Compensation actually deferred, with interest thereon, compounded annually, at the applicable interest rate specified in the Participant's Agreement for each Participation Year, from the Commencement Date through the date of payment, minus any Early Distributions paid to date and (y) shall pay such amount in 15 annual installment payments commencing the first day of the month coincident with or next following the month in which the Participant terminates employment and payable thereafter in that same month in each remaining year.

(b) After Early Retirement Date. If the employment of a Participant is terminated voluntarily as described in subsection (a) above but after the Participant's Early Retirement Date, distributions shall be made as otherwise provided in this Article V.

(c) Commutation. Any installment payment hereunder may be commuted as provided in Section 5.1 (e)."

IN WITNESS WHEREOF, the Company 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 20th day of December, 2002, but effective as of the dates specified herein.

CENTERPOINT ENERGY, INC.

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ RUFUS S. SCOTT
- ---
Assistant Secretary

EXHIBIT 10(k)(11)

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1989)

Tenth Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend Section 1.2(o) of the Plan effective January 1, 2001, as follows:

"Notwithstanding the foregoing, Resources Participants shall be offered the opportunity to make a one-time, irrevocable election to treat such Participant's future employment, if any, with Reliant Resources, Inc. ('RRI') and its subsidiaries following completion of the spin-off of RRI from the Company ('RRI Employment') as 'Employment' with an Employer hereunder (to the extent such Resources Participant commenced RRI Employment prior to the spin-off of RRI from the Company) for all purposes except any such Employee shall not be eligible to make any additional deferrals of Compensation under the Plan during any period of RRI Employment in which a Resources Participant is also eligible to participate in a deferred compensation program or plan sponsored by RRI. For this purpose, 'Resources Participant' includes (i) each and every Participant as of December 1, 2000, in which case the election must be made on or before December 31, 2000 and (ii) each and every individual who becomes a Participant after December 1, 2000, in which case the election must be made on or before December 31, 2001; provided that the Committee may allow individuals electing not to treat RRI Employment as 'Employment' hereunder to make a subsequent, one-time election to transfer benefits under this Plan to a deferred compensation program or plan sponsored by RRI. Any such one-time irrevocable election shall be made on such form and in such manner as prescribed by the Committee under uniform procedures equally applicable to all Resources Participants."

IN WITNESS WHEREOF, The Company has caused these presents to be executed by its duly authorized 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, this 27th day of September, 2002, but effective as of the date specified herein.

CENTERPOINT ENERGY, INC.

By /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
Vice Chairman

ATTEST:

/s/ RUFUS S. SCOTT
- ---
Assistant Secretary

CENTERPOINT ENERGY, INC.
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1989)

Eleventh Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1989, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of August 31, 2002, the Plan is hereby amended to provide that all references to "Houston Industries Incorporated" are deleted and replaced in lieu thereof with "CenterPoint Energy, Inc." and the definition of "Company" in Article I of the Plan is hereby amended to read as follows:

"1.2(e) 'Company' means CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets."

2. Effective as of October 2, 2002, the Plan is hereby renamed the CenterPoint Energy, Inc. Deferred Compensation Plan, with all references in the Plan amended accordingly, and the definition of "Plan" in Article I of the Plan is hereby amended to read as follows:

"1.2(v) 'Plan' means the CenterPoint Energy, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 1989, and as set forth herein, as the same may hereafter be amended from time to time."

3. Effective as of December 4, 2002, Article V of the Plan is hereby amended to add the following Section 5.9 to the end thereof:

"5.9 Terminations under the 2002 Voluntary Early Retirement Program.

(a) Prior to Early Retirement Date. Notwithstanding any other provisions of the Plan to the contrary, if a Participant who fulfills the requirements of an 'Eligible

VERP Employee' pursuant to Section 8.6 of the CenterPoint Energy, Inc. Retirement Plan is terminated prior to the first day of the month coincident with or next following the date of the Participant's 60th birthday and the Participant consents to the election of this amendment to the Plan, a Normal Retirement Distribution as described in Section 5.1 or a distribution as described in Section 5.4 shall not be made, but the Employer (x) shall pay the Participant the sum or sums of Compensation actually deferred, with interest thereon, compounded annually, at the applicable Interest Crediting Rate for each Participation Year, from the Commencement Date through the date of payment, minus any Early Distributions paid to date, (y) shall make a lump sum distribution or 15 annual installment payments in accordance with the Participant's election under Section 5.1(b) and, if payable in a lump sum, in the January following the Participant's termination of employment or, if payable in installments, commencing on the first day of the month coincident with or next following the month in which the Participant terminates employment and payable thereafter in that same month in each remaining year, and (z) shall not make any future Early Distributions to such Participant.

(b) After Early Retirement Date. If the employment of a Participant is terminated voluntarily as described in subsection (a) above but after the first day of the month coincident with or next following the date of the Participant's 60th birthday, distributions (including Early Distributions) shall be made as otherwise provided in this Article V.

(c) Commutation. Any installment payment hereunder may be commuted as provided in Section 5.1 (f)."

IN WITNESS WHEREOF, the Company 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 20th day of December, 2002, but effective as of the dates specified herein.

CENTERPOINT ENERGY, INC.

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ RUFUS S. SCOTT
- ---
Assistant Secretary

EXHIBIT 10(l)(12)

HOUSTON INDUSTRIES INCORPORATED
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Eleventh Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, as follows:

1. Effective January 1, 2001, Section 1.2(n) of the Plan is hereby amended, by adding the following to the end thereof:

> "Notwithstanding the foregoing, Resources Participants shall be offered the opportunity to make a one-time, irrevocable election to treat such Participant's future employment, if any, with Reliant Resources, Inc. ('RRI') and its subsidiaries following completion of the spin-off of RRI from the Company ('RRI Employment') as 'Employment' with an Employer hereunder (to the extent such Resources Participant commenced RRI Employment prior to the spin-off of RRI from the Company) for all purposes except any such Employee shall not be eligible to make any additional deferrals of Compensation under the Plan during any period of RRI Employment in which a Resources Participant is also eligible to participate in a deferred compensation program or plan sponsored by RRI. For this purpose, 'Resources Participant' includes (i) each and every Participant as of December 1, 2000, in which case the election must be made on or before December 31, 2000 and (ii) each and every individual who becomes a Participant after December 1, 2000, in which case the election must be made on or before December 31, 2001; provided that the Committee may allow individuals electing not to treat RRI Employment as 'Employment' hereunder to make a subsequent, one-time election to transfer benefits under this Plan to a deferred compensation program or plan sponsored by RRI. Any such one-time irrevocable election shall be made on such form and in such manner as prescribed by the Committee under uniform procedures equally applicable to all Resources Participants."

2. Effective January 1, 2002, Section 3.4 of the Plan is hereby amended by adding the following provisions to the end thereof:

"A Participant may also make a Savings Plan excess deferral election with respect to the payment of Compensation. A Savings Plan excess deferral election must be specified as a percentage of Compensation, and will only become effective during the Participation Year at such time as the Participant is prevented from accruing additional benefits under the Savings Plan by reason of the application of Section 415(c) or Section 401(a)(17) of the Code (or any successor provisions) (the 'Applicable Limits'). A Savings Plan excess deferral election under this Section 3.4 will not become effective solely on account of a Participant's pre-tax deferrals under the Savings Plan reaching an annual limit set forth in Section 402(g) of the Code (or any successor provision), and the limitation in such section is not an Applicable Limit. The percentage of Compensation elected to be deferred as a Savings Plan excess deferral election shall be withheld from the Participant's Compensation during each pay period beginning with the pay period in which the Participant reaches an Applicable Limit and shall continue during each pay period for the remainder of the Participation Year. Any interest which accrues on such Savings Plan excess deferrals pursuant to Article V shall accrue from January 1 of each Participation Year on the total amount of salary deferred during the Participation Year under this Section 3.4. For purposes of this paragraph, 'Savings Plan' means the Reliant Energy, Incorporated Savings Plan, as amended from time to time."

3. Effective January 1, 2002, Section 5.4 of the Plan is hereby amended in its entirety to read as follows:

"If the employment of an Employee Participant is terminated for any reason other than death, retirement at or after Normal Retirement Date, or early retirement in accordance with the provisions of Section 5.1(d), a Normal Retirement Distribution payable in 15 annual installments as described in Section 5.1(b) shall not be made, but the Employer shall pay the Participant the sum or sums of Compensation actually deferred, with interest thereon, compounded annually, at the applicable Moody's Rate for each Participation Year, from the Commencement Date through the date of payment; provided that for any Participation Year in which the Committee determines that such Participant's deferral election was undertaken solely to preserve the deductibility of the Participant's Compensation pursuant to Section 162(m) of the Code, then interest on amounts deferred with respect to such Participation Year shall be calculated using the applicable Interest Crediting Rate for such Participation Year, rather than the applicable Moody's Rate. Notwithstanding the foregoing, the amount payable under this Section 5.4 shall be reduced by amounts equal to any Early Distribution or other benefit paid prior thereto, with adjustments for interest.

Payments under this Section 5.4 shall be made within 95 days following the date of Participant's termination of employment or as soon as practicable thereafter."

IN WITNESS WHEREOF, The Company has caused these presents to be executed by its duly authorized 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, this 27th day of September, 2002, but effective as of the dates specified herein.

CENTERPOINT ENERGY, INC.

By /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
Vice Chairman

ATTEST:

/s/ RUFUS S. SCOTT
- ---
Assistant Secretary

CENTERPOINT ENERGY, INC.
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 1991)

Twelfth Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having amended and restated the Houston Industries Incorporated Deferred Compensation Plan, effective January 1, 1991, and as thereafter amended (the "Plan"), and having reserved the right under Section 7.1 thereof to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of August 31, 2002, the Plan is hereby amended to provide that all references to "Houston Industries Incorporated" are deleted and replaced in lieu thereof with "CenterPoint Energy, Inc." and the definition of "Company" in Article I of the Plan is hereby amended to read as follows:

"1.2(e) 'Company' means CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets."

2. Effective as of October 2, 2002, the Plan is hereby renamed the CenterPoint Energy, Inc. Deferred Compensation Plan, with all references in the Plan amended accordingly, and the definition of "Plan" in Article I of the Plan is hereby amended to read as follows:

"1.2(v) 'Plan' means the CenterPoint Energy, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 1991, and as set forth herein, as the same may hereafter be amended from time to time."

3. Effective as of December 4, 2002, Article V of the Plan is hereby amended to add the following Section 5.9 to the end thereof:

"5.9 Terminations under the 2002 Voluntary Early Retirement Program.

(a) Prior to Early Retirement Date. Notwithstanding any other provisions of the Plan to the contrary, if a Participant who fulfills the requirements of an 'Eligible

VERP Employee' pursuant to Section 8.6 of the CenterPoint Energy, Inc. Retirement Plan is terminated prior to the first day of the month coincident with or next following the date of the Participant's 60th birthday and the Participant consents to the election of this amendment to the Plan, a Normal Retirement Distribution as described in Section 5.1 or a distribution as described in Section 5.4 shall not be made, but the Employer (x) shall pay the Participant the sum or sums of Compensation actually deferred, with interest thereon, compounded annually, at the applicable Interest Crediting Rate for each Participation Year, from the Commencement Date through the date of payment, minus any Early Distributions paid to date, (y) shall make a lump sum distribution or 15 annual installment payments in accordance with the Participant's election under Section 5.1(b) and, if payable in a lump sum, in the January following the Participant's termination of employment or, if payable in installments, commencing on the first day of the month coincident with or next following the month in which the Participant terminates employment and payable thereafter in that same month in each remaining year, and (z) shall not make any future Early Distributions to such Participant.

(b) After Early Retirement Date. If the employment of a Participant is terminated voluntarily as described in subsection (a) above but after the first day of the month coincident with or next following the date of the Participant's 60th birthday, distributions (including Early Distributions) shall be made as otherwise provided in this Article V.

(c) Commutation. Any installment payment hereunder may be commuted as provided in Section 5.1 (f)."

IN WITNESS WHEREOF, the Company 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 20th day of December, 2002, but effective as of the dates specified herein.

CENTERPOINT ENERGY, INC.

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ RUFUS S. SCOTT
- ---
Rufus S. Scott
Assistant Secretary

EXHIBIT 10(u)(6)

RELIANT ENERGY, INCORPORATED SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

Fifth Amendment

CenterPoint Energy, Inc., a Texas corporation (formerly Reliant Energy, Incorporated), having reserved the right under Section 10.3 of the Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999, and as thereafter amended (the "Plan"), to amend the Plan, does hereby amend the Plan, to make certain design changes and certain law changes in accordance with the Economic Growth and Tax Relief Reconciliation Act of 2001, effective as of the dates set forth below, 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 Article I of the Plan is hereby amended to read as follows:

"1.8 COMPANY: CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets."

2. Effective as of October 2, 2002, the Plan is hereby renamed the CenterPoint Energy, Inc. Savings Plan, with all references in the Plan amended accordingly, and the definition of "Plan" in Article I of the Plan is hereby amended to read as follow:

"1.39 PLAN: The CenterPoint Energy, Inc. Savings Plan set forth herein, which is intended to constitute a profit-sharing plan under Section 401(a)(27) of the Code and an employee stock ownership plan under Section 4975(e)(7) of the Code, including all subsequent amendments hereto."

3. Effective as of October 2, 2002, the Plan is hereby amended to provide that all references in the Plan to "Reliant Energy, Incorporated Savings Trust" are hereby deleted

and replaced in lieu thereof with "CenterPoint Energy, Inc. Savings Trust" and the definition of "Trust Agreement" in Article I of the Plan is hereby amended to read as follows:

"1.68 TRUST AGREEMENT: The CenterPoint Energy, Inc. Savings Trust, as amended and restated effective April 1, 1999, and as it may hereafter be amended from time to time."

4. Effective as of January 1, 2002, Section 2.15 of the Plan is hereby amended to delete the penultimate sentence in such section.

5. Effective as of January 1, 2002, the first sentence in Section 2.16 of the Plan is hereby amended to read as follows:

"If an application filed by an Applicant under Section 2.15 above shall result in a denial of the benefit applied for, either in whole or in part, such Applicant shall have the right, to be exercised by written request filed with the Committee within 60 days after receipt of notice of the denial of his application, to request a review of his application and of his entitlement to the benefit for which he applied by the Committee."

6. Effective as of January 1, 2002, Section 2.16 of the Plan is hereby amended to delete the penultimate sentence in such section.

7. Effective as of January 1, 2002, the first sentence of Section 4.16 of the Plan is hereby amended to read as follows:

"Notwithstanding any other provision of the Plan, subject to the terms and conditions set forth in this Section, the Trustee shall be authorized to accept a rollover of an Eligible Rollover Distribution, as defined in Section 6.7(b)(i), on behalf of or from a person who is (or who will be entitled under Section 3.1 to become) a Participant in the Plan, from an Eligible Retirement Plan, as defined in Section 6.7(b)(ii)."

8. Effective as of January 1, 2002, the second paragraph of Section 6.5 of the Plan is hereby amended to read as follows:

"Otherwise, except to the extent that distribution of a Participant's Account is required prior to termination of his employment under Section 6.10 hereof (in the case of a Participant whose required beginning date occurs prior to his termination of employment) or under Section 10.5 hereof relating to termination of the Plan, or at the election of the Participant under Article VII hereof relating to certain

withdrawals and loans, no distribution or withdrawal of any benefits under the Plan shall be permitted prior to the Participant's `separation from employment, death or disability' within the meaning of Code Section 401(k) and the regulations thereunder other than a distribution authorized under the Plan upon the occurrence of an event described in, and made in accordance with, Code Section 401(k)(10) or any successor provision of the Code. Notwithstanding the foregoing, if there is a transfer of Plan assets and liabilities relating to any portion of a Participant's Account under the Plan to a plan being maintained or created by such Participant's new employer (other than a rollover or elective transfer), then such Participant has not experienced a "severance from employment" for purposes of the Plan."

9. Effective as of January 1, 2002, clause (i) of Section 6.7(b) of the Plan is hereby amended to add the following new sentence to the end thereof:

"A portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax contributions that are not includible in gross income; provided, however, that such after-tax portion may be transferred only to (1) an individual retirement account or annuity described in Code Section 408(a) or (b) or (2) a qualified defined contribution plan described in Code Section 401(a) or 403(a) that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible."

10. Effective as of January 1, 2002, clause (ii) of Section 6.7(b) of the Plan is hereby amended in its entirety to read as follows:

"(ii) Eligible Retirement Plan: An Eligible Retirement Plan is: (1) an individual retirement account described in Code Section 408(a); (2) an individual retirement annuity described in Code Section 408(b); (3) an annuity plan described in Code Section 403(a); (4) an annuity contract described in Code Section 403(b); (5) a qualified trust described in Code Section 401(a) that is exempt from taxation under Code Section 501(a); or (6) an eligible plan under Code Section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and that agrees to separately account for amounts transferred into such plan from the Plan; that accepts the Distributee's Eligible Rollover Distribution. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in Code Section 414(p)."

11. Effective as of January 1, 2002, Section 7.5 of the Plan is hereby amended to add the following new sentence to the end thereof:

"With respect to clause (i) above, the available loan balance will also be reduced by the amount of any prior loan that is deemed distributed under Code Section 72(p) and that has not been repaid (such as by a plan loan offset)."

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 19th day of December, 2002, 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/ RUFUS S. SCOTT
- ---
Assistant Secretary

EXHIBIT 10(u)(7)

# RELIANT ENERGY, INCORPORATED

# SAVINGS TRUST

(As Amended and Restated Effective April 1, 1999)

RELIANT ENERGY, INCORPORATED
SAVINGS TRUST

(As Amended and Restated Effective April 1, 1999)

I N D E X

RELIANT ENERGY, INCORPORATED
SAVINGS TRUST

(As Amended and Restated Effective April 1, 1999)

THIS TRUST AGREEMENT made and entered into as of the 1st day of April, 1999, by and between RELIANT ENERGY, INCORPORATED (formerly Houston Industries Incorporated), a Texas corporation (the "Company"), and THE NORTHERN TRUST COMPANY, an Illinois corporation (the "Trustee"), as trustee;

W I T N E S S E T H:

WHEREAS, by Agreement (the "1989 Trust Agreement") dated June 21, 1989 but effective as of July 1, 1989, between the Company and Texas Commerce Bank National Association, as trustee (the "Prior Trustee"), the Company amended, restated and continued a trust established in connection with the Savings Plan of Houston Industries Incorporated, as amended and restated effective January 1, 1976, and as thereafter amended (said plan as it existed in the form of the Savings Plan of Houston Industries Incorporated, as amended and restated effective January 1, 1976, and thereafter amended prior to July 1, 1995, the "1976 Savings Plan"); and

WHEREAS, the Company amended and restated the 1976 Savings Plan, effective October 5, 1990, to include an "employee stock ownership plan" ("ESOP"), within the meaning of Section 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), and designed to meet the requirements of Section 4975(d)(3) of the Code; and

WHEREAS, in order to effectuate the ESOP component of the 1976 Savings Plan, the Company established an additional trust under the 1976 Savings Plan, known as the Savings Plan of Houston Industries Incorporated ESOP Trust (the "Prior ESOP Trust Agreement"), designed to meet the applicable requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); and

WHEREAS, the Company amended, restated and continued the 1989 Trust Agreement and the Trust Fund created thereby in the form of the Houston Industries Incorporated Master Savings Trust, effective January 1, 1994 (the "1994 Trust Agreement"), to accommodate the merger of the KBLCOM Incorporated Savings Plan into the 1976 Savings Plan and to make certain other changes therein; and

WHEREAS, effective as of May 1, 1995, the Company appointed the Trustee to replace the Prior Trustee as trustee of the 1994 Trust Agreement; and

WHEREAS, effective as of May 1, 1995, the Company appointed the Trustee to replace State Street Bank and Trust Company, a Massachusetts trust company, as trustee of the Prior ESOP Trust Agreement; and

WHEREAS, effective as of July 1, 1995, the Company amended and restated the 1976 Savings Plan to provide for daily valuations, provide for the addition of new investment funds, and to make certain other changes therein (the "Prior Plan"); and

WHEREAS, effective as of July 1, 1995, the Company amended, restated, merged and continued the 1994 Trust Agreement and the Prior ESOP Trust Agreement in the form of the Houston Industries Incorporated Savings Trust ("1995 Trust Agreement") to provide for daily valuation, to increase the number of Investment Funds to seven (or such other number as may be prescribed by the Committee from time to time), to eliminate the master trust concept and to make certain other changes therein;

WHEREAS, as a result of the merger by and among NorAm Energy Corp. ("NorAm"), Houston Industries Incorporated, Houston Lighting & Power Company and HI Merger Inc., NorAm became a wholly owned subsidiary of the Company and the Company (i) assumed the sponsorship of the NorAm Employee Savings & Investment Plan (the "NorAm Plan") and the Minnegasco Division Employees' Retirement Savings Plan (the "Minnegasco Plan"), and (ii) adopted (a) the NorAm Plan trust, known as the NorAm Employee Savings & Investment Plan Trust (the "NorAm Trust"), (b) the Minnegasco Plan trust, known as the Employees' Retirement Savings Plan Trust Agreement (the "Minnegasco Trust"), and (c) the Pooled Investment Trust Agreement for the Arkla, Inc. Common Stock Pooled Trust (the "Pooled Investment Trust"), a pooled investment trust holding commingled assets of the NorAm Trust and Minnegasco Trust, and the Company assumed all duties, rights and responsibilities thereto as a party to the respective trust agreements in the place and stead of NorAm and the Minnegasco division of NorAm, as applicable, effective as of August 6, 1997.

WHEREAS, effective as of April 1, 1999, the Company authorized and directed that along with certain other changes, the NorAm Plan and Minnegasco Plan be consolidated with, merged into the Prior Plan, and the Prior Plan be amended, restated and continued in the form of the Reliant Energy, Incorporated Savings Plan. In connection therewith, the Company authorized and directed effective as of April 1, 1999, that (i) all assets held under the NorAm Trust, the Minnegasco Trust and the Pooled Investment Trust be merged with and into the assets held under the 1995 Trust Agreement, and (ii) the 1995 Trust Agreement be amended, restated and continued in the form of the Reliant Energy, Incorporated Savings Trust.

WHEREAS, effective as of May 5, 1999, the name of the Company was changed to Reliant Energy, Incorporated.

NOW, THEREFORE, the Company and the Trustee hereby agree that the 1995 Trust Agreement shall be amended, restated, and continued in the form of the Trust Agreement set forth herein, effective as of April 1, 1999, to read as follows:

ARTICLE I

DEFINITIONS AND CONSTRUCTION

1.1 Definitions: As used in this Savings Trust, the following words and phrases shall have the following meanings unless the context clearly requires a different meaning:

AFFILIATED CORPORATION: Reliant Energy, Incorporated, a Texas corporation, and any corporation in which the shares owned or controlled directly or indirectly by Reliant Energy, Incorporated shall represent 50% or more of the voting power of the issued and outstanding capital stock of such corporation.

BOARD: The Board of Directors of the Company.

CODE: The Internal Revenue Code of 1986, as amended from time to time.

COMMITTEE: The Benefits Committee appointed by the Board of Directors of the Company, which shall serve as a "named fiduciary" hereunder and assist in the investment and administration of the Trust Fund and whose duties also include serving as "plan administrator" of the Plan. In regard to any provision of this Trust under which an agent has been appointed by the Benefits Committee pursuant to Section 6.1 hereof to administer such provision of this Trust, such agent shall be deemed to be the Committee.

COMPANY: Prior to May 5, 1999, Houston Industries Incorporated, a Texas corporation doing business as Reliant Energy, Incorporated, and on and after May 5, 1999, Reliant Energy, Incorporated or a successor to Reliant Energy, Incorporated in the ownership of substantially all of its assets.

COMPANY STOCK: The common stock of the Company qualifying as "employer securities" within the meaning of Section 409(1) of the Code and Section 407(d)(5) of ERISA.

ERISA: Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

ESOP FUND: All cash, Company Stock, and other properties held by the Trustee under the Savings Plan of Houston Industries Incorporated ESOP Trust Agreement at the close of business on June 30, 1995, which were transferred and allocated to the ESOP Fund under this Trust as of July 1, 1995, any property into which the same or any part thereof may from time to time be converted, and any appreciation therein or income thereon less any depreciation therein, any losses thereon and any distributions or payments therefrom.

EXCHANGE ACT: The Securities and Exchange Act of 1934, as amended.

INVESTMENT FUND OR FUND: Any investment fund comprising the Trust Fund (including the Reliant Energy Common Stock Fund), as described in Article IV, but excluding the ESOP Fund.

INVESTMENT MANAGER: The fiduciary or fiduciaries, if any, appointed hereunder by the Committee and meeting the definition set forth in Section 3(38) of ERISA.

MINNEGASCO TRUST: The Minnegasco Division Employees' Retirement Savings Plan Trust Agreement as in effect on March 31, 1999.

NORAM TRUST: The NorAm Savings & Investment Plan Trust as in effect on March 31, 1999.

PARTICIPANT: Each employee, former employee, spouse or beneficiary of an employee who is or was participating in the Plan in accordance with the terms thereof.

PLAN: The Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999, and as the same may hereafter be amended from time to time.

POOLED INVESTMENT TRUST: The Pooled Investment Trust Agreement for the Arkla, Inc. Common Stock Pooled Trust as in effect on March 31, 1999.

PRIOR PLAN: The Houston Industries Incorporated Savings Plan, as amended and restated effective July 1, 1995, and as thereafter amended and in effect on March 31, 1999.

PRIOR TRUST AGREEMENT: The Houston Industries Incorporated Savings Trust Agreement, between the Company and Northern Trust Company, dated December 19, 1995, but effective as of July 1, 1995, and as thereafter amended and in effect on March 31, 1999, between the Company and Trustee.

PROHIBITED TRANSACTION: A transaction prohibited under Sections 406 through 408 of ERISA.

TRUST: The Reliant Energy, Incorporated Savings Trust, as amended and restated effective April 1, 1999 and as the same may hereafter be amended from time to time.

TRUST FUND: The Investment Funds and ESOP Fund established under the Trust and from which benefits under the Plan are to be paid. Such fund shall consist of all assets, money and property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less the payments or other distributions which, at the time of reference, shall have been made by the Trustee, as authorized herein.

TRUSTEE: The Northern Trust Company, an Illinois corporation, its successor or successors.

VALUATION DATE: Any date on which the New York Stock Exchange is open for trading and any date on which the value of the assets of the Trust Fund is determined by the Trustee pursuant to Section 3.1. The last business day of December of each Plan Year shall be the "annual Valuation Date."

1.2 Construction: The masculine gender, where appearing in the Trust, shall be deemed to include the feminine gender, and the singular may include the plural, unless the

context clearly indicates to the contrary. The words "hereof," "herein," "hereunder" and other similar compounds of the words "here" shall mean and refer to the entire Trust, not to any particular provision or section. Article and Section headings are included for convenience of reference and are not intended to add to or subtract from the terms of the Trust.

ARTICLE II

TRUST; GENERAL DUTIES OF THE PARTIES

2.1 Continuation of Trust: The Company hereby continues with the Trustee a Trust for the exclusive purposes of providing benefits to employees of the Company and the Affiliated Corporations, and to the beneficiaries of such employees, under the Plan and defraying reasonable expenses of administering the Plan. The Trust shall consist of (a) such cash and other property held in trust by the Trustee under the Prior Trust Agreement at the close of business on March 31, 1999, (b) such cash and other property held in trust under each of the NorAm Trust, the Minnegasco Trust, and the Pooled Investment Trust at the close of business on March 31, 1999, and which was transferred to the Investment Funds and ESOP Fund, as applicable, under this Trust, and (c) such sums of money and such property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee as a contribution in respect of the Plan, together with the income and gains therefrom. The Trust shall be maintained at all times as a domestic trust in the United States.

2.2 General Duties of the Company:

A. The Company shall provide the Trustee with a certified copy of the Plan, and with evidence acceptable to the Trustee that the Plan has been duly adopted by the Company and has been determined to be qualified under Code Section 401(a). True and correct copies of all amendments to the Plan shall be delivered to the Trustee by the Company promptly following their adoption.

B. The Board of Directors of the Company shall appoint a Benefits Committee, consisting of at least three individuals, which shall be authorized under the Plan to serve as a "named fiduciary" (within the meaning of Section 402(a)(2) of ERISA) and "plan administrator" (within the meaning of Section 3(16)(A) of ERISA) of the Plan to assist in the investment and administration of the Trust as hereinafter provided. Each member of the Committee shall serve at the pleasure of the Board of Directors of the Company and the Company shall certify to the Trustee the names and specimen signatures of the members of the Committee serving from time to time hereunder. The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member.

2.3 Investment Guidelines; Contributions; Employee Records: From time to time the Committee shall communicate in writing to any Investment Manager who may be acting pursuant to Section 4.3 (and to the Trustee, if it is managing the investment of any of the assets of the Trust pursuant to such Section) the investment guidelines governing the portion of the assets of the Trust managed by such Investment Manager or the Trustee. The Company shall make, and shall cause the Affiliated Corporations to make, contributions to the Plan as the same

may be determined in accordance with the Plan and shall specify in writing to the Trustee the amount of such contributions. The Company shall keep and shall cause the Affiliated Corporations to keep accurate books and records with respect to their respective employees, including, without limitation, records as to the periods of employment, compensation and ages of such employees.

2.4 General Duties of Trustee: The Trustee shall hold all property received by it hereunder, which, together with the income and gains therefrom and additions thereto, and less payments and other distributions therefrom, shall constitute the Trust Fund. Except as otherwise hereinafter provided, the Trustee shall manage, invest and reinvest the Trust Fund, collect the income thereof, and make payments therefrom, all in accordance with the terms of this Agreement. The Trustee shall be responsible only for the property actually received by it hereunder. It shall have no duty or authority to compute any amount to be paid to it by the Company, by any Affiliated Corporation or by any Participant in the Plan, or to bring any action or proceeding to enforce the collection from any such person of any contribution to the Trust in respect of the Plan.

ARTICLE III

ACCOUNTS;
AUTHORITY OF COMPANY AND COMMITTEE

3.1 Accounts; Valuation: As provided below, the Trustee shall determine the value of the Trust Fund as of each annual Valuation Date and any interim Valuation Date as the Committee may prescribe; and the Trustee shall determine and include in each such report for the assistance of the Committee in administering the Plan the value as of such valuation dates of each such asset. In accordance with its normal pricing methods and as provided below, the Trustee shall value the assets of the Trust Fund on each Valuation Date. In the absence of readily attainable fair market values, the fiduciary with investment responsibility shall determine the fair market value to be used. Notwithstanding any other provision of this Section, the Trustee, in determining the value of the assets in the Trust Fund, may rely upon the determination of any Investment Manager with respect to the value of any interest of the Trust in any common, collective, commingled or group trust fund maintained by such Investment Manager in which assets of the Trust are permitted to be invested by Section 4.2(l) of this Agreement. As soon as practicable after each annual Valuation Date (but no later than 90 days after each such Valuation Date), the Trustee shall furnish the Company and the Committee a written statement showing the net value of the Trust Fund on such Valuation Date. Notwithstanding anything herein to the contrary, to the extent assets are invested in a mutual fund, the Trustee shall rely upon the value provided to it by the sponsor of the mutual fund or the pricing service normally used by the Trustee for this purpose.

Any Investment Manager or the Committee who may be acting pursuant to Section 4.3 (and the Trustee, if it is managing the investment of any assets of the Trust pursuant to such Section) may in its discretion transfer or direct the transfer to a liquidating account of any investment of the portion of the Trust under its management which it determines should be liquidated for the benefit of the Plan. Any investment that has been transferred to a liquidating account shall be segregated and administered or realized upon solely for the benefit of the Plan and shall be excluded in determining the value of the Plan in the Trust Fund thereafter.

The Committee shall maintain for each of the Participants under the Plan an accurate account reflecting the interest in the Trust Fund, in its component Investment Funds and in the ESOP Fund of each such Participant and shall furnish to each individual Participant, no less than annually, a report of his account. The Trustee shall transfer assets to and from each Investment Fund as directed by the Committee or its representative.

3.2 Exclusive Benefit of Employees Under The Plan: At no time prior to the satisfaction of all liabilities with respect to Participants under the Plan shall any part of the Trust Fund be used for, or diverted to, any purposes other than for the exclusive benefit of such Participants or the payment of Plan or Trust administrative expenses.

3.3 Authority of Company and Committee: Any Affiliated Corporation which participates in the Plan shall be bound by the decisions, instructions, actions and directions of the Company, Committee (or its representative), Investment Managers, and named fiduciaries (as such term is defined in Sections 4.5, 4.6 and 4.7) under this Agreement, and the Trustee shall be

indemnified by the Company and such Affiliated Corporation for expenses and liabilities incurred by relying upon such decisions, instructions, actions and directions, or where such expenses or liabilities were incurred by the Trustee due to the failure of such parties to carry out their responsibilities under the Plan and Trust. The Trustee shall not be required to give notice to or obtain the consent of any such Affiliated Corporation with respect to any action which is taken by the Trustee pursuant to this Agreement.

ARTICLE IV

INVESTMENT, ADMINISTRATION AND
DISBURSEMENT OF TRUST FUND

4.1 Division of the Trust Fund: Except as provided in Section 3.1, the Trust Fund shall be divided into an ESOP Fund and such Investment Funds as shall be selected and reviewed from time to time by the Committee. Such additional Investment Funds shall consist of the Reliant Energy Common Stock Fund and such other Investment Funds selected and approved by the Committee from time to time, as set forth on Attachment A to the Plan. Each such Investment Fund shall be invested by the fiduciary with investment responsibility in accordance with the provisions of Section 4.2 in the kinds of property specified for such Investment Fund by the Committee. The ESOP Fund shall be invested primarily in Company Stock, in accordance with the provisions of Section 4.2(b). The Committee is authorized to terminate the existing Investment Funds and establish new Investment Funds by giving advance written notice to the Trustee describing the fund to be terminated or established and the effective date thereof, provided that in no event shall the Trustee's duties be modified without its consent. It is hereby specifically agreed that any termination, modification, combination or creation of an Investment Fund which consists in whole or in part of a group or commingled trust sponsored by Trustee hereunder shall not require the consent of Trustee.

The Committee or its representative shall direct the Trustee in accordance with the terms of the Plan and the Trust Agreement with respect to the allocation of assets of the Trust Fund, and shall advise the Trustee with respect to transfers among the Investment Funds and the ESOP Fund, and the Trustee shall hold the amount so specified as a part of the Investment Fund or ESOP Fund, as appropriate, to which it shall have been allocated or transferred. The Committee's representative ("Recordkeeper") shall, on a daily basis, calculate the net amount of money to be moved to or from each Investment Fund based on investment elections made by Participants pursuant to the Plan. Recordkeeper shall on a daily basis, and based on the information as described above, notify the sponsor of each Investment Fund of the amount of money that should be transferred from or transferred to such Investment Fund. Recordkeeper shall also provide the Trustee with the same information on the same day it notifies the fund sponsor and the Trustee shall act regarding contributions and transfers based on such information. Recordkeeper shall also calculate the amount of benefit payments and distributions hereunder and provide the Trustee with information necessary to make such benefit payments and distributions.

To the extent that any Investment Fund is invested in mutual fund shares or bank commingled funds, the Committee shall initially select funds to be invested in and shall be responsible for retaining the availability of or terminating the availability of such funds. To the extent the Trustee is required to enter into a custody agreement with the sponsor of a bank commingled fund or such other type of fund, the Committee shall direct the Trustee to enter into such agreement.

The Trustee, upon receipt of direction from the Committee, shall transfer to the Investment Funds all such cash and other property as the Trustee held under each of the NorAm

Trust, the Minnegasco Trust and the Pooled Investment Trust at the close of business on March 31, 1999.

4.2 Investment of the Trust Fund: The contributions hereafter allocated to each of the said Investment Funds and the ESOP Fund, and all proceeds, interest, income or other payments in respect of each such Investment Fund and the ESOP Fund shall be invested and reinvested in the Reliant Energy Common Stock Fund and such other Investment Funds established by the Committee in writing from time to time pursuant to the procedures described below:

(a) Reliant Energy Common Stock Fund. Contributions are to be invested and reinvested in Company Stock (which the Trustee shall purchase as soon as practicable when and as it holds funds available for that purpose, either (i) in the open market, (ii) from the ESOP Fund for adequate consideration and in the sole discretion of the Trustee, or (iii) privately from the Company at a price per share equal to the closing price of said share on the New York Stock Exchange on the day of the purchase, it being understood that shares purchased from the Company may either be treasury shares or authorized but unissued shares, if the Company shall make such shares available for the purpose, and that the Trustee in its discretion may refrain from making purchases of shares of Company Stock whenever it deems such refraining to be necessary to prevent undue trading impact on the price of the Company Stock. At any time that the Trustee makes open market purchases of Company Stock, the Trustee will either (i) be an "agent independent of the issuer" as that term is defined in Rule 10(b)(18) promulgated pursuant to the Exchange Act or (ii) make such open market purchases in accordance with the provisions, and subject to the restrictions, of Rule 10(b)(18) of the Exchange Act. Except in the case of fractional shares received in any stock dividend, stock split or other recapitalization, or as necessary to make any distribution or payment from the Trust Fund or transfers among Investment Funds, the Trustee shall have no power or duty to sell or otherwise dispose of any stock acquired for the Reliant Energy Common Stock Fund.

(b) ESOP Fund. All amounts allocated to the ESOP Fund, and all proceeds, interest, income or other payments in respect of the ESOP Fund shall be invested and reinvested in Company Stock except to the extent required to give effect to distributions, transfers and other temporary cash needs. The Committee shall direct the Trustee to sell Company Stock, which may include sales to the Reliant Energy Common Stock Fund, in order to make distributions, payments or transfers. To the extent that Company contributions to the ESOP Fund are made in Company Stock, the Trustee will be expected to retain Company Stock.

To the extent Company contributions to the ESOP Fund are made in cash and are not used to pay principal or interest on an ESOP Loan pursuant to Article V or to pay expenses of the Trust Fund, the Trustee will be expected to acquire Company Stock within a reasonable period of time. If at the time Company Stock is to be purchased, the Company has outstanding more than one class of Company Stock, the Committee shall direct the Trustee as to which class of Company Stock shall be purchased. However, if

the Company Stock to be purchased is not readily tradeable on an established market, the Trustee shall represent the Trust in the determination of the price to be paid for such Company Stock.

(c) The Company has determined that daily movement of Participant balances among the Investment Funds is an important design feature and objective of the Plan and that timely transfers and distributions from the Reliant Energy Common Stock Fund need to be facilitated in order to achieve such objective. The Committee may authorize and direct the Trustee in writing to seek to obtain settlement for sales of Company Stock on an expedited basis under certain circumstances in which case the Trustee shall carry out its responsibilities for execution of Company Stock sale transactions in accordance with such direction and subject to any limitations expressed therein.

(d) Pending the acquisition of an investment in an orderly manner for the purposes of the Investment Funds, the Trustee may temporarily hold funds thereof uninvested or in repurchase agreements, bankers acceptances, certificates of deposit, commercial paper, demand or time deposits, obligations issued or fully guaranteed by the United States of America or any agency thereof, master notes or like holdings either separately or through the medium of a common, collective, group or commingled trust fund that invests primarily in such like investments.

(e) To the extent consistent with Section 4.2(b), the ESOP Fund may hold temporary investments other than Company Stock, may hold such portion of the ESOP Fund uninvested as the Committee deems advisable for making distributions under the Plan, may invest assets of the ESOP Fund in short term investment grade investments bearing a reasonable rate of interest, including without limitation, deposits in, or short term investment grade instruments of, the Trustee, or in one or more short term collective investment funds administered by the Trustee as trustee thereof for the collective investment of assets of employee pension or profit-sharing trusts, as long as each such collective investment fund constitutes a qualified trust under the applicable provisions of the Code (and while any portion of the ESOP Fund is so invested, such collective investment funds shall constitute part of the Plan to the extent of such investment, and the instrument creating such funds shall constitute part of this Agreement).

(f) In the discretion of the person who is directing the investment of a portion or all of any of the Investment Funds, with the exception of the Reliant Energy Common Stock Fund, under the provisions of Section 4.3, all or any part of amounts allocated to such Investment Funds, may be invested in such assets as are appropriate to the Fund in question collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from

time to time, being made a part of this Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof.

The investments of the Trust Fund, with the exception of the Reliant Energy Common Stock Fund and the ESOP Fund, shall be so diversified as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so, in the sole judgment of the person who is directing the investment of such Funds under the provisions of Section 4.3. Any property at any time received by the Trustee may be retained in the Trust Fund. To the extent that the Trustee is managing the Trust Fund under the provisions of Section 4.3, the Trustee may temporarily invest and reinvest all or any portion of the amounts allocated to any Investment Fund either in short term investments selected by it or collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective, commingled or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof. With respect to any portion of the Trust Fund which is under the management of an Investment Manager as provided in Section 4.3 subject to contrary instructions, the Trustee shall invest cash held by it in short term obligations, either separately or by investment collectively with funds of other pension and profit-sharing trusts exempt from tax under Code Section 501(a) by reason of qualifying under Code Section 401(a) through the medium of any common, collective, commingled or group trust fund which has been or hereafter may be established by the Trustee or by any other bank or trust company in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof.

At any time and from time to time, the Committee may direct the Trustee to transfer a specified portion or all of any of the Investment Funds of the Trust Fund, with the exception of the Reliant Energy Common Stock Fund, as it shall deem advisable to the trustees of any other common, collective, group or commingled trust (hereinafter collectively, the "Group Trusts"), if and only if a Group Trust is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a) and is maintained as a medium for the commingled, collective and common investment of assets of eligible participating trusts; and the Committee may direct the Trustee to withdraw all or any part of the Trust Fund so transferred. The terms and provisions of the agreements of trust establishing any Group Trust and the provisions of any amendments thereto are hereby incorporated herein by reference and shall be deemed a part of this Trust Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof. The Trustee shall make any such transfer or withdrawal of all or any part of the Trust Fund only upon the expressed direction of the Committee. The Trustee shall be under no duty or obligation to review any investment acquired, held or disposed of by the trustees of the Group Trusts pursuant to the provisions thereof, and the trustees of the Group Trusts shall have all fiduciary powers, responsibilities and liabilities arising under this Trust Agreement with respect to the portion of the Trust Fund transferred to them pursuant to directions of the Committee to be held under the terms and provisions of the Group Trusts. The Company shall indemnify and hold harmless the Trustee from any and all claims, losses, damages, expenses

(including counsel fees approved by the Trustee), and liabilities (including any amount paid in settlement with the Trustee's approval but excluding any excise tax assessed against the Trustee pursuant to the provisions of Code Section 4975) arising from any act or omission of the trustees of the Group Trusts in connection with their duties and responsibilities under this Trust Agreement with respect to the portion of the Trust Fund transferred to them, except to any extent prohibited under ERISA.

4.3 Direction of Investment: The investment of the Reliant Energy Common Stock Fund and the ESOP Fund shall be managed solely by the Trustee in the manner provided in Section 4.2. The Committee shall from time to time specify by written notice to the Trustee whether the investment of the other Investment Funds under the Plan, in the manner provided in Section 4.2, shall be managed solely by the Trustee or the Committee (or its agent), or shall be directed by one or more Investment Managers, or whether the Trustee, the Committee and one or more Investment Managers are to participate in investment management and, if so, how the investment responsibility is to be divided with respect to assets, classes of assets, separate investment funds or sub-funds specified and defined in such notice. In the event that the Committee shall fail to specify pursuant to this Section the person or persons who are to manage the investment of the other Investment Funds under the Plan, or any portion or portions thereof, the Trustee shall manage the investment of such Investment Fund or such portion or portions in the manner described in Section 4.2, until the Committee shall specify such person or persons as provided herein. Any Investment Manager appointed to manage the investment of a part (or all) of the Investment Funds, other than the Reliant Energy Common Stock Fund, under the Plan shall either (i) be registered as an investment adviser under the Investment Managers Act of 1940, (ii) be a bank, as defined in that Act, or (iii) be an insurance company qualified to perform investment management services under the laws of more than one State. If investment of the Trust Fund is to be directed in whole or in part by an Investment Manager, such Investment Manager shall acknowledge that it is acting as a fiduciary with respect to such assets. The Trustee may continue to rely upon such instruments and certificate until otherwise notified in writing by the Committee.

The Trustee shall follow the directions of the Investment Manager regarding the investment and reinvestment of the Trust Fund as to such portion thereof as shall be under management by the Investment Manager and shall be under no duty or obligation to review any investment to be acquired, held or disposed of pursuant to such directions nor to make any recommendations with respect to the disposition or continued retention of any such investment. The Trustee shall have no liability or responsibility for acting without question on the direction of, or failing to act in the absence of any direction from, the Investment Manager, unless the Trustee knows that by such action or failure to act it will be participating in a breach of fiduciary duty by the Investment Manager. The mere processing of investment instructions, maintenance of records and providing reports shall not constitute knowledge.

The Investment Manager at any time and from time to time may issue orders for the purchase or sale of securities directly to a broker, and in order to facilitate such transaction the Trustee upon request shall execute and deliver appropriate trading authorizations. Notification of the issuance of each such order shall be given promptly to the Trustee by the Investment Manager, and the execution of each such order shall be confirmed according to industry practice. Such notification shall be authority for the Trustee to pay for securities

purchased and to deliver securities sold according to industry practice, as the case may be. All written notifications concerning investments made by the Investment Manager shall be signed by such person or persons, acting on behalf of the Investment Manager as may be duly authorized in writing; provided, however, that the transmission to the Trustee of notifications, facsimile transmission or electronic data transmission shall be considered a delivery in writing of the aforesaid notifications until the Trustee is notified in writing by the Investment Manager that the use of such devices is no longer authorized. The Trustee shall be entitled to rely upon such directions which it receives by such means if so authorized by the Investment Manager and shall in no way be responsible for the consequences of any unauthorized use of such device which was not, in fact, known by the Trustee at the time to be unauthorized. The Trustee shall, as promptly as possible, comply with any written directions given by the Investment Manager hereunder, and, where such directions are given by facsimile transmission or electronic data transmission, the Trustee shall be entitled to presume any directions so given are fully authorized.

In the event that an Investment Manager should resign or be removed by the Committee, the Trustee shall, upon receiving written notice of such resignation or removal, manage, pursuant to Section 4.2, the investment of the portion of the Trust Fund under management by such Investment Manager at the time of its resignation or removal, unless and until it shall be notified of the appointment of another Investment Manager as provided in this Section 4.3, for such portion of the Trust Fund.

The Committee shall have investment responsibility for all or a portion of the assets held in any Investment Fund other than the Reliant Energy Common Stock Fund for which it notifies the Trustee that it is to assume such responsibility. With respect to the assets of any Investment Fund other than the Reliant Energy Common Stock Fund for which the Committee has investment responsibility, the Trustee, acting only as directed by the Committee, shall enter into such agreements as are necessary to facilitate any investment, including agreements entering into a limited partnership, subtrust or the participation in real estate funds. The Trustee shall not make any investment review of, or consider the propriety of holding or selling, or vote any assets for which the Committee has retained investment responsibility.

The Trustee shall have custody of and custodial responsibility for all assets of the Trust Fund except as otherwise provided in this agreement or as follows:

(a) The subtrustee of a subtrust shall have custody of and custodial responsibility for any portion of the Trust Fund for which investment responsibility has been allocated to it by the Committee;

(b) The trustee of a collective or group trust fund (including without limitation an Investment Manager or its bank affiliate) shall have custody of and custodial responsibility for any portion of the Trust Fund for which investment responsibility has been allocated to it by the Committee and has been invested in such collective or group trust fund; and

(c) The Committee may direct in writing that the custody of additional assets of the Trust Fund (other than those referred to in paragraphs (a) and (b) immediately preceding this paragraph (c)) be maintained with one or more

persons or entities designated by the Committee to maintain custody of assets of a portion of the Trust Fund (a "Custodial Agent"). In such event, the Committee shall approve, and direct the Trustee to enter into, a custody agreement with the Custodial Agent (which custody agreement may authorize the Custodial Agent to maintain custody of such assets with one or more subagents, including a broker or dealer registered under the Securities Exchange Act of 1934 or a nominee of such broker or dealer). The Custodial Agent shall have custodial responsibility for any assets maintained with the Custodial Agent or its subagents pursuant to the custody agreement. Notwithstanding any other provision of this agreement, the Company (which has the authority to do so under the laws of the state of Texas) agrees to indemnify the Trustee from any liability, loss and expense, including legal fees and expenses, which the Trustee may sustain by reason of acting in accordance with any directions of the Committee pursuant to this paragraph (c). This paragraph shall survive the termination of this agreement.

4.4 Voting of Securities Other than Company Stock in the Reliant Energy Common Stock Fund or in the ESOP Fund: The Trustee shall have power in its discretion to exercise all voting rights with respect to any investment held in an Investment Fund under the Plan, with the exception of investments held in the Reliant Energy Common Stock Fund and the ESOP Fund, and to grant proxies, discretionary or otherwise, with respect thereto, except that at any time when an Investment Manager or the Committee shall be acting with respect to such Investment Fund as provided in Section 4.3, the Trustee shall not exercise its discretion with respect to voting any securities under management of such Investment Manager or the Committee but shall itself vote such securities only upon and in the manner directed by the Investment Manager or the Committee or shall send such Investment Manager or the Committee all proxies and proxy materials relating to such securities, signed by the Trustee without indication of voting preference, and the Investment Manager or the Committee shall exercise all voting rights with respect thereto. All shares of Company Stock held in the Reliant Energy Common Stock Fund shall be voted as provided below in Section 4.5. All shares of Company Stock held in the ESOP Fund shall be voted as provided below in Section 4.6.

4.5 Voting of Company Stock in the Reliant Energy Common Stock Fund: The Trustee shall not vote the shares of Company Stock held in the Reliant Energy Common Stock Fund at any meeting of stockholders except as it shall receive voting instructions from Participants in the Reliant Energy Common Stock Fund as provided below. Each employee, former employee or beneficiary of a deceased employee participating in the Reliant Energy Common Stock Fund (hereinafter in Sections 4.5 and 4.7 referred to as "Reliant Energy Common Stock Fund Participant") is, for purposes of this Section 4.5, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock attributable to his account and shall have the right to direct the Trustee with respect to the vote of the shares of Company Stock attributable to his account, on each matter brought before any meeting of the stockholders of the Company. Before each such meeting of stockholders, the Company shall cause to be furnished to each Reliant Energy Common Stock Fund Participant a copy of the proxy solicitation material, together with a form requesting confidential directions to the Trustee on how such shares of Company Stock attributable to such Reliant Energy Common Stock Fund Participant's account shall be voted on each such matter. Upon timely receipt of such directions, the Trustee shall on each such matter vote as directed the

number of shares (including fractional shares) of Company Stock attributable to such Reliant Energy Common Stock Fund Participant's account, giving effect to all affirmative directions by Reliant Energy Common Stock Fund Participants, including directions to vote for or against, to abstain or to withhold the vote, and the Trustee shall have no discretion in such matter. The Trustee shall vote shares of Company Stock for which it has not received direction in the same proportion as directed shares attributable to Reliant Energy Common Stock Fund Participants' accounts in the Plan are voted, and the Trustee shall have no discretion in such matter. The instructions received by the Trustee from Reliant Energy Common Stock Fund Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or Affiliated Corporations. The Trustee shall be authorized to coordinate the voting of Company Stock pursuant to this Section 4.5 with the voting provisions of the ESOP Fund so as to fully effectuate and carry out the purposes and intent thereof.

4.6 Voting of Company Stock in the ESOP Fund: Each Participant (hereinafter in Sections 4.6 and 4.7 referred to as "ESOP Fund Participant" is, for purposes of this Section 4.6, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock allocated to his account in the ESOP Fund and to a pro rata portion of the unallocated shares of Company Stock held in the ESOP Fund and shall have the right to direct the Trustee with respect to the vote of the shares of Company Stock allocated to his account, on each matter brought before any meeting of the stockholders of the Company. Before each such meeting of stockholders, the Company shall cause to be furnished to each Participant a copy of the proxy solicitation material, together with a form requesting confidential directions to the Trustee on how such shares of Company Stock allocated to such Participant's account in the ESOP Fund shall be voted on each such matter. Upon timely receipt of such directions, the Trustee shall on each such matter vote as directed the number of shares (including fractional shares) of Company Stock allocated to such Participant's account in the ESOP Fund, and the Trustee shall have no discretion in such matter. The instructions received by the Trustee from Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee, officers or employees of the Company or an Affiliated Corporation. The Trustee shall vote both allocated shares of Company Stock for which it has not received direction, as well as unallocated shares, in the same proportion as directed shares are voted, and the Trustee shall have no discretion in such matter. In determining such proportion, the Trustee shall under all circumstances include in its calculation the votes of Participants on all shares allocated to Participants' Plan accounts, giving effect to all affirmative directions by Participants, including directions to vote for or against, to abstain or to withhold the vote.

4.7 Tendering of Company Stock in the Reliant Energy Common Stock Fund and Company Stock in the ESOP Fund: The provisions of this Section 4.7, shall apply in the event a tender or exchange offer including but not limited to a tender offer or exchange offer within the meaning of the Exchange Act (a "tender offer"), for Company Stock is commenced by a person or persons.

In the event a tender offer for Company Stock is commenced, the Committee, promptly after receiving notice of the commencement of any such tender offer, shall transfer certain of the Committee's record keeping functions to an independent record keeper (which, if

the Trustee consents in writing, may be the Trustee). The functions so transferred shall be those necessary to preserve the confidentiality of any directions given by the Reliant Energy Common Stock Fund Participants or the ESOP Fund Participants in connection with the tender offer. The Trustee shall have no discretion or authority to sell, exchange or transfer any of such shares pursuant to such tender offer except to the extent, and only to the extent, as provided in this Trust Agreement.

Each Reliant Energy Common Stock Fund Participant is, for purposes of this Section 4.7, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock attributable to his account and shall have the right, to the extent of the number of whole shares of Company Stock attributable to his account, to direct the Trustee in writing as to the manner in which to respond to a tender offer with respect to shares of Company Stock. Each ESOP Fund Participant is, for purposes of this Section 4.7, hereby designated as a "named fiduciary" (within the meaning of Section 403(a)(1) of ERISA) with respect to the shares of Company Stock allocated to his account and to a pro rata portion of the unallocated shares of Company Stock held in the ESOP Fund and shall have the right, to the extent of the number of whole shares of Company Stock allocated to his account, to direct the Trustee in writing as to the manner in which to respond to a tender offer with respect to shares of Company Stock. The Company shall use its best efforts to timely distribute or cause to be distributed to each Reliant Energy Common Stock Fund Participant and ESOP Fund Participant such information as will be distributed to stockholders of the Company in connection with any such tender offer. Upon timely receipt of such instructions, the Trustee shall respond as instructed with respect to such shares of Company Stock. The instructions received by the Trustee from Reliant Energy Common Stock Fund Participants and ESOP Fund Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee or officers or employees of the Company or Affiliated Corporations. If the Trustee shall not receive timely instruction from a Reliant Energy Common Stock Fund Participant or an ESOP Fund Participant as to the manner in which to respond to such a tender offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such Reliant Energy Common Stock Fund Participant or ESOP Fund Participant has the right to direction, and the Trustee shall have no discretion in such matter. Fractional shares of Company Stock attributable to Reliant Energy Common Stock Fund Participants' accounts shall be tendered or exchanged by the Trustee in the same proportion as shares of Company Stock attributable to Reliant Energy Common Stock Fund Participants' accounts in the Plan are tendered or exchanged, and the Trustee shall have no discretion in such matter. Fractional or unallocated shares of Company Stock allocated to ESOP Fund Participants' accounts shall be tendered or exchanged by the Trustee in the same proportion as shares of Company Stock allocated to ESOP Fund Participants' accounts in the Plan are tendered or exchanged, and the Trustee shall have no discretion in such matter. In determining such proportion, the Trustee shall under all circumstances include in its calculation the direction of Reliant Energy Common Stock Fund Participants on all shares of Company Stock attributable to Reliant Energy Common Stock Fund Participants' Plan accounts and the direction of ESOP Fund Participants on all shares of Company Stock allocated to ESOP Fund Participants' Plan accounts.

The independent record keeper shall solicit confidentially from each Reliant Energy Common Stock Fund Participant and ESOP Fund Participant the directions described in this Section 4.7 as to whether shares are to be tendered. The independent record keeper, if

different from the Trustee, shall instruct the Trustee as to the amount of shares to be tendered, in accordance with the above provisions.

4.8 Powers of Trustee: When so directed in accordance with the provisions of Section 4.3, or in the discretion of the Trustee if it is managing the Trust Fund under such provisions, the Trustee shall have, subject to the provisions of Sections 4.1 and 4.2, the power:

(a) To manage, sell, contract to sell, grant options to purchase, convey, exchange, transfer, abandon, improve, repair, insure, lease for any term (even though commencing in the future or extending beyond the term of the Trust), and otherwise deal with all property, real or personal, in such manner, for such considerations and on such terms and conditions as the Trustee decides;

(b) To participate in any plan of reorganization, consolidation, merger, combination, liquidation or other similar plan relating to any property held in the Trust Fund, and to consent to or oppose any such plan or any action thereunder, or any contract, lease, mortgage, purchase, sale or other action by any person or corporation;

(c) To deposit any property with any protective, reorganization or similar committee; and to pay and agree to pay part of the expenses and compensation of any such committee and any assessments levied with respect to any property so deposited;

(d) To exercise conversion and subscription rights pertaining to any property held in the Trust Fund;

(e) To extend the time of payment of any obligation held in the Trust Fund;

(f) To enter into stand-by agreements for future investment, either with or without a stand-by fee;

(g) To hold in cash or cash balances, without liability for interest thereon, any moneys received by the Trustee which are awaiting investment and such additional funds as the Trustee may deem reasonable or necessary to meet anticipated distributions or other payments or disbursements with respect to the Plan;

(h) To invest in any type of deposit of the Trustee (or of a bank related to the Trustee within the meaning of Code Section 414(b)) at a reasonable rate of interest or in a common trust fund, as described in Code Section 584, or in a collective investment fund, the provisions of which govern the investment of such assets and which the Plan incorporates by this reference, which the Trustee (or its affiliate as defined in Code Section 1504) maintains exclusively for the collective investment of money contributed by the bank (or the affiliate) in its capacity as trustee and which conforms to the rules of the Comptroller of the Currency;

(i) To provide temporary advances to cover overdrafts and, in addition, with the prior approval of the Committee, to borrow money from others, to issue its promissory note or notes therefor, and to secure the repayment thereof by pledging any property in its possession;

(j) If an Investment Manager directing investment under Section 4.3 is a bank, as defined in the Investment Managers Act of 1940, to transfer to such Investment Manager all or any specified assets in that part of the Trust Fund which is subject to such Investment Manager's direction, for investment by such Investment Manager through the medium of any common, collective, commingled or group trust fund maintained by it which consists solely of assets of trusts qualified under Code Section 401(a) and which is exempt from tax under Code Section 501(a), whereupon the instrument establishing such common, collective, commingled or group trust fund, as amended from time to time, shall constitute a part of the Plan the assets of which are included in such part of the trust fund as long as any portion of such assets shall be invested through the medium of such common, collective, commingled or group trust fund;

(k) Subject to the provisions of Sections 4.2, 4.5, 4.6 and 4.7, to exercise voting rights either in person or by proxy, with respect to any securities or other property, and generally to exercise with respect to the ESOP Fund all rights, powers and privileges as may be lawfully exercised by any person owning similar property in his own right;

(l) Subject to the provisions of Sections 4.5 through 4.7, to exercise any options, conversion rights, or rights to subscribe for additional stocks, bonds or other securities appurtenant to any securities or other property held by it, and to make any necessary payments in connection with such exercise;

(m) To compromise, compound, contest, abandon and settle any debt or obligation owing to or from it as Trustee; to reduce or increase the rate of interest on, extend or otherwise modify, foreclose upon default, or otherwise enforce any such obligation;

(n) To hold any property at any place, except that it shall not maintain the indicia of ownership of any assets of the ESOP Fund outside the jurisdiction of the district courts of the United States except as permitted by regulations issued by the Secretary of Labor of the United States under ERISA Section 404(b);

(o) To determine the market value of any securities or other property held by the Trustee in the ESOP Fund, and where any securities or other property are determined by the Trustee not to be marketable, to determine their value in accordance with sound practice and standards for evaluating such property;

(p) In regard to the ESOP Fund, to repay from time to time the principal and interest on, and to take any other action with respect to, any loan which was previously incurred by the ESOP Fund, all as directed by the

Committee and in accordance with the applicable provisions of the Plan; provided, however, no loans shall be made by the Trustee individually to the ESOP Fund other than such temporary advancements to the ESOP Fund on a cash or overdraft basis as may be agreed to by the Trustee from time to time;

(q) To open and make use of banking accounts including checking accounts, which accounts, if bearing a reasonable rate of interest or if checking accounts, may be with the Trustee;

(r) To sell at public or private sale, contract to sell, convey, exchange, transfer and otherwise deal with the assets in accordance with industry practice, and to sell put and covered call options from time to time for such price and upon such terms as the Trustee sees fit; the Company acknowledges that the Trustee may reverse any credits made to the Trust Fund by the Trustee prior to receipt of payment in the event that payment is not received;

(s) To employ agents, attorneys and proxies and to delegate to any one or more of them any power, discretionary or otherwise, granted to the Trustee;

(t) To maintain custody and safekeeping over all securities and other property in the Investment Funds and the ESOP Fund, and to arrange for the safe transit of any such securities and other property; and

(u) To register any security or other property held by it hereunder (i) in its own name, (ii) in the name of a title holding company exempt from tax under Section 501(c)(2) of the Code (and to form title holding corporations or trusts under Section 501(c)(25) of the Code), or (iii) in the name of a nominee with or without the addition of words indicating that such securities or other property are held in a fiduciary capacity, and to hold any securities in bearer form and to deposit any securities or other property in a depository or a clearing corporation, provided that the requirement under Section 403 of ERISA that all assets of the Plan be held in trust is not violated (provided, however, that the Trustee's books and records shall at all times show that all such investments are a part of the Trust Fund).

(v) The Trustee shall have the power in its discretion:

(i) To collect and receive any and all money and other property due to the Trust Fund and to give full discharge therefor;

(ii) To settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Trust; to commence or defend suits or legal proceedings to protect any interest of the Trust; and to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal;

(iii) To organize under the laws of any state a corporation for the purpose of acquiring and holding title to any

property which it is authorized to acquire under this Agreement and to exercise with respect thereto any or all of the powers set forth in this Agreement;

(iv) To manage, operate, repair, improve, develop, preserve, mortgage or lease for any period any real property or any oil, mineral or gas properties, royalties, interests or rights held by it directly or through any corporation, either alone or by joining with others, using other Trust assets for any of such purposes; to modify, extend, renew, waive or otherwise adjust any or all of the provisions of any such mortgage or lease; and to make provision for amortization of the investment in or depreciation of the value of such property;

(v) Generally, to do all acts, whether or not expressly authorized, which the Trustee may deem necessary or desirable for the protection of the Trust Fund; and

(vi) To exercise all the rights, powers, options and privileges now or hereafter granted to, provided for, or vested in, trustees under the Texas Trust Code, except such as conflict with the terms of this Agreement or applicable law. As far as possible, no subsequent legislation or regulation shall be in limitation of the rights, powers or privileges granted the Trustee hereunder or in the Texas Trust Code as it exists at the time of the execution hereof.

4.9 Payments and Distributions from Trust Fund: The Trustee shall make such payments and distributions from the Trust Fund at such time or times and to such person or persons, including a paying agent or agents designated by the Committee as paying agent (including a commercial banking account in a federally insured banking institution established by the Committee for such purpose; provided, however that the Trustee shall have no responsibility to account for funds held in or disbursed from any such commercial banking account, or to prepare any information returns for tax purposes as to distributions made therefrom), as the Committee shall direct in writing, provided, however, (i) that disbursements for ordinary transaction expenses incurred in the administration of the Trust Fund need not be authorized by the Committee and (ii) that no payment or distribution in respect of the Plan shall exceed the value of the Plan in the Trust Fund on the date such payment or distribution is made. Any cash or property so paid or delivered to any such paying agent shall be held in trust by such payee until disbursed in accordance with the Plan. Any written direction of the Committee shall constitute a certification that the distribution or payment so directed is one which the Committee is authorized to direct and the Trustee shall not be responsible for the adequacy of the value of the Plan to meet and discharge such distribution or payment.

The Trustee may make any distribution or payment required to be made by it hereunder by mailing its check for the specified amount, or delivering the specified property, including certificates representing shares of Company Stock in the ESOP Fund, if applicable, to the person to whom such distribution or payment is to be made, at such address as may have

been last furnished to the Trustee, or, if no such address shall have been so furnished, to such person in care of the Company or the Committee, or (if so directed by the Committee by crediting the account of such person or by transferring funds to such person's account by bank wire or transfer). If a payment or distribution from the Trust is not claimed, the Trustee shall promptly notify the Committee thereof and thereafter handle such payment in accordance with the subsequent direction of the Committee.

4.10 Trustee's Dealings with Third Parties: Any corporation, transfer agent or other third party dealing with the Trustee shall not make, nor be required by any person to make, any inquiry whether the Trustee has authority to take or omit any action under this Trust Agreement or whether the Committee has instructed the Trustee to take or omit any such action, but shall be fully protected in relying upon the certificate of the Trustee that it has authority to take or omit such proposed action. The seal of the Trustee affixed to any instrument executed by it shall constitute the Trustee's certificate that it is authorized as Trustee hereunder to execute such instrument and proceed as may be provided for therein. No third party shall be required to follow the application by the Trustee of any money or property which may be paid or transferred to it.

4.11 Ancillary Trustee: If at any time the Trust Fund shall consist in whole or in part of assets located in a jurisdiction in which the Trustee is not authorized to act, the Trustee may appoint an individual or corporation in such jurisdiction as ancillary trustee and may confer upon such ancillary trustee, power to act solely with reference to such assets, and such ancillary trustee shall remit all net income or proceeds from the sale of such assets to the Trustee. The Trustee may pay such ancillary trustee reasonable compensation and may absolve it from any requirement that it furnish bond or other security unless otherwise required by law.

ARTICLE V

ADDITIONAL ESOP FUND PROVISIONS

It is specifically contemplated that the ESOP Fund will operate pursuant to a leveraged employee stock ownership plan. The Company may from time to time direct the Trustee to take such actions as the Company shall determine with respect to any loan previously incurred for the purpose of acquiring Company Stock (a "Loan"), including, without limitation, electing applicable interest rates and prepaying such Loan. Any such Loan shall continue to meet all of the requirements necessary to constitute an "exempt loan" within the meaning of Treasury Regulation Section 54.4975-7(b)(1)(iii) and shall continue to be used primarily for the benefit of the ESOP Fund Participants and their beneficiaries. The proceeds of any such Loan shall continue to be used, within a reasonable time after the Loan is obtained, only to purchase Company Stock or to repay such Loan or a prior Loan. Any such Loan shall continue to provide for no more than a reasonable rate of interest and must continue to be without recourse against the Plan and Trust. The Loan must not be payable at the demand of any person, except in the case of a default. The only assets of the ESOP Fund that may be given as collateral for a Loan are shares of Company Stock acquired with the proceeds of the Loan and shares of Company Stock that were used as collateral on prior Loans repaid with the proceeds of the current Loan. In the event that Company Stock was used as collateral for a Loan, such Company Stock shall be released from such encumbrance at an annual rate which is geared to the rate of total repayment (principal plus interest) of the Loan or the rate of principal repayment of the Loan, provided that in either case all applicable requirements of the applicable regulations shall be satisfied. No person entitled to payment under a Loan shall be entitled to payment from the ESOP Fund other than from shares of Company Stock acquired with the proceeds of the Loan which are collateral for the Loan, Company contributions made under the Plan for the purpose of satisfying the Loan obligation, earnings attributable to such Company Stock and such Company contributions, and such other assets, if any, as to which recourse may be permitted under Section 4975 of the Code. Payments of principal and interest on any such Loan shall be made by the Trustee (as directed by the Committee) only from (1) Company contributions made under the Plan for the purpose of satisfying such Loan obligation, earnings on such contributions and earnings on shares of Company Stock acquired with the proceeds of such Loan, (2) the proceeds of a subsequent Loan made to repay the prior Loan, and/or (3) the proceeds of the sale of any collateralized share of Company Stock acquired with the proceeds of such Loan. In the event of a default under a Loan, the value of ESOP Fund assets transferred to the lender shall not exceed the amount of the default, provided further that if the lender is a "party in interest" within the meaning of ERISA Section 3(14), a transfer of ESOP Fund assets upon default shall be made only if, and to the extent of, the ESOP Fund's failure to meet the Loan's payment schedule.

ARTICLE VI

FOR THE PROTECTION OF THE TRUSTEE

6.1 Composition of Committee: The Plan shall be administered by the Committee appointed by the Company pursuant to the provisions of the Plan, and the Trustee shall not be responsible in any respect for such administration. The members of the Committee shall serve pursuant to the provisions of the Plan, and the Company shall certify to the Trustee the names of the members of the Committee acting from time to time and furnish to the Trustee specimens of the signatures of such persons. The Committee may delegate any of its rights, powers and duties to any one or more of its members or to an agent. The Company shall indemnify and hold harmless each member of the Committee, from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member. The foregoing right of indemnification shall be in addition to any rights to which any member of the Committee, may otherwise be entitled as a matter of law. When any member of the Committee, shall cease to act, the Company shall promptly give written notice to that effect to the Trustee, but until such notice is received by the Trustee it shall be fully protected in continuing to rely upon the authority of such persons. If the full number of members of the Committee, as provided under the Plan, shall not at any time have been designated, the remaining member or members acting at such time shall be deemed to have all of the powers and duties of the Committee; or, if at any time there is no member of the Committee, the Board of Directors of the Company shall be deemed to be the Committee.

6.2 Evidence of Action by Company or Committee: The Committee shall certify to the Trustee the name or names of any person or persons authorized to act for the Committee. Until the Committee notifies the Trustee that any such person is no longer authorized to act for the Committee, the Trustee may continue to rely on the authority of such person. The Trustee may rely upon any certificate, notice or direction purporting to have been signed on behalf of the Committee which the Trustee believes to have been signed by the Committee or the person or persons authorized to act for the Committee. Any action required by any provision of this Agreement to be taken by the Board of Directors of the Company shall be evidenced by a resolution of such Board of Directors, certified to the Trustee over the signature of its Secretary or Assistant Secretary, and the Trustee may rely upon, and shall be fully protected in acting in accordance with, such resolution so certified to it. Unless other evidence with respect thereto has been expressly prescribed in this Agreement, any other action of the Company or of an Affiliated Corporation under any provision of this Agreement, including any approval of, or exceptions to the Trustee's accounts, shall be evidenced by a certificate signed by an officer of the Company or of an Affiliated Corporation, as the case may be, and the Trustee shall be fully protected in relying upon such certificate.

Any action by the Trustee pursuant to any of the provisions of this Agreement shall be sufficiently evidenced by a certification of one of its Vice Presidents, Second Vice Presidents or other appropriate Trust Officers, and the Company, each Affiliated Corporation

which participates in this Trust, the Committee and all other persons in interest may rely upon, and shall be fully protected in acting in accordance with, such certification.

6.3 Communications: Communications to the Trustee shall be addressed to it at 50 South LaSalle Street, Chicago, Illinois 60675. Communications to the Committee, the Company or any Affiliated Corporation shall be addressed to it at 1111 Louisiana, Houston, Texas 77002, with a copy to the Benefits Committee, attention: Secretary, P.O. Box 61867, Houston, Texas 77208, unless the Trustee, the Committee, the Company or any Affiliated Corporation, respectively, shall request that communications be sent to another address. No communication shall be binding upon the Trust Fund or the Trustee, or upon the Committee, the Company or any Affiliated Corporation until it is received by the Trustee, the Committee or its agent, the Company or the appropriate Affiliated Corporation, as the case may be.

6.4 Advice of Counsel: The Trustee may consult with any legal counsel, including counsel to the Company or the Committee, with respect to the construction of this Trust Agreement, its duties hereunder, or any act which it proposes to take or omit.

6.5 Miscellaneous: The Trustee may assume until advised to the contrary that the Plan and the Trust Fund is qualified under Sections 401(a), 409 and 4975(e)(7) and exempt from taxation under Section 501(a) of the Code. The Trustee shall be accountable for contributions made to the Plan and included among the assets of the Trust Fund, but shall have no responsibility to determine whether the contributions comply with the provisions of the Plan and ERISA.

The Trustee's duties and obligations shall be limited to those expressly imposed upon it by this Trust, notwithstanding any reference to the Plan.

The Company, any Affiliated Corporation, the Committee or all of them, at any time may employ as agent (to perform any act, keep any records or accounts, or make any computations required of the Company, an Affiliated Corporation or the Committee by this Trust Agreement or the Plan) the corporation serving as Trustee hereunder. Nothing done by said corporation as such agent shall affect its responsibility or liability as Trustee hereunder.

6.6 Fiduciary Responsibilities:

A. The Trustee, the Investment Managers, if any, and the members of the Committee shall discharge their duties with respect to the Trust solely in the interest of the Participants in the Plan and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Trustee, Investment Managers, and the members of the Committee shall not be liable for any loss sustained by the Trust Fund by reason of the purchase, retention, sale or exchange of any investment in good faith and in accordance with the provisions of this Trust Agreement and of any applicable Federal law.

B. No "fiduciary" (as such term is defined in Section 3(21) of ERISA, or any successor statutory provision) under this Trust Agreement shall be liable for an act or omission of another person in carrying out any fiduciary responsibility where such fiduciary responsibility

is allocated to such other person by this Trust Agreement or pursuant to a procedure established in this Trust Agreement except to the extent otherwise required by ERISA.

6.7 Limitations on Powers: Except for the short-term investment of cash, the Company has limited the investment power of the Trustee in the Reliant Energy Common Stock Fund and the ESOP Fund to the purchase and holding of Company Stock. The Trustee shall not be liable for the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 4.2, 4.5, 4.6 and 4.7 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 reasonable legal fees and expenses which The Northern Trust Company may sustain by reason of the purchase, retention, voting, tender or sale of Company Stock in accordance with the provisions of Sections 4.2 4.5, 4.6 and 4.7 hereof; provided, however, that the foregoing liability and indemnification provisions shall not apply 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 Sections 4.2, 4.5, 4.6 and 4.7. This paragraph shall survive the termination of this Agreement.

ARTICLE VII

TAXES, EXPENSES AND COMPENSATION OF TRUSTEE

7.1 Taxes and Expenses: Brokerage fees, commissions, stock transfer taxes and other charges and expenses incurred in connection with the purchase and sale of securities for the Trust Fund or distribution thereof shall be paid by the Trustee from the Trust Fund. All taxes imposed or levied with respect to the Trust Fund or any part thereof, under existing or future laws, shall be paid from the Trust Fund. The Trustee shall pay from the Trust Fund, to the extent not paid by the Company and/or the Affiliated Corporations which participate in the Plan, its reasonable expenses of management and administration of the Trust, including reasonable compensation of counsel and any agents engaged by the Trustee to assist it in such management and administration, and when so directed by the Committee shall pay from the Trust Fund the fees of any Investment Manager and any specified expenses of administration of the Plan including, but not limited to, audit fees, investment consulting fees, and recordkeeping expenses.

7.2 Compensation of the Trustee: The Trustee shall receive for its services as Trustee hereunder such reasonable compensation which may be agreed upon from time to time by the Company and the Trustee. All amounts due the Trustee as compensation for its services shall be paid by the Company, or prorated among the Company and the Affiliated Corporations which participate in this Trust in such a manner as they deem equitable, or disbursed by the Trustee out of the Trust Fund, and, until paid, shall constitute a charge upon the Trust Fund.

ARTICLE VIII

SETTLEMENT OF ACCOUNTS;
DETERMINATION OF INTERESTS UNDER TRUST

8.1 Settlement of Accounts of Trustee: The Trustee shall keep accurate and detailed accounts of all of its receipts, investments and disbursements under this Agreement on an accrual basis, accounting separately for each Investment Fund and the ESOP Fund. The financial statements, books and records of the Trustee with respect to the Trust shall be open to inspection during all business hours of the Trustee by the Company or the Committee or their representatives, including, without limitation, independent certified public accountants engaged by the Company or the Committee, on behalf of all participants in the Plan, to permit compliance with the reporting and disclosure requirements of ERISA. However, such financial statements, books and records may not be audited more frequently than twice in each fiscal year. If an examination of the financial statements of the Plan requires a review of the underlying transactions affecting such financial statements, such independent certified public accountants shall rely on the report of the independent certified public accountants engaged by the Trustee to review its procedures and controls, to the extent such reliance is permitted by generally accepted auditing standards.

Within 90 days after the close of each calendar year, or any termination of the duties of the Trustee, the Trustee shall prepare, sign and mail in duplicate to the Company and the Committee an account of its acts and transactions as Trustee hereunder. Such account shall include a statement of the value of the Trust Fund and in its component Investment Funds and in the ESOP Fund as of the last day of such year or other period and a statement of the portion of the Trust Fund under management by any Investment Manager as of the same date.

If the Company finds the account to be correct, the Company shall sign the instrument of settlement annexed to one counterpart of the account and return such counterpart to the Trustee, whereupon the account shall become an account stated. If within 90 days after receipt of the account or any amended account the Company has not signed and returned a counterpart to the Trustee, nor filed with the Trustee notice of any objection to any act or transaction of the Trustee, the account or amended account shall become an account stated. If any objection has been filed, and if the Company is satisfied that it should be withdrawn or if the account is adjusted to its satisfaction, the Company shall in writing filed with the Trustee signify its approval of the account and it shall become an account stated. In each case in which an account becomes an account stated, the account shall be an account stated between the Trustee and the Company and any Affiliated Corporation which had adopted the Plan.

When an account becomes an account stated, such account shall be finally settled, and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee, the Company and any Affiliated Corporation which has adopted the Plan were parties.

The account of the Trustee's acts and transactions delivered to the Committee shall be settled, and shall become an account stated, in the same manner as the account delivered

to the Company hereunder. When an account becomes an account stated as between the Trustee and the Committee, the account shall be finally settled and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee and the Committee were parties.

The Trustee, the Committee or the Company shall have the right to apply at any time to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as hereinabove provided. In any such action or proceeding it shall be necessary to join as parties only the Trustee, the Committee and the Company (although the Trustee may also join such other parties as it may deem appropriate), and any judgment or decree entered therein shall be conclusive.

8.2 Determination of Rights and Benefits of Persons Claiming an Interest in the Trust Fund; Enforcement of Trust Fund: The Committee shall have authority to determine the existence, non-existence, nature and amount of the rights and interests of all persons under the Plan and in or to the Trust Fund, and the Trustee shall have no power, authority, or duty in respect of such matters, or to question or examine any determination made by the Committee, or any direction given by the Committee to the Trustee. The Company and the Committee shall have authority, either jointly or severally, to enforce this Trust Agreement on behalf of any and all persons having or claiming any interest in the Trust Fund or under this Trust Agreement or the Plan.

## ARTICLE IX

## RESIGNATION, REMOVAL AND SUBSTITUTION OF THE TRUSTEE

9.1 Resignation of Trustee: The Trustee may resign its duties hereunder by filing with the Committee its written resignation. No such resignation shall take effect until 60 days from the date thereof unless shorter notice is acceptable to the Committee.

9.2 Removal of Trustee: The Trustee may be removed by the Board of Directors of the Company at any time upon not less than 60 days' notice to the Trustee, but such notice may be waived by the Trustee. Such removal shall be effected by delivering to the Trustee a written notice of its removal executed by the Company, and by giving notice to the Trustee of the appointment of a successor Trustee in the manner hereinafter set forth.

9.3 Appointment of Successor Trustee: The appointment of a successor Trustee hereunder shall be accomplished by and shall take effect upon the delivery to the resigning or removed Trustee, as the case may be, of (a) an instrument in writing appointing such successor Trustee, executed by the Company, together with a certified copy of the resolution of the Board of Directors of the Company to such effect and (b) an acceptance in writing of the office of successor Trustee hereunder executed by the successor so appointed, both of which documents shall be acknowledged in like manner as this Trust Agreement. The Company shall send notice of such appointment to each Affiliated Corporation which has adopted the Plan, and to each member of the Committee then in office. Any successor Trustee hereunder may be either a corporation authorized and empowered to exercise trust powers or one or more individuals. All of the provisions set forth herein with respect to the Trustee shall relate to each successor Trustee so appointed with the same force and effect as if such successor Trustee had been originally named herein as the Trustee hereunder. If within 60 days after notice of resignation shall have been given under the provisions of this Article IX a successor Trustee shall not have been appointed, the resigning Trustee or any member of the Committee may apply to any court of competent jurisdiction for the appointment of a successor Trustee.

9.4 Transfer of Trust Fund to Successor: Upon the appointment of a successor Trustee, the resigning or removed Trustee shall transfer and deliver the Trust Fund and the records relating thereto to such successor Trustee, after reserving such reasonable amount as it shall deem necessary to provide for its expenses in the settlement of its accounts, the amount of any compensation due it and any sums chargeable against the Trust Fund for which it may be liable, but if the sums so reserved are not sufficient for such purposes, the resigning or removed Trustee shall be entitled to reimbursement for any deficiency from the Trust Fund and from the Company and each Affiliated Corporation which has adopted the Plan, who shall be jointly and severally liable therefor.

ARTICLE X

DURATION AND TERMINATION OF TRUST; AMENDMENT

10.1 Duration and Termination: This Trust Agreement shall continue for such time as may be necessary to accomplish the purpose for which it was created but may be terminated at any time by the Company by action of its Board of Directors. Notice of such termination shall be given to the Trustee by an instrument in writing executed by the Company and acknowledged in the same form as this Agreement, together with a certified copy of the resolution of the Board of Directors of the Company authorizing such termination. The Company shall notify the Committee of such termination.

10.2 Distribution Upon Termination: If this Trust Agreement is terminated, the Trustee upon the written direction of the Committee shall liquidate the Trust Fund to the extent required for distribution and, after its final account has been settled as provided in Article VIII, shall distribute the net balance thereof to such person or persons, at such time or times and in such proportions and manner as may be directed by the Committee or in the absence of such direction, as may be directed by a judgment or decree of a court of competent jurisdiction. Upon making such distributions, the Trustee shall be relieved from all further responsibility. The powers of the Trustee hereunder shall continue so long as any assets of the Trust Fund remain in its hands. Notwithstanding the foregoing provisions of this Section 10.2, the Company may promptly advise the appropriate District Director of Internal Revenue of the termination of the Trust and the Trustee may delay the final distribution to Participants in the terminated Plan until said District Director shall advise in writing that such termination does not adversely affect the previously qualified status of the terminated Plan or the exemption from tax of the Trust under Code Section 401(a) or 501(a).

10.3 Certain Withdrawals: Each Affiliated Corporation which participates in the Trust shall have the right to withdraw from this Trust upon six months' written notice to the Trustee and the Committee, which written notice may be waived by the Trustee and the Committee. In the event that any Affiliated Corporation which participates in the Trust shall cease to be an Affiliated Corporation of the Company, such corporation shall withdraw from this Trust as soon as arrangements may be reasonably made therefor, but in any event such withdrawal shall be made not more than six months after the date such corporation ceases to be an Affiliated Corporation. Upon such withdrawal, the Committee shall certify to the Trustee the interest in the Trust Fund of the participants of such withdrawing corporation and the Trustee shall thereupon separate such interest from the Trust Fund as provided below in this Section. The Committee may at any time direct the Trustee to segregate and withdraw any portion as may be certified to the Trustee by the Committee as allocable to any specified group or groups of employees or beneficiaries in the Plan. Whenever segregation is required, the Trustee shall withdraw from the Trust Fund such assets as it shall in its absolute discretion deem to be equal in value to the equitable share to be segregated. Such withdrawal from the Trust Fund shall be in cash or in any property held in such Fund, or in a combination of both, in the absolute discretion of the Trustee. The Trustee shall thereafter hold the assets so withdrawn as a separate trust fund in accordance with the provisions either of this Agreement (which shall be construed in respect of such assets as if the employer maintaining the Plan (determined without regard to whether any subsidiaries or affiliates of such employer have joined in the Plan)) had been named as the Company

hereunder or of a separate trust agreement. Such segregation shall not preclude later readmission to the Trust.

10.4 Amendment: By an instrument in writing delivered to the Trustee executed pursuant to the order of the Company's Board of Directors and acknowledged in the same form as this Agreement, the Company shall have the right to amend or modify this Trust Agreement at any time and from time to time to the extent that it may deem advisable, except that the duties and responsibilities of the Trustee shall not be increased without the Trustee's written consent. The Committee shall have the right to amend or modify this Trust Agreement in order to modify the administrative provisions of the Trust, to change the Investment Funds offered under the Trust and for any changes required by applicable law or by the Internal Revenue Service to maintain the qualified status of the Plan and related Trust at any time and from time to time to the extent that it may deem advisable, except that the duties and responsibilities of the Trustee shall not be increased without the Trustee's written consent. However, no such amendment shall authorize or permit, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the Plan, any part of the Plan in the Trust Fund to be used for, or diverted to, any purposes other than for the exclusive benefit of such employees and their beneficiaries.

Any such amendment shall become effective upon (a) delivery to the Trustee of the written instrument of amendment executed (i) by the appropriate officers of the Company, together with a certified copy of the resolution of the Board of Directors of the Company authorizing such amendment, or (ii) by the appropriate member of the Committee, together with a certified copy of the resolution of the Committee and (b) endorsement by the Trustee on such instrument of its receipt thereof, together with its consent thereto if such consent is required.

ARTICLE XI

MISCELLANEOUS

11.1 Governing Law; No Bond Required of Trustee: Subject to the provisions of ERISA, as they may be amended from time to time, which may be applicable and provide to the contrary, this Trust Agreement and the Trust hereby created shall be governed, construed, administered and regulated in all respects under the laws of the State of Texas. No bond or other security for the faithful performance of its duties hereunder shall be required of the Trustee unless otherwise required by law.

11.2 Interest in Trust Fund; Assignment: No document shall be issued evidencing any interest in the Trust or in the Trust Fund, and no Affiliated Corporation shall have the power to assign all or any part of its equitable share of the Trust Fund or of its interest therein.

11.3 Invalid Provisions: If any provision or provisions of this Trust Agreement shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Trust Agreement, but shall be fully severable and the Trust Agreement shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

11.4 Prohibition of Diversion: Except as provided in Article VII hereof, it shall be impossible under this Trust Agreement for any part of the corpus or income of the Trust Fund to be used for, or diverted to, purposes other than for the exclusive benefit of the Participants. It shall also be impossible under this Trust Agreement for any part of the Trust Fund to revert directly or indirectly to the Company or any Affiliated Corporation which participates in the Plan, except to the extent such reversions are specifically authorized under Section 403(c)(2) of ERISA.

11.5 Headings for Convenience Only: The headings and subheadings in this Trust Agreement are inserted for convenience of reference only and are not to be used in construing this instrument or any provision thereof.

11.6 Successors and Assigns: This Trust Agreement shall bind and inure to the benefit of the successors and assigns of the Company and the Trustee, respectively.

IN WITNESS WHEREOF, the Company and Trustee have caused these presents to be executed by their duly authorized 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, this 29th day of December, 1999, but effective as of April 1, 1999.

RELIANT ENERGY, INCORPORATED

By /s/ LEE W. HOGAN
---
Lee W. Hogan
Chairman of the Benefits Committee

ATTEST:

/s/ LYNNE HARKEL-RUMFORD
- ----------
Secretary

THE NORTHERN TRUST COMPANY,
TRUSTEE

By /s/ PATTY A. WEILAND
---

ATTEST:

/s/ [ILLEGIBLE]
- ----------
Secretary

FIRST AMENDMENT TO
RELIANT ENERGY, INCORPORATED SAVINGS TRUST

THIS AGREEMENT is made, effective this 4th day of October, 2002, by and between CENTERPOINT ENERGY, INC., a Texas corporation (the "Company"), and THE NORTHERN TRUST COMPANY, an Illinois corporation (the "Trustee");

WHEREAS, the Company and the Trustee entered into the Reliant Energy, Incorporated Savings Trust, as amended and restated effective April 1, 1999, a trust agreement (the "Trust"); and

WHEREAS, the Company and the Trustee desire to amend the Trust, pursuant to Section 10.4;

NOW, THEREFORE, effective as of the dates specified below, the sections of the Trust set forth below are amended as follows:

1. Effective as of September 30, 2002, the definition of "Affiliated Corporation" in Section 1.1 of the Trust is hereby amended in its entirety to read as follows:

"AFFILIATED CORPORATION: The Company and any corporation in which the shares owned or controlled directly or indirectly by the Company shall represent 50% or more of the voting power of the issued and outstanding capital stock of such corporation."

2. Effective as of September 30, 2002, the definition of "Company" in Section 1.1 of the Trust is hereby amended in its entirety to read as follows:

"COMPANY: Prior to August 31, 2002, Reliant Energy, Incorporated, a Texas corporation, and on and after August 31, 2002, CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc."

3. Effective as of September 30, 2002, Section 1.1 of the Trust is hereby amended by adding the following new definition of "Distribution Date":

"DISTRIBUTION DATE: September 30, 2002, which is the date upon which the Company distributes all of its shares of RRI Stock to its stockholders."

4. Effective as of September 30, 2002, Section 1.1 of the Trust is hereby amended by adding the following new definition of "Resources":

"RESOURCES: Reliant Resources, Inc., a Delaware corporation."

5. Effective as of September 30, 2002, Section 1.1 of the Trust is hereby amended by adding the following new definition of "RRI Stock":

"RRI STOCK: The common stock of Resources, which shares prior to the Distribution Date are 'qualifying employer securities' within the meaning of Section 409(l) of the Code and Section 407(d)(5) of ERISA."

6. Effective as of September 30, 2002, paragraph (b) Section 4.2 of the Trust is hereby amended by adding the following new paragraph at the end thereof:

"Notwithstanding any provision of this Trust to the contrary, with respect to all RRI Stock received as a dividend in the unallocated portion of the ESOP Fund, the Committee shall appoint an Investment Manager for purposes of liquidating such RRI Stock and for purposes of reinvesting such proceeds into Company Stock. Such Investment Manager shall acknowledge in writing delivered to the Committee that it is a fiduciary with respect to the RRI Stock or other assets allocated thereto. The Trustee shall act with respect to such RRI 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 RRI Stock or other assets allocated to such Investment Manager, except as directed by the Investment Manager thereof."

7. Effective as of September 30, 2002, Section 4.2 of the Trust is hereby amended (i) by redesignating paragraph "(l)" as "(f)," and all affected references are hereby amended accordingly, and (ii) by adding the following new paragraph (g) to Section 4.2:

"(g) RRI Stock Fund. Contributions are to be invested and reinvested in RRI Stock (which the Trustee shall purchase as soon as practicable when it holds funds available for that purpose), either (i) in the open market or (ii) privately from Resources at a price per share equal to the closing price of said share on the New York Stock Exchange on the day of the purchase, it being understood that shares purchased from Resources may either be treasury shares or authorized but unissued shares, if Resources shall make such shares available for the purpose, and that the Trustee, in its discretion, may refrain from making purchases of shares of RRI Stock whenever it deems such refraining to be necessary to prevent undue trading impact on the price of the RRI Stock. At the time the Trustee makes open market purchases of RRI Stock, the Trustee will either (i) be an `agent independent of the issuer' as that term is defined in Rule 10(b)(18) of the Exchange Act or (ii) make such open market purchases in accordance with the provisions, and subject to the restrictions, of Rule 10(b)(18) of the Exchange Act. Except in the case of fractional shares received in a stock dividend, stock split, or other recapitalization, or as necessary to make any distribution or payment from the Trust Fund or transfers among the Investment Funds, the Trustee shall

have no power or duty to sell or otherwise dispose of any RRI Stock acquired for the RRI Stock Fund. Notwithstanding the foregoing, from and after the Distribution Date, the RRI Stock Fund shall be a 'frozen fund' for which no subsequent purchases of RRI Stock shall be made. The Trustee shall not be required to advance funds to make any transfers or distributions from the RRI Stock Fund. Any dividends received in the RRI Stock Fund from and after the Distribution Date shall be retained in cash pending direction from the Committee. Any cash held by the Trustee from time to time in the RRI Stock Fund may be invested in the collective short term investment fund of the Trustee. All RRI Stock held in the RRI Stock Fund shall be voted or tendered, as applicable, by the Trustee, in its sole discretion. No provision of this paragraph (g) shall prevent the Trustee from taking any action relating to its duties under this paragraph (g) 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."

8. Effective as of September 30, 2002, 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, the Company has limited the investment power of the Trustee in the RRI Stock Fund to the retention and sale of RRI Stock. The Trustee shall not be liable for the retention or sale of RRI 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 reasonable legal fees and expenses which The Northern Trust Company may sustain by reason of the retention or sale of RRI Stock in accordance with the provisions of Section 4.2 hereof; provided, however, that the foregoing liability and indemnification provisions shall not apply 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."

9. Effective as of October 2, 2002, the name of the Trust is hereby amended to be the "CenterPoint Energy, Inc. Savings Trust," and all references to the Trust are amended accordingly, and the definition of "Trust" in Section 1.1 of the Trust is hereby amended in its entirety to read as follows:

"TRUST: The CenterPoint Energy, Inc. Savings Trust,as amended and restated effective April 1, 1999, and as the same may hereafter be amended from time to time (formerly the Reliant Energy, Incorporated Savings Trust prior to October 2, 2002)."

10. Effective as of October 2, 2002, the definition of "Plan" in Section 1.1 of the Trust is hereby amended in its entirety to read as follows:

"PLAN: The CenterPoint Energy, Inc. Savings Plan, as amended and restated effective April 1, 1999, and as the same may hereafter be amended from time to time (formerly the Reliant Energy, Incorporated Savings Plan prior to October 2, 2002)."

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/ RUFUS S. SCOTT
- ---
Assistant Secretary

THE NORTHERN TRUST COMPANY

By: /s/ [ILLEGIBLE]
---

Its: [ILLEGIBLE]
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EXHIBIT 10(u)(10)

# RELIANT ENERGY, INCORPORATED RETIREMENT PLAN

(As Amended and Restated Effective as of January 1, 1999)

RELIANT ENERGY, INCORPORATED RETIREMENT PLAN

(As Amended and Restated Effective as of January 1, 1999)

I N D E X

# RELIANT ENERGY, INCORPORATED RETIREMENT PLAN

(As Amended and Restated Effective as of January 1, 1999)

## Recitals

Houston Lighting & Power Company, a Texas corporation with its principal place of business in Houston, Harris County, Texas, established a Retirement Plan effective July 1, 1953, for the benefit of its eligible employees. The Retirement Plan was subsequently adopted and continued by Houston Industries Incorporated, a Texas corporation, as sponsoring employer (the "Company") on January 14, 1977. The Retirement Plan was amended and restated effective January 1, 1985, and was thereafter amended by the First through Seventh Amendments thereto. Effective January 1, 1989, the Retirement Plan was amended and restated, and was thereafter amended by the First through Ninth Amendments thereto (said Retirement Plan as amended and continued up to November 30, 1995, being hereinafter referred to as the "1989 Plan").

The 1989 Plan was then again amended and restated, effective as of December 1, 1995 ("Prior Plan"), to provide a consolidated copy of the Prior Plan and to provide for a retiree welfare benefits account pursuant to Section 401(h) of the Internal Revenue Code of 1986, as amended (the "Code"). The Prior Plan was then further amended by the First through Fifth Amendments thereto.

As part of the Prior Plan, the Company adopted the Houston Industries Incorporated Retirement Trust, as amended and restated effective October 1, 1978, and as thereafter amended (the "Trust Agreement"), to hold and administer the funds contributed under the Prior Plan for the exclusive benefit of the employees covered thereunder and their beneficiaries.

The Trust Agreement was amended and restated in the form of the Houston Industries Incorporated Master Retirement Trust, effective January 1, 1994, and thereafter amended and restated effective July 1, 1998. Said Trust Agreement is intended to continue in effect and to form a part of this Plan.

Effective January 1, 1999, the Board of Directors of the Company authorized the amendment and restatement of the Prior Plan in the form set forth herein (the "Plan") to implement a cash balance plan, to reflect the merger of the Plan with the NorAm Energy Corp. Employees Retirement Plan and the Minnegasco Division Employees' Pension Plan, effective as of January 1, 1999, to incorporate changes required by the Retirement Protection Act of 1994 under the General Agreement on Tariffs and Trades, the Uniformed Services Employment and Reemployment Rights Act, the Small Business Job Protection Act of 1996, and the Tax Reform Act of 1997, and to make certain other changes.

There shall be no termination and no gap or lapse in time or effect between the Prior Plan as in effect on December 31, 1998, and this Plan, and the existence of a qualified pension plan shall be uninterrupted. The amendment and restatement of the Prior Plan in the form of this Plan shall not operate to exclude, diminish, limit or restrict the payments or

continuation of payments of benefits accrued and then accruing to Members under the Prior Plan as of December 31, 1998. The amount of Prior Plan benefits in pay status to such persons on December 31, 1998, and the amount of Prior Plan Benefits accrued to terminated vested participants on December 31, 1998, shall be continued in the same manner and amount, undiminished, preserved and fully vested, under this Plan. Except to the extent otherwise required to reflect the fact that such Prior Plan Member's benefits accrued under the Prior Plan are continued under this Plan and except as otherwise expressly provided herein, the provisions of this Plan shall apply only to an Employee or Member who terminates his Service on or after January 1, 1999.

The Plan and Trust Agreement are intended to meet the requirements of Sections 401(a) and 501(a) of the Code and of the Employee Retirement Income Security Act of 1974, as either may be amended from time to time.

Effective as of May 5, 1999, the name of the Company was changed to Reliant Energy, Incorporated.

NOW, THEREFORE, Reliant Energy, Incorporated hereby amends, restates in its entirety and continues the Houston Industries Incorporated Retirement Plan in the form of the Reliant Energy, Incorporated Retirement Plan, effective as of January 1, 1999, as follows:

ARTICLE I

DEFINITIONS

Where the following words and phrases appear in this Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

1.1 Accrued Benefit: As of any given date after the Effective Date, the monthly amount of retirement income that would be payable in the form of a Single Life Annuity under this Plan commencing on the Member's Normal Retirement Date (or Severance from Service Date, if later), based on the value of the Member's Cash Balance Account or, if applicable, the Grandfathered Benefit under Section 7.6 as of such date.

1.2 Accrued Pension: A Member's accrued benefit as of December 31, 1998, under the Prior Plan, or, with respect to a Minnegasco Member or a NorAm Member, the Member's Minnegasco Pension or NorAm Pension as of such date, as applicable.

1.3 Actuarial Equivalent: For any specified annuity or benefit means another annuity or benefit, commencing at a different date or payable in a different form than the specified annuity or benefit, but which has the same present value as the specified annuity or benefit, when measured using the following mortality and interest assumptions:

(a) General Rule: For all purposes under the Plan, except as otherwise provided in this Section 1.3:

(i) An interest rate of 9.5% per annum interest assumption, compounded annually; and

(ii) The Unisex Mortality Table UP-1984 without any age adjustments.

(b) Valuing Normal Retirement Pension, Conversion of Cash Balance Account to Annuity and Calculation of Lump Sums: For purposes of Section 7.1, with respect to determining a Member's Normal Retirement Pension; Article XI, with respect to converting a Member's Cash Balance Account into an annuity form of payment and with respect to calculating an Accrued Benefit as a lump-sum payment; and Section 11.6 (Payment of Small Benefits):

(i) The average annual interest rate on 30-year Treasury securities as reported daily during the month of November preceding the first day of the Plan Year that contains the Annuity Starting Date for the distribution; and

(ii) The blended 1983 Group Annuity Mortality Table published in Rev. Rul. 95-6, or such other mortality table as may be published from time to time pursuant to Code Section 417(e) and the regulations promulgated thereunder; and

(iii) The Member's actual age (in years and days) on his or her benefit commencement date.

(c) Initial Balance of Cash Balance Account: For purposes of Section 7.2 (Establishment of a Member's Cash Balance Account):

(i) An annual interest rate of 7%; and

(ii) The blended 1983 Group Annuity Mortality Table published in Rev. Rul. 95-6, or such other mortality table as may be published from time to time pursuant to Code Section 417(e) and the regulations promulgated thereunder; and

(iii) An assumption that benefits will commence on the Member's Normal Retirement Date.

(d) Grandfathered Benefit: For purposes of Section 7.6 (Grandfathered Benefit), Actuarial Equivalent shall have the meaning set forth in such section.

1.4 Actuary: The independent actuary or firm of actuaries approved by the Joint Board for the Enrollment of Actuaries to perform actuarial services required under ERISA or regulations thereunder which has been appointed by the Company to make the actuarial computations required under the Plan.

1.5 Additional Contribution Credit: The amount credited to each Member's Cash Balance Account pursuant to Section 7.4.

1.6 Affiliate: A corporation or other trade or business which, together with an Employer, is "under common control" within the meaning of Section 414(b) or (c), as modified by Section 415(h) of the Code; any organization (whether or not incorporated) which is a member of an "affiliated service group" (within the meaning of Section 414(m) of the Code) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.

1.7 Anniversary Date: January 1 of each Plan Year.

1.8 Annuity Starting Date: The Annuity Starting Date shall be the first day of the month coincident with or next following the later of the Member's attainment of his Normal Retirement Date or his termination of employment, subject to Section 11.1(b). Notwithstanding anything herein to the contrary, a Member who has terminated his employment may request, in accordance with the then established procedures of the Committee, an earlier or later commencement date, subject to Section 11.1(b), in which event the Annuity Starting Date shall be the first day of the month requested.

1.9 Authorized Absence: Any absence, including a Disability Leave of Absence, a Leave for Business or Civic Reasons, or a leave for Qualified Military Service, or an absence as

defined in Section 3.1(d) hereof, which is counted as Service under the provisions of Article III hereof.

1.10 Basic Contribution Credit: The amount credited to each Member's Cash Balance Account pursuant to Section 7.3.

1.11 Beneficiary: The contingent annuitant or joint pensioner designated pursuant to Article X to receive optional pension benefits under Article XI hereof or the person or persons designated under Article X to receive a Death Benefit under Article IX.

1.12 Cash Balance Account: The notional account maintained on behalf of a Member to reflect the Member's opening account balance, Basic Contribution Credits, Additional Contribution Credits, if any, and Interest Credits made on his behalf as described in Article VII.

1.13 Code: The Internal Revenue Code of 1986, as amended.

1.14 Committee: The Benefits Committee appointed to administer the Plan as provided in Article XIII.

1.15 Company: Prior to May 5, 1999, Houston Industries Incorporated, a Texas corporation and on or after May 5, 1999, Reliant Energy, Incorporated, a Texas corporation, or a successor to Reliant Energy, Incorporated in the ownership of substantially all of its assets.

1.16 Compensation: The regular compensation actually paid to or accrued for the respective Employee (other than Employees who are Transferred Members) by their Employers for personal services during the applicable payroll period, including (but not by way of limitation) normal salary, wages, performance-based bonuses paid in cash (including bonuses received after termination of employment), overtime compensation, commissions and any Pre-Tax Contributions made under the Reliant Energy, Incorporated Savings Plan (the "Savings Plan"), amounts deferred pursuant to a nonqualified deferred compensation plan, and any amounts by which an Employee's compensation is reduced because of an election under the Reliant Energy, Incorporated Flexible Benefits Plan (the "Flex Plan"), but excluding expense allowances, long-term incentive compensation, or other special compensation and contributions of the Employer (other than Pre-Tax Contributions under the Savings Plan and compensation reductions under the Flex Plan) to or benefits under this Plan or any other welfare or deferred compensation plan. For purposes of calculating the Grandfathered Benefit under Section 7.6 hereof, Compensation shall include, for those Employees who participated in the Prior Plan and who participate in a 12-hour shift program implemented by the Company and maintained by it or by an Employer, the straight-time component of any required overtime performed by such Employees as part of such program; provided, however, that the straight-time component so counted shall not result in Compensation being counted for Hours of Service in excess of 80 hours per two-week period. The Compensation of an Employee as reflected by the books and records of the Employer shall be conclusive. With respect to an Employee absent from employment due to an Authorized Absence, "Compensation" means the Compensation (as defined in this Section) in effect for such Member immediately before his Authorized Absence commenced, during the applicable payroll period. In addition, "Compensation" for any payroll period for a Member who returns to active employment after a Disability Leave of Absence shall

be the greater of the Member's Compensation for the payroll period immediately preceding the Member's return to active employment and the Compensation for the payroll period for such Member determined under the provisions of this Section otherwise applicable to active employees. Notwithstanding anything herein to the contrary, Compensation shall not include any payments made in connection with a Member's termination of employment or severance pay. Notwithstanding anything herein to the contrary, in no event shall the annual Compensation taken into account under the Plan for any Employee exceed $160,000, or such other dollar amount as may be prescribed by the Secretary of the Treasury or his delegate pursuant to Code Section 401(a)(17).

1.17 Death Benefit: The benefit provided under Article IX hereof.

1.18 Disability Leave of Absence: An absence during which the Member has satisfied the definition of "Disability" under the Long Term Disability Plan of an Employer ("LTD Plan") and commenced receiving disability benefits thereunder. The determination of whether a Member has become "Disabled" under the Company's LTD Plan by such disability plan's administrator shall be final and binding on all parties concerned. A Member who is Disabled under the LTD Plan or who, on January 1, 1999, was disabled under the terms of the Prior Plan, the NorAm Plan or the Minnegasco Plan shall continue to accrue Service under the Plan in accordance with Section 3.4 hereof.

1.19 Early Retirement Date: With respect to the Prior Plan, the first day of the month coincident with or next following the termination of Service by a Member after he has completed five years of Vesting Service and has attained age 55 but not age 65. A NorAm Member's Early Retirement Date is the first day of the month coincident with or next following his termination of employment after completing 10 years of Vesting Service and after the Member has attained age 55 but not age 65. A Minnegasco Member's Early Retirement Date is the first day of the month coincident with or next following his termination of employment after attaining age 55 with no minimum service requirement; however, if such Minnegasco Member was previously a Midwest participant, his Early Retirement Date is the first day of the month coincident with or next following his termination of employment after attaining age 52 with no minimum service requirement.

1.20 Effective Date: Except where otherwise specifically provided, January 1, 1999, the date as of which the provisions of this amended and restated Plan first became effective.

1.21 Employee: Any person employed by an Employer, and including (i) any individual on Disability Leave of Absence and (ii) any "leased employee" (as defined in Section 414 of the Code, subject to Section 414(n)(5)) performing services for an Employer. In addition to the above, the term "Employee" shall include any person receiving remuneration for personal services (or who would be receiving such remuneration except for an authorized leave of absence) rendered as an employee of a foreign affiliate (as defined in Code Section 3121(l)(6)) of an Employer to which an agreement extending coverage under the Federal Social Security Act entered into by an Employer under Section 3121(l) of the Code applies, provided that such person is a citizen or resident of the United States.

1.22 Employer: The Company, including its successors, and any Affiliate or any other entity that has been designated by the Committee as a participating Employer under this Plan pursuant to the provisions of Article XVIII, as provided in Exhibit C hereto.

1.23 ERISA: Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.24 Grandfathered Benefit: The Pension provided pursuant to Section 7.6.

1.25 Interest Credit: The interest credit to each Member's Cash Balance Account pursuant to Section 7.5.

1.26 Interest Rate: The Interest Rate for a Plan Year shall be the average annual interest rates on 30-year Treasury securities as reported daily during November of the preceding Plan Year.

1.27 Investment Manager: The Investment Manager appointed under the Trust Agreement, as such term is defined by Section 3(38) of ERISA.

1.28 Leave for Business or Civic Reasons: The period of an Authorized Absence taken in order to hold an office or position in a business or civic organization which has been approved by the Committee.

1.29 Member: Any Employee who has become and continues to be a participant in the Plan in accordance with its provisions. The term "Member" also includes Transferred Members unless otherwise specifically excluded. A Member shall continue to be a Member as long as he or she has an undistributed beneficial interest in the Plan. If upon a Break In Service, a Member's vested Accrued Benefit is zero, he or she shall be deemed to have received an immediate lump-sum payment of his or her vested Accrued Benefit.

1.30 Minnegasco Member: A Member who was a member in the Minnegasco Plan immediately prior to January 1, 1999.

1.31 Minnegasco Pension: The accrued benefit under the terms of the Minnegasco Plan as of December 31, 1998, for a Minnegasco Member.

1.32 Minnegasco Plan: The Minnegasco Division Employees Pension Plan as in effect immediately prior to January 1, 1999.

1.33 NorAm Member: A Member who was a member in the NorAm Plan immediately prior to January 1, 1999.

1.34 NorAm Pension: The accrued benefit under the terms of the NorAm Plan as of December 31, 1998, for a NorAm Member.

1.35 NorAm Plan: The NorAm Energy Corp. Employees Retirement Plan as in effect immediately prior to January 1, 1999.

1.36 Normal Retirement Date: The first day of the month coincident with or next following the later of (i) the Member's attainment of age 65 or (ii) the fifth anniversary of the Member's commencement of participation in the Plan. Normal Retirement Date shall mean, for a NorAm Member, the first day of the month coincident with or next following his or her attainment of age 65; and Normal Retirement Date shall mean, for a Minnegasco Member, the first day of the month coincident with or next following his or her attainment of age 65 with no minimum service requirement.

1.37 Normal Retirement Pension: The Pension to which a Member is entitled pursuant to Article VII.

1.38 Pension: The benefit payable to a person entitled to receive benefits under the Plan.

1.39 Plan: The Reliant Energy, Incorporated Retirement Plan, as amended and restated effective January 1, 1999, including all subsequent amendments thereto.

1.40 Plan Year: The 12-month period commencing on January 1 and ending on December 31 of each calendar year.

1.41 Postponed Retirement Date: The first day of the month coincident with or next following the Member's termination of Service after his Normal Retirement Date.

1.42 Prior Plan: The Houston Industries Incorporated Retirement Plan as effective before this restatement of the Plan and for the period commencing with the inception date of the Prior Plan on July 1, 1953, and continuing through December 31, 1998, as theretofore amended, and as incorporated herein by reference for purposes of its applicability under this Plan.

1.43 Prior Plan Member: Any person who is in the employment of an Employer or Affiliate on January 1, 1999, and was, on December 31, 1998, included in and covered by the Prior Plan, or who is the Beneficiary, Spouse, alternate payee or estate representative of such a person who died, or who was, on January 1, 1999, receiving or entitled to receive benefits under the Prior Plan.

1.44 Prior Plan Pension: A Prior Plan Member's Accrued Pension under the Prior Plan immediately prior to January 1, 1999.

1.45 Qualified Joint and Survivor Annuity: The annuity form of payment defined in Section 11.2.

1.46 Qualified Military Service: Any service in the uniformed services (as defined in Chapter 43 of Title 38 of the United States Code or its successor) by an Employee who is entitled to reemployment rights under such chapter with respect to such service.

1.47 Required Beginning Date: For a Member attaining age 70 1/2 prior to January 1, 1999, Required Beginning Date shall mean the April 1 following the calendar year in which the Member attains age 70 1/2, whether or not such Member's employment had terminated in such year. For a Member attaining age 70 1/2 after December 31, 1998, Required Beginning Date shall

mean the April 1 following the later of (i) the calendar year in which the Member attains age 70 1/2 or (ii) the calendar year in which the Member's employment terminates (provided, however, that clause (ii) of this sentence shall not apply in the case of a Member who is a "5% owner" (as such term is defined in Section 416 of the Code) with respect to the Plan Year ending in the calendar year in which such Member attains age 70 1/2).

1.48 Retirement Date: The applicable of a Member's Early Retirement Date, Normal Retirement Date or Postponed Retirement Date, whichever is his actual retirement date.

1.49 Service: An Employee's or a Member's period of employment with an Employer or Affiliate as determined in accordance with Article III.

1.50 Severance from Service Date: The date on which an Employee's Service terminates, as determined in accordance with Article III.

1.51 Single Life Annuity: An annuity providing equal monthly payments for the lifetime of the Member with no survivor benefits.

1.52 Spouse: The person legally married to a Member at the date of the earlier of his death or the commencement date of his benefits under the Plan and for at least one year immediately prior thereto. A Member's marital status will be determined under the laws of the State (within the meaning of Section 3(10) of ERISA) in which he or she is domiciled, or if he or she is domiciled outside the United States, under the laws of the State of Texas.

1.53 Transferred Member: A Member during any period of time in which he is or was employed by an Affiliate or is employed by an Employer in an employment classification not covered by this Plan.

1.54 Trustee: The Trustee at any time acting under the Trust Agreement.

1.55 Trust Agreement: The Trust Agreement between the Company and the Trustee described in Article XVI hereof, established for the purpose of funding benefits under the Prior Plan and this Plan, as amended from time to time.

1.56 Trust Fund: The assets held by the Trustee under the Trust Agreement for the benefit of the Members of this Plan, together with all income, profits and increments thereon.

1.57 Vesting Service: The period of a Member's Service considered in determining his eligibility for benefits under the Plan, in accordance with Article V.

Words used in this Plan and in the Trust Agreement in the singular shall include the plural and in the plural the singular, and the gender of words used shall be construed to include whichever gender may be appropriate under any particular circumstances.

ARTICLE II

ELIGIBILITY

Each Prior Plan Member, each Minnegasco Member and each NorAm Member who is an Employee on January 1, 1999, shall automatically become a Member of this Plan as of January 1, 1999. Each other Employee who is not (i) a "leased employee," as defined in Section 414(n) of the Code, (ii) designated, compensated, or otherwise classified or treated as an independent contractor by an Employer or an Affiliate, or (iii) a non-resident alien who receives no United States source earned income from the Employer shall participate in the Plan on the later of January 1, 1999, or the date on which the Employee completes one hour of service in accordance with Section 3.2.

Leased employees, including leased employees as defined in Section 414(n) of the Code and any other person performing services pursuant to an arrangement between an Employer or an Affiliate and a third party, are not eligible to participate in the Plan.

ARTICLE III

SERVICE

3.1 Service Defined: For purposes of the Plan, the term "Service" shall mean all service prior to January 1, 1999, determined in accordance with the provisions of the Prior Plan, the Minnegasco Plan or the NorAm Plan, as applicable, and all years, months and days of active employment from and after January 1, 1999, as an Employee, Member or a Transferred Member, plus periods includable under Sections 4.2, and the following periods of Authorized Absence during which the Member or Transferred Member is:

(a) Absent due to accident or sickness as long as the Employee or Member is continued on the employment rolls of the Employer and remains eligible to work upon his recovery, provided that such Employee or Member timely applies for restatement of employment following this date of recovery in accordance with the procedures and requirements of the Employer and, if applicable, the Committee; or

(b) Absent due to Qualified Military Service, provided that such Employee or Member complies with all prerequisites of applicable Federal law and applied for reinstatement of employment pursuant to the procedures and requirements of the Employer and, if applicable, the Committee, to the extent consistent with applicable Federal law;

(c) Absent due to a Disability Leave of Absence; or

(d) Absent due to any authorized leave of absence, including periods of Leave for Business or Civic Reasons, subject to such conditions as may be approved by the Committee consistently applied in a uniform and non-discriminatory manner to all employees similarly situated.

An Employee's or Member's Service shall also include any period required to be included as Service by federal law other than ERISA or the Code, but only under the conditions and to the extent so required by such federal law. In addition, the Committee, in its discretion, may credit an individual with Service based on employment with an entity other than the Employer, but only if and when such individual becomes an Employee eligible to participate in the Plan under this Article III and only if such crediting of Service (i) has a legitimate business reason, (ii) does not by design or operation discriminate significantly in favor of "highly compensated employees" (as defined in Code Section 414(q)), and (iii) is applied to all similarly-situated Employees eligible to participate in the Plan under this Article III. Furthermore, in the event that the Plan constitutes a plan of a predecessor employer within the meaning of section 414(a) of the Code, service for such predecessor employer shall be treated as Service to the extent required by Section 414(a) of the Code.

3.2 Service Commencement Date: From and after January 1, 1999, an Employee's or Member's Service shall commence (or recommence) on the date such Employee or Member first

performs an "hour of service" within the meaning of Department of Labor Regulation Section. 2530.200b-2(a)(1) for an Employer or Affiliate.

3.3 Severance From Service:

(a) Except as otherwise provided in this Article III, a period of Service of an Employee or Member shall terminate upon his "Severance from Service Date," which shall be the first to occur of:

(i) his retirement or death;

(ii) his quitting or discharge;

(iii) his deemed date of termination of employment pursuant to his failure to return to active employment upon the expiration of an Authorized Absence; or

(iv) one year from date the Employee or Member is absent from active employment for any reason other than retirement, quitting, discharge, Authorized Absence or death.

(b) For purposes of clause (iii) immediately above, an Employee's or Member's deemed date of termination of employment shall be the earlier of:

(i) the expiration date of such Authorized Absence; or

(ii) one year from the date such Authorized Absence commenced.

(c) All periods of Service shall be aggregated so that a one-year period of Service shall be completed as of the date an Employee or Member completes 365 days of Service.

3.4 Disability: In the event a Member is on Disability Leave of Absence, such Member's Severance from Service Date shall be the earliest to occur of (a) the Member's election to terminate his Disability Leave of Absence; (b) his deemed date of termination of employment pursuant to his failure to return to active employment following his recovery; (c) his attainment of age 65; or (d) his death.

3.5 Maternity or Paternity Absence: Solely for purposes of determining whether a Break In Service has occurred under this Plan, the Severance from Service Date for an individual who is absent from Service beyond the first anniversary of the first date of absence due to "maternity/paternity reasons" shall be the second anniversary of the date such absence commenced. For purposes of this Plan, an absence from active employment for maternity or paternity reasons means an absence (a) by reason of pregnancy of the Employee or Member; (b) by reason of the birth of a child of the Employee or Member; (c) by reason of a placement of a child with the Employee or Member in connection with the adoption of such child by the

Employee or Member; or (d) for purposes of caring for such child for a period beginning immediately following such birth or placement.

3.6 Leave for Business or Civic Reasons: In the case of an Employee or Member who is absent from active employment due to Leave for Business or Civic Reasons, such Employee's or Member's Severance from Service Date shall be the earliest to occur of (a) his quitting or discharge during such Leave for Business or Civic Reasons; (b) his deemed date of termination of employment pursuant to his failure to return to active employment upon the expiration of the Leave for Business or Civic Reasons; or (c) his retirement or death.

3.7 Leave for Qualified Military Service: In the case of an Employee or Member who is absent from active employment due to Leave for Qualified Military Service, such Employee's or Member's Severance from Service Date shall be the earliest to occur of (a) his quitting or discharge during such Leave for Qualified Military Service; (b) his deemed date of termination of employment pursuant to his failure to return to active employment upon the expiration of the Leave for Qualified Military Service; or (c) his retirement or death. Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to Qualified Military Service will be provided in accordance with Section 414(u) of the Code.

ARTICLE IV

BREAK IN SERVICE

4.1 Break In Service: A one-year Break In Service shall occur upon the expiration of the 12 consecutive month period next following an Employee's or Member's Severance from Service Date (as determined in accordance with the provisions of Article III hereof), unless such Employee or Member is sooner re-employed by an Employer or an Affiliate.

4.2 Effect of Re-Employment After Break In Service: In the event an Employee or Member is re-employed by an Employer or Affiliate after incurring a Break In Service, whether or not such Member has incurred five consecutive one-year Breaks In Service, the period of his Service prior to his interim absence shall constitute Service under the Plan.

In the case of any Member who is receiving or is entitled to receive a Pension under the Prior Plan or this Plan and is subsequently re-employed, then upon re-employment in the Service of an Employer his Pension payments, if any, shall immediately cease, subject to Section 11.8.

Notwithstanding the above provisions of this Section 4.2, if a Member received a lump-sum distribution of his Accrued Pension, such Member may, on reemployment, repay to the Trust Fund, prior to the occurrence of the earlier of (i) five consecutive one-year Breaks In Service after the date of distribution or (ii) five years from the date of reemployment by the Employer, the entire amount of the previous lump-sum distribution of his Accrued Pension, plus interest thereon computed at the rate of 5% per year, compounded annually, up to December 31, 1987, and interest thereafter, compounded annually, computed at 120% of the Federal mid-term rate (as in effect under Code Section 1274 for the first month of the Plan Year) or at such other applicable rate as determined under Code Section 411(c)(2)(C), from the date of distribution to the date of repayment. If the Member makes such repayment, his Pension shall not be reduced with respect to such prior distribution. For purposes of determining if an Employee who is reemployed after the Effective Date has incurred five consecutive one-year Breaks In Service, the Employee's period of Break In Service beginning on the Effective Date shall be combined with such Employee's period of Break In Service under the Prior Plan.

4.3 Effect of Re-Employment Prior to Break In Service: In the event an Employee or Member is re-employed by an Employer or Affiliate prior to incurring a Break In Service, the period of his interim absence shall constitute Service for vesting purposes hereof. If the Member was receiving Pension payments from this Plan prior to his re-employment and/or had received the present value of a Pension from this Plan or the Prior Plan, such Member's rights and benefits under the Plan solely with respect to and as a consequence of receiving such amounts shall be determined in the same manner as if he had been re-employed after a Break In Service as provided in Section 4.2 hereof.

ARTICLE V

VESTING SERVICE AND TOTAL SERVICE

5.1 Vesting: A Member shall be fully vested in his Pension upon completion of five years of Vesting Service. A Minnegasco Member shall be fully vested in his Pension upon attainment of age 55 whether or not he has completed five years of Vesting Service. A NorAm Member shall be fully vested in his Pension upon attainment of age 65 whether or not he has completed five years of Vesting Service.

5.2 Vesting Service: A Member's eligibility for certain benefits under the Plan shall be conditioned on his period of Vesting Service. Subject to the Break In Service provisions of Article IV hereof, a Member's Vesting Service shall equal sum of:

(a) The Member's Vesting Service, if any, under the Prior Plan, the Minnegasco Plan or the NorAm Plan, as applicable, with respect to service prior to January 1, 1999; and

(b) Vesting Service on or after January 1, 1999, which shall be earned for each day of Service from and after January 1, 1999, and after the Member's Service Commencement Date.

5.3 Minimum Vesting Service: Each Member who was a Prior Plan Member as of November 30, 1995, shall be credited with Vesting Service under whichever is more favorable: (i) the provisions of this Plan or (ii) the vesting provisions of the Prior Plan as in effect on November 30, 1995, which shall be continued as Minimum Vesting provisions under this Plan for such Member.

5.4 Total Service: A Member's eligibility for benefits under the Plan shall be determined by his period of total Service, including a period of Service before any Break In Service.

ARTICLE VI

TRANSFER OF EMPLOYMENT

Certain Intra-Company Transfers: In the event that a Member is transferred from an employment classification with an Employer that is covered by this Plan (i) to an employment classification with the same Employer or with another Employer that is not covered by this Plan or (ii) to employment with an Affiliate, such Member shall retain all the benefits accrued to him under this Plan prior to the date of transfer and shall retain such benefits until his subsequent retirement or other termination of employment with an Employer or any Affiliate. Such Member shall also continue to accrue Vesting Service for all periods of employment with an Employer not covered by this Plan or with an Affiliate. In the event that an employee is transferred (i) from an employment classification with an Employer that is not covered by this Plan to an employment classification with the same Employer or another Employer that is covered by this Plan or (ii) from employment with an Affiliate to an employment classification with an Employer that is covered by this Plan, such employee shall retain his credited service and all benefits accrued to him under the retirement plan, if any, covering his employment prior to the date of the transfer; provided, however, that for purposes of this Plan such employment prior to the date of transfer shall not constitute Service and shall be considered only for the purposes of determining his eligibility to participate in (if applicable), and his vested interest under, this Plan. After the date of such transfer, such employee shall accrue the benefits specified under this Plan provided he is otherwise eligible therefor. It is intended by this Article VI to credit an Employee or Member with Service for eligibility purposes, if applicable, and with Vesting Service for vesting purposes during all periods of employment while in a Transferred Member status and all such Service and such Vesting Service shall be determined as though such employment while in a Transferred Member status were employment by an Employer covered by this Plan.

ARTICLE VII

PENSION AMOUNTS

7.1 Normal Retirement Pension: A Member's Pension under the Plan on his Normal Retirement Date payable in the form of a Single Life Annuity shall be equal to the greater of the following, with such comparison made on the basis of the Actuarial Equivalent present value of such amount, as applicable:

(a) The balance in the Member's Cash Balance Account; or

(b) The Grandfathered Benefit, if any, determined in accordance with Section 7.6.

7.2 Establishment of a Member's Cash Balance Account:

(a) A Cash Balance Account shall be established on behalf of each Member. Except as otherwise provided in this Section 7.2, the initial balance in such Member's Cash Balance Account shall be zero.

(b) For each Member who, on January 1, 1999, is active or on Authorized Absence, the balance in the Member's Cash Balance Account as of January 1, 1999, shall be the Actuarial Equivalent of the Member's Accrued Pension calculated as of December 31, 1998.

(c) If a Member of the Prior Plan who was not active or on Authorized Absence on January 1, 1999, is subsequently reemployed or otherwise becomes an active Member, a Cash Balance Account shall be established as of the date the Member commences or recommences Service, and shall be the Actuarial Equivalent of the Member's Accrued Pension calculated as of his Service Commencement Date. Such Member shall be eligible to receive prospective Basic Contribution Credits and Interest Credits.

(d) If an individual, who terminated service under the NorAm Plan or the Minnegasco Plan prior to January 1, 1999 with a deferred vested pension, is subsequently employed or reemployed, a Cash Balance Account shall be established as of the date he commences or recommences Service, and shall be the Actuarial Equivalent of his Accrued Pension calculated as of his Service Commencement Date. Such Member shall be eligible to receive prospective Basic Contribution Credits and Interest Credits.

(e) If a Member terminates employment after January 1, 1999, does not take a distribution and is subsequently reemployed, such Member shall receive Interest Credits in his Cash Balance Account during his absence and upon his Service Commencement Date, such Member shall be eligible to receive prospective Basic Contribution Credits and Interest Credits in his existing Cash Balance Account.

(f) Notwithstanding anything herein to the contrary, a Member's Accrued Pension for purposes of this Section 7.2 shall be calculated under the terms of the Prior Plan (or the Minnegasco Plan or the NorAm Plan, with respect to a Minnegasco Member or a NorAm Member, as applicable), except that amounts deferred from such Member's salary under a nonqualified deferred compensation plan shall be deemed to be "Compensation" under the Prior Plan.

(g) A Member's Accrued Pension shall be calculated without regard to any subsidized value in a joint and survivor annuity offered under the Prior Plan, the NorAm Plan, or the Minnegasco Plan.

(h) At the time that a Cash Balance Account is established on behalf of a NorAm Member who was grandfathered under Section 4.9 of the Entex Plan, as defined in the NorAm Plan, such Member's Accrued Pension shall be increased by the life only actuarial equivalent monthly income of the $4,000 death benefit provided under such plan, regardless of such Prior Plan's eligibility requirement for such $4,000 death benefit. For purposes of this Section 7.2(h), "actuarial equivalent" shall be computed using (i) an interest rate of 6.0% per annum interest assumption, compounded annually and (ii) the Unisex Mortality Table UP-1984 without any age adjustments.

7.3 Basic Contribution Credits:

(a) Each Member shall receive a Basic Contribution Credit to his Cash Balance Account as of the last day of each Plan Year beginning on or after January 1, 1999. Such Basic Contribution Credit shall be equal to the product of (i) 4% and (ii) his Compensation during the Plan Year. Notwithstanding the above provisions of this section to the contrary, from and after January 1, 2000, an Employer or other designated separate business unit of an Employer may provide for a different Basic Contribution Credit on behalf of the Employees of such Employer or specified business unit on a prospective basis by duly adopting a resolution or taking other appropriate action prior to the beginning of operative Plan Year and communicating such different contribution rate to the affected Members. All variances in the Basic Contribution Rate from the normal 4% rate must be approved by the Committee.

(b) If a Member commences receipt of his Pension during the Plan Year, a Basic Contribution Credit shall be made to such Member's Cash Balance Account as of the end of the month preceding such Member's Annuity Starting Date equal to 4% of his Compensation for the period from the beginning of the Plan Year to the end of the month preceding such Member's Annuity Starting Date. If a Member commences receipt of his Pension, and subsequent to his Annuity Starting Date receives Compensation for Service prior to his Annuity Starting Date, such Member shall receive a Basic Contribution Credit with respect to said Compensation.

(c) Basic Contribution Credits shall be made with respect to a Member on Authorized Absence until the earlier of the Member's attainment of age 65 or Severance from Service Date.

7.4 Additional Contribution Credit:

(a) A Member shall be entitled to Additional Contribution Credits pursuant to this Section 7.4 if such Member (i) is active or on Authorized Absence on January 1, 1999; (ii) was a Prior Plan Member (excluding those Prior Plan Members entitled to a benefit under Section 7.6(b) hereof) or a NorAm Member on December 31, 1998; (iii) had attained age 40 by December 31, 1998; and (iv) had at least 10 years of completed years of Vesting Service as of December 31, 1998.

(b) Additional Contribution Credits shall be credited as of the last day of each Plan Year beginning on or after January 1, 1999, and ending prior to January 1, 2009. Such Additional Contribution Credits shall be equal to the product of (i) the Additional Contribution Percentage determined pursuant to subsection (c), and (ii) the Member's Compensation during the Plan Year.

(c) A Member's Additional Contribution Percentage shall be determined as follows based on completed years of Vesting Service as of December 31, 1998:

(i) If the Member had at least 10 but less than 15 years of Vesting Service, his Additional Contribution Percentage shall be 1%.

(ii) If the Member had at least 15 but less than 20 years of Vesting Service, his Additional Contribution Percentage shall be 2%.

(iii) If the Member had at least 20 but less than 25 years of Vesting Service, his Additional Contribution Percentage shall be 3%.

(iv) If the Member had 25 or more years of Vesting Service, his Additional Contribution Percentage shall be 4%.

(d) If a Member commences receipt of his Pension during the Plan Year, an Additional Contribution Credit shall be made to such Member's Cash Balance Account as of the end of the month preceding such Member's Annuity Starting Date equal to the applicable percentage specified in subsection (c) above of his Compensation for the period from the beginning of the Plan Year to the end of the month preceding such Member's Annuity Starting Date. If a Member commences receipt of his Pension, and subsequent to his Annuity Starting Date receives Compensation for Service prior to his Annuity Starting Date, such Member shall receive a Basic Contribution Credit with respect to said Compensation.

(e) Additional Contribution Credits shall be made with respect to a Member on Authorized Absence until the earlier of the Member's attainment of age 65 or Severance from Service Date.

7.5 Interest Credit:

(a) Each Member's Cash Balance Account shall be credited as of the last day of each Plan Year beginning on or after January 1, 1999, with an Interest Credit equal to the Interest Rate times the balance in the Member's Cash Balance Account as of the last day of the Plan Year, prior to the allocation of the Basic Contribution Credit and Additional Contribution Credit, if any, for such Member for such Plan Year.

(b) If a Member commences receipt of his Pension during the Plan Year, a prorated Interest Credit shall be made to such Member's Cash Balance Account as of the end of the month preceding such Member's Annuity Starting Date based on the number of days in the period from the beginning of the Plan Year to the end of the month preceding such Member's Annuity Starting Date.

(c) No Interest Credits shall be made after a Member has commenced payment of his Pension in accordance with Article XI.

7.6 Grandfathered Benefit: A Grandfathered Benefit shall be calculated under this Section with respect to (i) each Member who is an active Member or a Member on Authorized Absence on January 1, 1999 and, as of December 31, 1998, was a participant in the Prior Plan, the NorAm Plan, or the Minnegasco Plan, and (ii) each Employee on December 31, 1998, who was otherwise eligible for participation in the Prior Plan, the NorAm Plan, or the Minnegasco Plan but had not met the age and service requirements for eligibility as of such date.

(a) General Rule: Except as provided in subsection (b) below, if a Member terminates Service and is eligible for a Grandfathered Benefit, such benefit shall be the applicable of the following:

(1) If a Member terminates Service and is eligible for a Grandfathered Benefit under the Prior Plan, the NorAm Plan, or the Minnegasco Plan, such benefit shall be the Actuarial Equivalent present value of the benefit calculated under the terms of the applicable plan taking into account Service until the earlier of the date the Member terminates Service or December 31, 2008, and Compensation (as defined in the applicable section of the Prior Plan, the NorAm Plan, or the Minnegasco Plan on December 31, 1998) with respect to the additional Service taken into account pursuant to this subsection. For purposes of this subsection (a), "Actuarial Equivalent" shall be computed as described in Section 1.3(b). For purposes of converting the Accrued Benefit on behalf of a NorAm Member to an early retirement benefit under Section 8.2 or to a payment in the form of an annuity under Article IX, "Actuarial Equivalent" shall mean and shall be determined as defined in and utilizing the rates in effect under the NorAm Plan on December 31, 1999.

(2) If a Member terminates Service on an Early Retirement Date and is eligible for a Grandfathered Benefit under the Prior Plan, NorAm Plan or Minnegasco Plan, such benefit shall be calculated under the terms of the Prior Plan, NorAm Plan or Minnegasco Plan based on Compensation (as defined in the Prior Plan) and Service through the earlier of the date the Member terminates Service or December 31, 2008. A Member who terminates Service prior to attaining age 55 and who would otherwise be eligible for a Grandfathered Benefit under the Prior Plan, NorAm Plan or Minnegasco Plan, shall be eligible to receive such Grandfathered Benefit calculated under the terms of the Prior Plan, NorAm Plan or Minnegasco Plan based on Compensation (as defined in the Prior Plan) and Service through the earlier of the date the Member terminates Service or December 31, 2008.

(b) Special Rule for Certain Union Employees: If a Member, who as of December 31, 1998, is covered by the terms of a collective bargaining agreement between the Company and the International Brotherhood of Electrical Workers Local Union No. 66, terminates Service and is eligible for a Grandfathered Benefit under the Prior Plan, such benefit shall be as follows:

(1) For a Member Who Terminates Service on or before December 31, 2008 - The benefit shall be the greater of:

(i) the Actuarial Equivalent present value of the Accrued Benefit calculated under the terms of the Prior Plan taking into account Service and Compensation (as defined in the Prior Plan) with respect to the additional Service taken into account pursuant to this subsection. For purposes of this subsection (i), "Actuarial Equivalent" shall be computed using the return on 30-year U.S. Treasury Securities for November of the prior year and the blended 1983 Group Annuity Mortality Table published in Rev. Rul. 95-6, or such other mortality table as may be published from time to time pursuant to Code Section 417(e) and the regulations promulgated thereunder.

(ii) the Actuarial Equivalent present value of the benefit (including the early retirement subsidy) calculated under the terms of the Prior Plan taking into account Service and Compensation (as defined in the Prior Plan) with respect to the additional Service taken into account pursuant to this subsection. For purposes of this subsection (ii), "Actuarial Equivalent" shall be computed using the Unisex Mortality Table UP-1984 without any age adjustments and an interest rate of 8.5% per annum.

(2) For a Member Who Is Younger than Age 35 on December 31, 1998 and Terminates Service on or After January 1, 2009 - The benefit shall be the Actuarial Equivalent present value of the benefit calculated under the terms of the

Prior Plan taking into account Service until December 31, 2008, and Compensation (as defined in the Prior Plan) with respect to the additional Service taken into account pursuant to this subsection. For purposes of this paragraph 2, "Actuarial Equivalent" shall be computed using the return on 30-year U.S. Treasury Securities for November of the prior year and the blended 1983 Group Annuity Mortality Table published in Rev. Rul. 95-6, or such other mortality table as may be published from time to time pursuant to Code Section 417(e) and the regulations promulgated thereunder.

(3) For a Member Who is Age 35 or Older on December 31, 1998 and Terminates Service on or After January 1, 2009 - The benefit shall be the greatest of:

(i) the Actuarial Equivalent present value of the Accrued Benefit calculated under the terms of the Prior Plan taking into account Service until December 31, 2008, and Compensation (as defined in the Prior Plan) with respect to the additional Service taken into account pursuant to this subsection. For purposes of this subsection (i), "Actuarial Equivalent" shall be computed using the return on 30-year U.S. Treasury Securities for November of the prior year and the blended 1983 Group Annuity Mortality Table published in Rev. Rul. 95-6, or such other mortality table as may be published from time to time pursuant to Code Section 417(e) and the regulations promulgated thereunder.

(ii) the Actuarial Equivalent present value of the benefit (including the early retirement subsidy) calculated under the terms of the Prior Plan based on Compensation (as defined in the Prior Plan) and Service until December 31, 2008. For purposes of this subsection (ii), "Actuarial Equivalent" shall be computed using the Unisex Mortality Table UP-1984 without any age adjustments and an interest rate of 8.5% per annum;

(iii) the Actuarial Equivalent present value of 70 % of the final pay formula that would be payable on the Member's Normal Retirement Date under the terms of the Prior Plan based on Compensation (as defined in the Prior Plan) and Service through the date the Member terminates Service. For purposes of this subsection (iii), "Actuarial Equivalent" shall be computed using the return on 30-year U.S. Treasury Securities for November of the prior year and the blended 1983 Group Annuity Mortality Table published in Rev. Rul. 95-6, or such other mortality table as may be published from time to time pursuant to Code Section 417(e) and the regulations promulgated thereunder.

(iv) the Actuarial Equivalent present value of 70 % of the final pay formula (including the early retirement subsidy) that would be payable under the terms of the Prior Plan based on Compensation (as defined in the Prior Plan) and Service through the date the Member terminates Service. For purposes of this subsection (iv), "Actuarial Equivalent" shall be computed using the Unisex Mortality Table UP-1984 without any age adjustments and an interest rate of 8.5% per annum.

(c) Eligibility Service for Early Retirement: Notwithstanding any provision of this Section 7.6 to the contrary, for purposes of determining a Member's eligibility for an early retirement benefit under the applicable provisions of the Prior Plan, NorAm Plan or Minnegasco Plan (with respect to a Severance from Service Date after December 31, 2008), employment with an Employer or an Affiliate after December 31, 2008 shall be considered and shall be determined under the provisions of the applicable Prior Plan, NorAm Plan or Minnegasco Plan assuming such plan, as in effect on December 31, 1998 continued unchanged until the Member's Severance from Service Date.

7.7 Member's Status on December 31, 1998: For purposes of determining Additional Contribution Credits under Section 7.4 and for purposes of the Grandfathered Benefit under Section 7.6, a Member shall continue to be eligible to receive the benefits he was entitled under Sections 7.4 and 7.6, regardless of whether he transfers to a different work location within the Company or changes employee classification.

ARTICLE VIII

REQUIREMENTS FOR RETIREMENT BENEFITS

8.1 Retirement Benefit: A Member who terminates his employment after satisfying the vesting requirements in Section 5.1 shall be eligible to receive a Pension (as described in Article VII) commencing on his Annuity Starting Date payable in accordance with the provisions of Article XI.

8.2 Early Retirement: A Member who retires on his Early Retirement Date and is eligible to receive a Grandfathered Benefit under the Prior Plan pursuant to Section 7.6 or an early retirement benefit under the NorAm Plan or the Minnegasco Plan, shall be eligible to receive a Pension commencing on his Annuity Starting Date.

8.3 Retirement Benefits Following an Authorized Absence: A Member who has been on an Authorized Absence shall be eligible to receive a Pension, after satisfying the vesting requirements in Section 5.1, following the Member's Severance from Service Date, as determined pursuant to Article III.

ARTICLE IX

DEATH BENEFIT

9.1 Death Benefit: The Beneficiary of each Member who dies during Service shall be entitled to a Death Benefit equal to the balance in the Member's Cash Balance Account at the time of his death. Such Death Benefit shall be payable to the Member's Beneficiary as hereinafter provided.

9.2 Payment of Death Benefit:

(a) If the Member's Beneficiary is his Spouse, the Death Benefit shall be payable to such Spouse in the form of an Actuarial Equivalent immediate Single Life Annuity and commencing upon the Spouse's election to commence receipt of benefits under this Section. The Spouse may instead elect to receive the entire benefit in a single, lump-sum payment. A Spouse's election to receive the entire benefit in a lump-sum payment must be made prior to the commencement of payment in annuity form and must be made in accordance with the requirements for election of an optional form of benefit applicable to an unmarried Member as set forth in Section 11.3.

If the Member's Beneficiary is his Spouse and payment of the Death Benefit is deferred, the Member's Cash Balance Account shall continue to be credited with Interest Credits until the last day of the Plan Year immediately preceding the date as of which payment of the Death Benefit is made or commences plus a prorated Interest Credit based on the number of days in the period from the beginning of the Plan Year in which the payment of the Death Benefit is made or commences to the date as of which payment is made or commences.

(b) If the Member's Beneficiary is not his Spouse, then the Death Benefit shall be payable in a single, lump sum as soon as reasonably practicable and no later than five years from date of death.

(c) Notwithstanding any provision herein to the contrary, if the Actuarial Equivalent value of a Death Benefit payable on behalf of a Member does not exceed, and such Member's Pension did not exceed at the time of any previous distribution, Five Thousand Dollars ($5,000), then such Death Benefit shall be paid to the Spouse or other Beneficiary, as applicable, in a cash lump sum as soon as administratively practicable after the Member's death.

9.3 Pre-Retirement Survivor Annuity:

(a) Notwithstanding anything herein to the contrary, in no event shall the Death Benefit payable to a Spouse be less than the value of a pre-retirement survivor annuity as defined in Code Section 417(c)(1) as of the date of the Member's death.

9.4 Effect on Optional Form Election: Any Member who dies prior to his Annuity Starting Date shall be entitled only to a Death Benefit pursuant to this Article IX, regardless of whether such Member elected an optional form of benefit pursuant to the provisions of Section 11.2.

9.5 No Death Benefit After Commencement of Benefits: No Death Benefit shall be payable under this Article IX with respect to a Member who has commenced payment of his Pension.

ARTICLE X

BENEFICIARIES

10.1 Designation of Beneficiary: Unless otherwise provided below, each Member may designate a contingent annuitant or joint pensioner ("Beneficiary") to receive the remaining guaranteed payments or survivor pension under an optional Pension elected pursuant to Section 11.4 or to receive any Death Benefit payable under Article IX. Such designation must be in writing and filed with the Committee, in the form and manner prescribed by the Committee. The Member may change or cancel any such optional pension election at the times and subject to uniform rules established by the Committee.

The Beneficiary designated under this Section shall be the Member's surviving Spouse, but if there is no surviving Spouse, the Beneficiary or Beneficiaries designated by the Member in a written designation filed with the Committee. If no such designation shall have been so filed, or if no designated Beneficiary survives the Member or if a designated Beneficiary cannot be located by the Committee, using reasonable diligence, within six months of the death of the Member, then such remaining Pension or Death Benefit, as applicable, shall be payable to the duly appointed and serving personal representative of the Member's estate, but only if that personal representative can provide the Committee with what the Committee reasonably determines is satisfactory documentary proof of that appointment and of the personal representative's identity (collectively, "Documentary Proof"); if, within six months of the Member's death, there is no duly appointed and serving personal representative of the Member's estate who has provided the Committee with Documentary Proof, then such remaining Pension or Death Benefit, as applicable, shall be payable to the Member's heirs at law, determined in accordance with the laws of intestate succession of the state in which the Member was domiciled at the time of the Member's death, provided that such heirs provide the Committee with what the Committee reasonably determines is satisfactory Documentary Proof of information the Committee believes it needs to make distributions to such heirs, including, but not limited to, the numbers, names, addresses, social security numbers, and birth dates of such heirs. No designation of any Beneficiary other than the Member's surviving Spouse shall be effective unless in writing and received by the Member's Employer and in no event shall it be effective as of the date prior to such receipt. The former Spouse of a Member shall be treated as a surviving Spouse to the extent provided under a qualified domestic relations order as described in Section 414(p) of the Code.

Each Member shall have the right at any time to designate and to rescind or change any designation of a contingent Beneficiary or Beneficiaries to receive benefits in the event of his death and the death (predeceasing the death of the Member) of the primary Beneficiary. Any such designation, change or rescission of designation, shall be made in such form and manner as prescribed by the Committee, including, but not limited to, in writing or by electronic means. A contingent Beneficiary or Beneficiaries shall be entitled to receive any unpaid Death Benefit (whether payable in a lump sum or in installments for a guaranteed period) only if no primary Beneficiary is alive or legally entitled to receive it on the date of payment of the benefit or any installment thereof. The estate, assignee or appointee of either a primary or a contingent Beneficiary shall have no interest in or right to receive any Death Benefit payment not actually made before such Beneficiary's death. Subject to the express provisions of

Article IX, the last such designation received by the Committee shall be controlling over any testamentary or other disposition.

The provisions of this Article X shall have no application to the designation of or change in designation of a joint pensioner by a Member electing a joint and survivor option, which shall be governed solely by the provisions of Article XI hereof. If the Committee shall be in doubt as to the right of any Beneficiary designated by a deceased Member to receive any unpaid death benefit, the Committee may direct the Trustee to pay the amount in question to the estate of such Member, in which event the Trustee, the Employer, the Committee and any other person in any manner connected with the Plan shall have no further liability in respect to the amount so paid.

10.2 Spouse as Beneficiary: Notwithstanding anything herein to the contrary, if a Member who is eligible for a Death Benefit under Article IX has been married to his Spouse for at least one year at the time of his death, then such Member's Beneficiary shall be his Spouse and no designation, with or without Spousal consent, of any other Beneficiary shall be valid.

ARTICLE XI

PAYMENT OF PENSIONS

11.1 Commencement of Benefits: Anything to the contrary notwithstanding, each Pension payable under this Plan shall be subject to the following requirements:

(a) Commencement of Normal Pension: Unless the Member elects otherwise in writing, the distribution of his Pension shall begin no later than the 60th day after the latest of the close of the Plan Year in which (i) the Member attains age 65, (ii) occurs the 10th anniversary of the Plan Year in which the Member commences participation in the Plan, or (iii) the Member terminates Service.

(b) Commencement of Postponed Pension: Each Member's benefits shall be distributed to him not later than the Member's Required Beginning Date. If a Member is receiving a Pension under the Plan on January 1, 1999 pursuant to the Required Beginning Date as in effect prior to January 1, 1999, but would not be required to receive a Pension pursuant to the Required Beginning Date as in effect on January 1, 1999, then such Member may elect to cease his Pension until the April 1 following the end of the calendar year in which such Member terminates employment. The distribution of a Member's Pension pursuant to this subsection (b) shall be made in accordance with the requirements of Code Section 401(a)(9), including the incidental death benefit requirements of Code Section 401(a)(9)(G), and the Treasury Regulations thereunder (including Proposed Regulation Section 1.401(a)(9)-2).

11.2 Normal Form of Payment:

(a) Single Life Annuity: Pensions payable to the Member shall normally be payable monthly on the first day of each calendar month in the form of a Single Life Annuity, commencing with the first day of the calendar month coincident with or next following the Member's termination of employment after his Normal Retirement Date, and shall stop with the payment due on the first day of the month of the Member's death, unless he is eligible for and duly elects an optional Pension, as provided in Section 11.4 below.

(b) Automatic Option: A Member who has been legally married for a period of one year prior to his Annuity Starting Date shall receive payment of his Pension in the form of the Automatic Option, which is the Actuarial Equivalent of his Single Life Annuity otherwise payable. Additionally, a Member who was married within the one-year period prior to his Annuity Starting Date shall also receive the Automatic Option. The term "Automatic Option" means an annuity for the life of a Member with a survivor annuity payable for the life of the Member's Spouse which is 50% of the amount of the annuity payable during the joint lives of the Member and his Spouse, and which is the Actuarial Equivalent of the Single Life Annuity otherwise payable to such Member. The Automatic

Option shall be payable unless the Member shall have theretofore elected in writing, with the written consent of his Spouse, if any, not to receive such Automatic Option after having received a written explanation of the terms and conditions of the Automatic Option and the effect of an election not to receive such Automatic Option but to receive his Single Life Annuity or other optional Pension otherwise payable hereunder. For purposes of this Section 11.2, the term "Spouse" shall also include the person to whom the Member is legally married on the Member's Annuity Starting Date even though they have been married to each other for less than one year.

(c) No amount attributable to the Automatic Option shall be payable, however, if a Member entitled to a Pension shall die before his Annuity Starting Date.

11.3 Election to Waive Automatic Option:

(a) A written explanation of the terms and conditions of the Automatic Option and the effect of refusing it will be furnished to a Member no less than 30 days and no more than 90 days prior to the date when he would first become eligible to commence receiving a Pension hereunder. The Member may request additional information regarding the Automatic Option within 60 days of the furnishing of such explanation to him. A written reply will be made within 30 days of his request. During an election period beginning 90 days prior to the Annuity Starting Date, the Member may, with the written consent of his Spouse, elect in writing to the Committee not to receive the Automatic Option, in which case the normal form of payment described in Section 11.2(a) shall be applicable unless the Member elects payment in one of the optional forms under Section 11.4. Throughout the election period the Member may file written revocations or written elections with the Committee.

(b) A married Member who elects not to receive the Automatic Option must obtain the consent of his Spouse to elect payment in one of the optional forms of payment provided in Section 11.4 provided that Spousal consent is not required if the Member elects Option 2, the Beneficiary is the Member's Spouse, and the survivor benefit is equal to 50% or more of the Member's benefit. A Spouse's consent shall not be effective unless: (i) the Member's Spouse consents in writing to the election; (ii) the election designates a specific alternate Beneficiary (including any class of Beneficiaries or any contingent Beneficiaries) and a form of benefit which may not be changed without spousal consent (or the Spouse expressly permits designations by the Member without any further spousal consent); (iii) the Spouse's consent acknowledges the effect of the election; and (iv) the Spouse's consent is witnessed by a Plan representative or notary public. If it is established to the satisfaction of a Plan representative that such written consent may not be obtained because there is no Spouse or the Spouse cannot be located, a waiver will be deemed a qualified election. Any consent by a Spouse under this Section (or establishment that the consent of the Spouse cannot be obtained) shall be effective only with respect to such Spouse. A consent that

permits designations by the Member without any requirement of further consent by the Spouse must acknowledge that the Spouse has the right to limit consent to a specific beneficiary, and a specific form of benefit where applicable, and that the Spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Member without the consent of the Spouse at any time prior to the commencement of benefits. The number of revocations shall not be limited. For purposes of this Section, the Spouse or surviving Spouse of the Member shall be deemed the recipient under the Automatic Option, provided that a former Spouse will be treated as the Spouse or surviving Spouse to the extent provided under a qualified domestic relations order as described in Section 414(p) of the Code.

11.4 Other Optional Pensions:

(a) In lieu of his Normal Form of Payment determined pursuant to Section 11.2, a Member who has terminated Service may, in accordance with the requirements of Section 11.3, select any below listed optional form of Pension which shall be the Actuarial Equivalent of the Pension otherwise payable to such Member:

Option 1: Smaller monthly amounts payable to the Member for his lifetime, and, in the event of the Member's death within a designated period certain after his Annuity Starting Date, the same monthly amount payable for the balance of the period certain to a Beneficiary designated by him. The period certain of any option or benefit under this Option 1 shall be the lesser of (i) 10 years or (ii) the life expectancy of the Member on the commencement date of such optional Pension. Should the term certain period not be complete by the date the Member and the Member's Beneficiary both are deceased, any remaining payments shall be continue in the same amount to the Member's or Beneficiary's estate, as applicable, until the end of the period.

Option 2: Smaller monthly amounts payable to the Member during his lifetime, with 100%, 75%, 66 2/3% or 50% of which to be continued to a Beneficiary designated as a joint pensioner for the lifetime of such Beneficiary following the death of the Member. If a Member shall designate as a joint pensioner a person other than the Spouse of such Member, no Pension otherwise permissible under this option may be selected which would result in a Pension to such Member of less than 2/3 of the Normal Pension under Section 7.1. Payment of the Member's Pension under this Option 2 may commence at anytime after the Member's termination of Service.

Option 3: A single, lump-sum payment equal to the Member's Pension payable at any time after the Member's termination of Service.

(b) Upon the commencement of benefits to a Member who has made a valid election of an optional benefit hereunder, the form of optional benefit and any Beneficiary designation shall become irrevocable except to the extent otherwise required pursuant to Section 11.2(b).

(c) Notwithstanding any provisions of this Section 11.4 to the contrary, the amount to be distributed each year to a Member under Option 1 or Option 2 described in this Section must be at least an amount equal to the quotient obtained by dividing the Member's entire interest by the life expectancy of the Member or joint and last survivor expectancy of the Member and designated Beneficiary. Life expectancy and joint and life survivor expectancy shall be computed by the use of the return multiples contained in Treasury Regulation Section 1.72-9. For purposes of this computation, a Member's life expectancy may be recalculated no more frequently than annually, however, the life expectancy of a non-Spouse beneficiary may not be recalculated. If the Member's Spouse is not the designated Beneficiary, the method of distribution selected must assure that more than 50% of the present value of the amount available for distribution is paid within the life expectancy of the Member.

(d) All optional forms of benefits which are "Section 411(d)(6) protected benefits," as described in Treasury Regulation Section 1.411(d)-4, shall continue to be optional forms of benefits for Members to whom the optional forms apply notwithstanding any subsequent amendment of the Plan purporting to revise or delete such optional form of benefit and notwithstanding any contrary provision of paragraph (a) of this Section 11.4.

11.5 NorAm and Minnegasco Benefits: Notwithstanding anything herein to the contrary, a NorAm Member or Minnegasco Member may elect to receive his or her NorAm Pension or Minnegasco Pension in accordance with the provisions of Appendix A.

11.6 Payment of Small Benefits: Notwithstanding any provision herein, if the Actuarial Equivalent value of a Member's Pension does not exceed, and did not exceed at the time of any previous distribution, Five Thousand Dollars ($5,000), then such benefit shall be paid to the Member in a cash lump sum as soon as administratively practicable after the Member's termination of Service. If the Actuarial Equivalent present value of an Alternate Payee's amounts assigned pursuant to a qualified domestic relations order, as defined in Code Section 414(q) ("QDRO"), does not exceed, and did not exceed at the time of any previous distribution, Five Thousand Dollars ($5,000), then such benefit shall be paid as soon as administratively practicable without the Member's or the Alternate Payee's consent, unless the QDRO prohibits immediate distribution. Any Member or Alternate Payee entitled to a distribution in accordance with this subsection shall be entitled to elect to have such benefit paid as a direct transfer in accordance with Code Section 401(a)(31) and pursuant to the procedures then established by the Committee.

11.7 Reemployment: If a Member is reemployed as a Member after terminating his employment with an Employer, the following steps shall be taken:

(a) If such Member was receiving Pension benefits while terminated from an Employer, he shall cease receiving such benefits as of the date he completes 500 hours of Service. Benefits for any Member who was receiving benefits, or would have been receiving benefits if the Member had not returned to active Service, shall be permanently suspended for each month in which such Member completes at least 40 hours of Service.

(b) Payment of benefits shall resume no later than the first day of the third calendar month in which the Member again terminates Service. The initial payment upon such resumption of benefits shall include the payment scheduled to occur in the calendar month when payments resume. Such Member's Pension upon his subsequent termination shall be adjusted pursuant to Section 11.8.

(c) Notwithstanding anything herein to the contrary, no Pension benefits that commence on or after a Member has reached his Normal Retirement Date shall be suspended unless the Committee first notifies the Member by personal delivery or first-class mail during the first calendar month or payroll period in which the Plan withholds payment that his benefits were suspended. Such notification shall contain a description of the specific reasons why Pension benefits are being suspended, a copy of such provisions, and a statement to the effect that applicable Department of Labor regulations may be found in Section 2530.203-3 of the Code of Federal Regulations, or, to the extent permitted under the Code or ERISA, shall direct the Member to the relevant portion of the summary plan description. In addition, the suspension notification shall inform the Member of the Plan's procedure for review of suspension of benefits.

(d) To the extent required by the Code or ERISA, a notice similar to that provided under Section 11.7(c) shall be provided to each Member who continues in the employment of the Employer past his Normal Retirement Date.

11.8 Reduction of Normal Retirement Pension to Account for Distributions: The following rules shall apply with respect to distributions on account of a Member:

(a) If a Member terminates his employment and receives a lump-sum distribution pursuant to Article XI, his Cash Balance Account shall be reduced to zero at the time such distribution is made.

(b) If a Member terminates employment and elects and commences to receive an annuity form of payment and is subsequently rehired, the Member's annuity shall cease as provided in Section 11.7 and then be converted to an opening Cash Balance Account (as described in Section 1.3(c), except that the Member's current age shall be used in the calculation instead of his age at Normal Retirement Date) and he or she shall be eligible to receive prospective Basic Contribution Credits and Interest Credits.

11.9 Direct Rollovers: Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section, a Distributee may elect, at the

time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover. For the purposes of this Section the following definitions shall apply:

(a) "Eligible Rollover Distribution" shall mean any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specific period of 10 years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(b) "Eligible Retirement Plan" shall mean an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(c) "Distributee" shall mean a Member or former Member of the Plan. In addition, the Member's or former Member's surviving spouse and the Member's or former Member's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

(d) "Direct Rollover" shall mean a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

11.10 Uniform Alternate Benefits: Notwithstanding any provisions of the Plan to the contrary, the following provisions shall apply:

(a) Any provision which restricts the availability of an alternate form of benefit to a certain select group or classification of Members or Beneficiaries which favors the prohibited group shall be considered null and void, with the result that such alternate form of benefit shall be available to all Plan Members. Plan provisions will be considered to favor the prohibited group if the group of employees to whom the benefit is available does not satisfy the 70% test of Code Section 410(b)(1)(A) or the non-discriminatory classification of Code Section 410(b)(1)(B); provided, however, that any Plan provision that mandates a single-sum distribution where the present value of a Member's non-forfeitable

Accrued Benefit is not more than $5,000, and did not exceed $5,000 at the time of a previous distribution, will not be considered to favor the prohibited group.

(b) Any Plan provision which restricts or would deny a Member through the withholding of consent or the exercise of discretion by some person or persons other than the Member (and, where relevant, other than the Member's Spouse) of an alternative form of benefit shall be considered amended to delete the consent and/or discretion requirement. An "alternate form of benefit," by definition, encompasses the different forms of benefit payment available under the Plan which provide that: (i) a Member's benefits under the Plan may be paid in more than one form or (ii) payment of a particular form of benefit may commence at some time earlier or later than the normal date for the commencement of such benefit.

ARTICLE XII

CLAIM PROCEDURES

12.1 Presenting Claims for Benefits: Any Member or any other person claiming under a deceased Member, such as the Spouse or Beneficiary, may submit written application to the Committee for the payment of any benefit asserted to be due him under the Plan. Such application shall set forth the nature of the claim and such other information as the Committee may reasonably request. Promptly upon the receipt of any application required by this Section, the Committee shall determine whether or not the Member or Spouse or Beneficiary involved is entitled to a benefit hereunder and, if so, the amount thereof and shall notify the claimant of its findings.

The Committee shall notify the applicant of the benefits determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the application. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the end of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render its final decision. Notice of the Committee's decision to deny a claim in whole or in part shall be set forth in a manner calculated to be understood by the claimant and shall contain the following:

(a) the specific reason or reasons for the denial;

(b) specific reference to the pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the claims review procedure set forth in Section 12.2 hereof.

If notice of denial is not furnished, and if the claim is not granted within the period of time set forth above, the claim shall be deemed denied for purposes of proceeding to the review stage described in Section 12.2. Members shall be given timely written notice of the time limits set forth herein for determination on claims, appeal of claim denial and decisions on appeal.

12.2 Claims Review Procedure: If an application filed by a Member or Beneficiary under Section 12.1 above shall result in a denial by the Committee of the benefit applied for, either in whole or in part, such applicant shall have the right, to be exercised by written application filed with the Committee within 60 days after receipt of notice of the denial of his application or, if no such notice has been given, within 60 days after the application is deemed denied under Section 12.1 to request the review of his application and of his entitlement to the benefit applied for. Such request for review may contain such additional information and

comments as the applicant may wish to present. The Committee shall reconsider the application in light of such additional information and comments as the applicant may have presented and, if the applicant shall have so requested, may grant the applicant a formal hearing before the Committee in its discretion. The Committee shall also permit the applicant or his designated representative to review pertinent documents in its possession, including copies of the Plan document and information provided by the Company relating to the applicant's entitlement to such benefit. The Committee shall render a decision no later than the date of the Committee meeting next following receipt of the request for review, except that (i) a decision may be rendered no later than the second following Committee meeting if the request is received within 30 days of the first meeting and (ii) under special circumstances which require an extension of time for rendering a decision (including but not limited to the need to hold a hearing), the decision may be rendered not later than the date of the third Committee meeting following the receipt of the request for review. If such an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the applicant prior to the commencement of the extension. Notice of such final determination of the Committee shall be furnished to the applicant in writing, in a manner calculated to be understood by him, and shall set forth the specific reasons for the decision and specific references to the pertinent provisions of the Plan upon which the decision is based. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review.

12.3 Disputed Benefits: If any dispute shall arise between a Member or other person claiming under a Member and the Committee after the review of a claim for benefits, or in the event any dispute shall develop as to the person to whom the payment of any benefit under the Plan shall be made, the Trustee may withhold the payment of all or any part of the benefits payable hereunder to the Member or other person claiming under the Member until such dispute has been resolved by a court of competent jurisdiction or settled by the parties involved.

ARTICLE XIII

PLAN ADMINISTRATION

13.1 Appointment of Committee: The Board of Directors of the Company (the "Board") shall appoint a Benefits Committee (the "Committee") of not less than three persons, each of whom may or may not be a Member of the Plan and each of whom shall serve at the pleasure of the Board. Any person so appointed shall signify his acceptance by filing written acceptance with the Board and with the Secretary of the Committee. Each member of the Committee shall serve for such term as the Board may designate or until his death, resignation or removal by the Board. The Board shall promptly appoint successors to fill any vacancies in the Committee.

13.2 Records of the Committee: The Committee shall keep appropriate records of its proceedings and the administration of the Plan. The Committee shall make available to Members and their Beneficiaries for examination, during business hours, such records of the Plan as pertain to the examining person and such documents relating to the Plan as are required by ERISA.

13.3 Committee Action: The Committee may act through the concurrence of a majority of its members expressed either at a meeting of the Committee, or in writing without a meeting. Any member of the Committee, or the Secretary or Assistant Secretary of the Committee (who need not be members of the Committee), may execute on behalf of the Committee any certificate or other written instrument evidencing or carrying out any action approved by the Committee. The Committee may delegate any of its rights, powers and duties to any one or more of its members or to an agent. The Chairman of the Committee shall be agent of the Plan and the Committee for the service of legal process at the principal office of the Company in Houston, Texas.

13.4 Committee Disqualification: A member of the Committee who may be a Member of the Plan shall not vote on any question relating specifically to himself.

13.5 Committee Compensation, Expenses and Adviser: The members of the Committee shall serve without bond, unless otherwise required by law, and without compensation for their services as such. The Committee may select, and authorize the Trustee to compensate suitably, such attorneys, agents, actuaries and representatives as it may deem necessary or advisable to the performance of its duties. All expenses of the Committee that shall arise in connection with the administration of the Plan shall be paid by the Company or by the Trustee out of the Trust Fund.

13.6 Committee Liability: Except to the extent that such liability is created by ERISA, no member of the Committee shall be liable for any act or omission of any other member of the Committee, nor for any act or omission on his own part except for his own gross negligence or willful misconduct, nor for the exercise of any power or discretion in the performance of any duty assumed by him hereunder. The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the

Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with duties and responsibilities under the Plan, except when the same is judicially determined to be due to the gross negligence or willful misconduct of such member.

13.7 Committee Determinations: The Committee, on behalf of the Members and their Beneficiaries, shall enforce this Plan in accordance with its terms and shall have all powers necessary for the accomplishment of that purpose, including, but not by way of limitation, the following powers:

(a) To employ such agents and assistants, such counsel (who may be of counsel to the Company) and such clerical, medical, accounting, and investment services as the Committee may require in carrying out the provisions of the Plan.

(b) To authorize one or more of their number, or any agent, to make any payment, or to execute or deliver any instrument, on behalf of the Committee, except that all requisitions for funds from, and requests, directions, notifications, certifications, and instructions to, the Trustee or to the Company shall be signed either by a member of the Committee or by the Secretary or Assistant Secretary of the Committee.

(c) To determine from the records of the Company the considered Compensation, Service and other pertinent facts regarding Employees and Members for the purposes of the Plan.

(d) To construe and interpret the Plan, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits hereunder.

(e) To prescribe forms and procedures to be followed by Employees for participation in the Plan, by Members or Beneficiaries filing applications for benefits, and for other occurrences in the administration of the Plan.

(f) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan.

(g) To furnish the Company, Employers and the Members, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate.

(h) To certify to the Trustee the amount and kind of benefits payable to the Members and their Beneficiaries.

(i) To authorize all disbursements by the Trustee from the Trust Fund by a written authorization signed either by a member of the Committee or by the Secretary or Assistant Secretary of the Committee; provided, however, that

disbursements for ordinary expenses incurred in the administration of the Trust Fund and disbursements to Members need not be authorized by the Committee.

(j) To interpret and construe all terms, provisions, conditions and limitations of this Plan and to reconcile any inconsistency or supply any omitted detail that may appear in this Plan in such manner and to such extent, consistent with the general terms of this Plan, as the Committee shall deem necessary and proper to effectuate the Plan for the greatest benefit of all parties interested in the Plan.

(k) To make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein.

(l) To furnish the Actuary with all such information as the Actuary may require from time to time for the purpose of making actuarial computations as to the Plan.

13.8 Information From Employer: To enable the Committee to perform its functions, each Employer shall supply full and timely information to the Committee of all matters relating to the dates of employment of its Employees for purposes of determining eligibility of Employees to participate hereunder, their retirement, death or other cause of termination of employment, and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Trust Fund.

13.9 General Powers of the Committee: In addition to all other powers herein granted, and in general consistent with the provisions hereof, the Committee shall have all other rights and powers reasonably necessary to supervise and control the administration of this Plan. The determination of any fact by the Committee and the construction placed by the Committee upon the provisions of this Plan shall be binding upon all of the Members under the Plan, their Beneficiaries and the Employers.

13.10 Uniform Administration: Whenever in the administration of the Plan, any action is required by an Employer or the Committee, including, but not by way of limitation, action with respect to eligibility of Employees, contributions and benefits, such action shall be uniform in nature as applied to all persons similarly situated, and no action shall be taken which will discriminate in favor of Members who are officers or shareholders of an Employer, highly compensated Employees, or persons whose principal duties consist of supervising the work of others.

13.11 Reporting Responsibilities: As Administrator of the Plan under ERISA, the Committee shall file or cause to be filed with the appropriate office of the Internal Revenue Service, the Department of Labor or the Pension Benefit Guaranty Corporation all reports, returns, notices and other information required under ERISA including, but not limited to, the summary plan description, annual reports and amendments thereof.

13.12 Disclosure Responsibilities: The Committee shall make available to each Member and Beneficiary such records, documents and other data as may be required under

ERISA, and Members or Beneficiaries shall have the right to examine such records at reasonable times during business hours. Nothing contained in this Plan shall give any Member or Beneficiary the right to examine any data or records reflecting the compensation paid to any other Member or Beneficiary, except as may be required under ERISA.

13.13 Allocation of Responsibilities Among Fiduciaries: The Employers, the Committee, as designated pursuant to the terms of the Plan, the Trustee and any other person designated as a Fiduciary with respect to the Plan or the Trust Agreement (hereinafter collectively the "Fiduciaries") shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan and/or the Trust Agreement. In general, the Employers shall have the sole responsibility for making the contributions provided for under Section 14.2. The Company shall have the sole authority to appoint and remove the Trustee and the members of the Committee, respectively, and to amend or terminate, in whole or in part, this Plan. Each other Employer may amend or terminate this Plan with respect to its Employees to the extent provided in Articles XVII and XVIII. The Committee shall have the sole responsibility to administer the Plan and to establish and carry out the funding policy and method of the Plan, which responsibilities are more specifically described in this Plan and the Trust Agreement. The Committee shall have the sole authority to appoint and remove any Investment Manager which may be provided for under the Trust Agreement. The Trustee shall have the sole responsibility for the administration of the Trust Fund and shall have exclusive authority and discretion to manage and control the assets held under the Trust Fund except to the extent that the authority to manage, acquire and dispose of the assets of the Trust Fund is delegated to an Investment Manager, all as specifically provided in the Trust Agreement. Each Fiduciary shall warrant that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust Agreement, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each Fiduciary may rely upon any such direction, information or action or another Fiduciary as being proper under this Plan or the Trust Agreement, and is not required under this Plan or the Trust Agreement to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust Agreement that each Fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust Agreement and shall not be responsible for any act or failure to act of another Fiduciary. No Fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

13.14 Annual Audit: The Committee shall engage, on behalf of all Members, an independent Certified Public Accountant who shall conduct an annual examination of any financial statements of the Plan and Trust Agreement and of other books and records of the Plan and Trust Agreement as the Certified Public Accountant may deem necessary to enable him to form and provide a written opinion as to whether the financial statements and related schedules required to be filed with the Internal Revenue Service or Department of Labor and furnished to each Member are presented fairly and in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding Plan Year. If, however, the statements required to be submitted as part of the reports to the Internal Revenue Service or Department of Labor are prepared by a bank or similar institution or insurance carrier regulated and supervised and subject to periodic examination by a state or federal agency and if such statements are certified by the preparer as accurate and if such statements are, in fact, made a

part of the annual report to the Internal Revenue Service or Department of Labor and no such audit is required by ERISA, then the audit required by the foregoing provisions of this Section shall be optional with the Committee.

ARTICLE XIV

CONTRIBUTIONS TO THE PLAN

14.1 Member Contributions: Members are neither required nor permitted to make contributions under the Plan.

14.2 Employer Contributions: Each Employer shall contribute to the Plan every year such amount as shall be actuarially determined to be sufficient to fund the liability of the Plan. The amount of such contribution shall be determined annually by the Committee following actuarial determination. The Committee shall, prior to the fixing of the amount of contributions by the respective Employers, cause such actuarial determination to be made by the Actuary appointed by it but the fixing of the amount of contributions by the Employers shall be made by the Committee after considering the recommendation of such Actuary. In no event shall such annual contributions be less than the minimum amount required by the minimum funding standard of ERISA. The provisions of this Section 14.2 and Section 13.13 shall be deemed to be the procedure for establishing and carrying on the funding policy and method of the Plan. All expenses of administering the Plan shall be paid by the Employers on a pro rata basis.

Contributions to the Trust Fund by any Employer shall be irrevocable and shall be used to pay benefits or to pay expenses of the Plan and Trust Fund; provided, however, that upon the Employer's request, a contribution which was made by a mistake of fact, or conditioned upon initial qualification of the Plan and Trust Fund under Sections 401(a) and 501(a) of the Code, or upon the deductibility of the contribution under Section 404 of said Code, shall be returned to the Employer within one year after the payment of the contribution, the denial of initial qualification or the disallowance of the deduction (to the extent disallowed), whichever is applicable. Earnings attributable to any such excess contribution may not be withdrawn, but losses attributable thereto must reduce the amount to be returned. Except to the extent that an Employer expressly states to the contrary in a writing to the Trustee at the time of making the contribution to the Trust Fund, each contribution shall be presumed to have been conditioned upon its deductibility.

14.3 Discontinuance or Suspension of Contributions: Upon a complete discontinuance of contributions by formal action of the board of directors of any Employer, the Plan shall be terminated as to such Employer as of the effective date of such discontinuance in accordance with Article XVII. If for any year an Employer fails to make a contribution to the Trust Fund in accordance with Section 14.2, and such failure constitutes a suspension of contributions which either affects benefits to be paid or made available hereunder or causes the unfunded past service cost at any time to exceed the unfunded past service cost as of the effective date of the suspension of contributions (plus any additional past service costs thereafter added by amendment), then in either of such events the Employer and the Trustee shall each notify the appropriate District Director of Internal Revenue regarding such suspension. During any such period of suspension, all other provisions of the Plan shall continue in full force and effect, other than the provisions required for contributions to the Trust Fund in accordance with Section 14.2. Upon termination of the Plan or upon complete discontinuance of contributions by an Employer, the right of each Member of the Employer to his accrued benefits to the date of such termination or discontinuance, to the extent then funded, shall be nonforfeitable, and the Employer shall

promptly notify the appropriate District Director of Internal Revenue and the Pension Benefit Guaranty Corporation of such event.

14.4 Forfeitures Credited Against Employer's Contributions: All credits arising as a result of more favorable interest, mortality, turnover, or other experience than has been assumed in the actuarial determination of cost requirements, and all forfeitures by Members or Beneficiaries of Members arising from any source whatsoever, shall be applied against the Employer's contributions to be made pursuant to Section 14.2 hereof in subsequent years in accordance with a method of funding approved by the U.S. Treasury Department, and shall not be applied to increase the benefits that any Member or the Beneficiary of any Member would otherwise receive under the Plan.

14.5 Single Plan: The portion of the cost of providing the benefits under this Plan shall be borne by each Employer for its own Members on an equitable basis as determined by the Committee. Separate accounting may be maintained for the purposes of cost allocation but not for the purposes of providing benefits under the Plan, it being understood that, on an ongoing basis, all of the Plan assets are available to pay benefits to all Members who are covered by the Plan and their Spouses or Beneficiaries, regardless of which Employer employed the Member.

ARTICLE XV

AMENDMENT OF THE PLAN

15.1 Right to Amend Reserved: Except as otherwise provided in Section 15.2, (i) the Company shall have the right to amend or modify this Plan and the Trust Agreement (with the consent of the Trustee, if required) at any time and from time to time to the extent that it may deem advisable and (ii) the Committee shall have the right to amend or modify this Plan and the Trust Agreement (with the consent of the Trustee, if required) to modify the administrative provisions of the Plan and for any changes required by applicable law or by the Internal Revenue Service to maintain the qualified status of the Plan and related Trust at any time and from time to time to the extent that it may deem advisable.

15.2 Limitations on Right to Amend: No amendment of this Plan or the Trust Agreement shall in any way impair or diminish the rights of Members, retired Members, their Spouses or Beneficiaries and the contributions made by the Employers and the Members prior to the date of such amendment, and no amendment shall, at any time prior to the satisfaction of all liabilities with respect to Members, retired Members, their Spouses and Beneficiaries under this Plan, have the effect of diverting any part of the income or corpus of the Trust Fund for purposes other than the exclusive benefit of such Members, retired Members, Spouses and Beneficiaries.

No amendment shall directly or indirectly reduce a Member's nonforfeitable vested percentage in his Accrued Benefit under this Plan, unless each Member having not less than three years of Service is permitted to elect to have his nonforfeitable vested percentage in his Accrued Benefit computed under the Plan without regard to the amendment. Such election shall be available during an election period, which shall begin on such date the amendment is adopted, and shall end on the latest of (i) the date 60 days after such amendment is adopted, (ii) the date 60 days after such amendment is effective or (iii) the date 60 days after such Member is issued notice of the amendment by the Committee or the Employer. If this Plan is amended and an effect of such amendment is to increase current liability (as defined in Code Section 401(a)(29)(E) under the Plan for a Plan Year, and the funded current liability percentage of the Plan for the Plan Year in which the amendment takes effect is less than 60%, including the amount of the unfunded current liability under the Plan attributable to the amendment, the amendment shall not take effect until the Employer (or any member of a controlled group which includes the Employer) provides security to the Plan. The form and amount of such security shall satisfy the requirements of Code Section 401(a)(29)(B) and (C). Such security may be released provided the requirements of Code Section 401(a)(29)(D) are satisfied.

Notwithstanding anything herein to the contrary, however, the Plan or the Trust Agreement may be amended in such manner as may be required at any time to make it conform to the requirements of the Code, as amended from time to time, or of any United States statutes with respect to employees' trusts, or of any amendment thereto, or of any regulations or rulings issued pursuant thereto, and no such amendment shall be considered prejudicial to any then existing rights of any Member or his Beneficiary under the Plan. The duties, responsibilities, and liabilities of the Trustee may not be increased without its written consent.

15.3 Form of Amendment: Any such amendment or modification shall be set out in an instrument in writing duly authorized by the Board of Directors of the Company or the Committee, as the case may be, and executed by an appropriate officer of the Company or member of the Committee.

15.4 Merger of Plan with Another Pension Plan: In the event of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to another trust fund held under any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Members of this Plan, the assets of the Trust Fund applicable to such Members shall be transferred to the other trust fund only if:

(a) Each Member would (if either this Plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if this Plan had then terminated);

(b) Resolutions of the Board of Directors of the Employer under this Plan, and of any new or successor employer of the affected Members, shall authorize such transfer of assets; and in the case of a new or successor employer of the affected Members, its resolutions shall include an assumption of liabilities with respect to such Members' inclusion in the new employer's plan; and

(c) Such other plan and trust are qualified under Sections 401(a) and 501(a) of the Code.

In the event of any such merger, consolidation, or transfer, the Committee shall report such event to the Internal Revenue Service and the Pension Benefit Guaranty Corporation within 30 days after the Committee first knew or had reason to know of such event.

## ARTICLE XVI

## THE TRUSTEE AND THE TRUST FUND

16.1 Trust Agreement: The Trust Agreement shall mean the Reliant Energy, Incorporated Master Retirement Trust, as amended and restated effective January 1, 1999 between the Company and Northern Trust Company, trustee, for the benefit of this Plan; and the provisions of which are herein incorporated by reference as fully as if set out herein; and the assets held under said Trust Agreement on behalf of this Plan shall constitute the Trust Fund.

16.2 Benefits Paid Solely From Trust Fund: All benefits provided under the Plan shall be paid out of the Trust Fund. The Employers shall not be responsible or liable in any manner for payment of any such benefits, and all Members shall look solely to the Trust Fund and to the adequacy thereof for the payment of any such benefits of any nature or kind which may at any time be payable hereunder, except to the extent, if any, that the Employers are liable to the Pension Benefit Guaranty Corporation under ERISA.

16.3 Trust Fund Applicable Only to Payment of Benefits: The Trust Fund shall be used and applied only to provide the benefits of the Plan in accordance with the provisions thereof. No part of the corpus or income of the Trust Fund will be used for, or diverted to, purposes other than for the exclusive benefit of Members, retired Members and their Beneficiaries, or for the payment of reasonable expenses of the Plan, except as provided in Section 17.5.

16.4 Accounting by Trustee: The Trustee shall keep proper accounts of all investments, receipts, disbursements and other transactions effected by it hereunder, and all accounts, books and records relating thereto shall be open for inspection at all reasonable times by the Committee or by any other person designated by the Company, but nothing herein contained shall be construed to require the Trustee to maintain any record of the interests of the individual Members in the Trust Fund. As of the close of each year (or more often, if requested by the Company), the Trustee shall prepare and furnish to the Employers and the Actuary an annual valuation of the Trust Fund, containing a detailed statement of investments reflecting cost and market values, and a statement of receipts and disbursements of the Trust Fund and other transactions effected by it during such year.

16.5 Authorization to Protect Trustee: Any action by the Company or other Employer pursuant to any of the provisions of this Plan shall be evidenced by a resolution of its board of directors certified to the Trustee over the signature of its secretary or assistant secretary under its corporate seal or by written instrument executed by any person authorized by said board of directors to take such action.

16.6 Exemption From Bond: The Trustee shall not be required to give bond or other security for the faithful performance of its duties hereunder unless otherwise required by law.

ARTICLE XVII

TERMINATION OF THE PLAN

17.1 Right to Terminate Reserved: The Plan has been established in confidence that it will continue in effect indefinitely. However, due to the uncertainties under which all business activity operates, the Company (and any other Employer adopting the Plan in accordance with Article XVIII) must and herewith does reserve the right to terminate the Plan on its own behalf, in whole or in part, at any time. A termination of the Plan shall be evidenced by a written instrument executed by the appropriate Employer on the order of its board of directors and filed with the Committee and the Trustee. Termination of the Plan shall be effective upon the date specified in such instrument (hereinafter referred to as the "termination date"), but such termination shall not vest in the terminating Employer any right, title, or interest in or to the funds held hereunder nor shall it in any way deter the other participating Employers from continuing the Plan for the benefit of their employees.

If the Plan is terminated by an Employer with respect to all its Members, no further contribution shall be made to the Trust Fund by the terminating Employer, no employees of the terminating Employer shall become Members of the Plan after the termination date, and no further payments of benefits with respect to Members employed by such terminating Employer (including for all purposes of this Article, former Members and their Beneficiaries) shall thereafter be made except in distribution of assets of the Trust Fund as provided in Section 17.3. In the case of such termination, the provisions of this Article shall apply only to Members employed by the terminating Employer.

If the Plan is partially terminated only as to the designated group of employees of a participating Employer, the Trust Fund shall be allocated between the group of Members as to whom the Plan is terminated and the remaining group of Members upon the basis of the funded actuarial requirements of the Plan with respect to such groups, and the provisions of this Article shall apply only to the group of Members employed by the Employer as to whom the Plan is terminated and the part of the Trust Fund so allocated to such group. The assets of such part of the Trust Fund shall be distributed as provided in Section 17.3, however, only if the participating Employer does not direct such part to be transferred to another fund or trust for the benefit of the group as to whom the Plan is terminated, including but not limited to, a fund or trust under another pension plan of the participating Employer or of another business organization; provided, however, that no such transfer shall be made in violation of Sections 15.4, 17.3 and 17.6.

Any termination (other than a partial termination or an involuntary termination pursuant to ERISA Section 4042) must satisfy the requirements and follow the procedures outlined in ERISA Section 4041 for a "standard termination" or a "distress termination" as more fully described therein. Upon a complete or partial termination of the Plan, each affected Member's Accrued Benefit, based on his Service, Vesting Service and Compensation prior to the date of such termination shall become fully vested and non-forfeitable to the extent then funded. In the event that the Plan is partially terminated, the following provisions of this Article XVII shall apply only to that part of the Plan so terminated. Any distribution made upon termination

of the Plan shall be subject to the distribution limitations otherwise applicable under the Plan, specifically including the consent provisions of Section 11.3.

17.2 Continuance With Successor Employer: Upon an Employer's liquidation, bankruptcy, insolvency, sale, consolidation or merger to or with another organization that is not an Employer hereunder, in which such Employer is not the surviving company, all obligations of that Employer hereunder and under the Trust Agreement which had not theretofore been funded shall terminate automatically, and the Trust Fund assets attributable to such Employer shall be held or distributed as herein provided, unless, with the approval of the Company, the successor to that Employer assumes the duties and responsibilities of such Employer, by adopting this Plan and the Trust Agreement, or by establishment of a separate plan and trust to which the assets of the Trust Fund held on behalf of the Employees of such Employer shall be transferred with the consent and agreement of that Employer. Upon the consolidation or merger of two or more of the Employers under this Plan with each other, the surviving Employer or organization shall automatically succeed to all the rights and duties under the Plan and Trust Agreement of the Employers involved and their equitable shares of the Trust Fund shall be merged and thereafter allocable to the surviving Employer or organization for its employees and their beneficiaries. Notwithstanding the above provisions of this Section 17.2, to the contrary, not less than 30 days prior to any such merger, consolidation or transfer of Trust Fund assets, the Committee shall file with the Commissioner of Internal Revenue the actuarial statement of valuation required by Code Section 6058(b) evidencing compliance with the requirements of Code Section 401(a)(12) and Section 15.4 of the Plan.

17.3 Liquidation of Trust Fund: Upon a full termination of the Plan with respect to any Employer, a separation of the Trust Fund with respect to the affected Members of such Employer shall be made as of the termination date in accordance with the procedures set forth in Section 18.3. Thereafter, each affected Member's Accrued Benefit based on his Service, Vesting Service, and Compensation prior to the date of termination, to the extent then funded and payable under the following provisions, shall become fully vested and the assets of the Trust Fund attributable to Members of such terminated Employer shall be allocated, after provision is made for the expenses of liquidating the Trust Fund, among the Members receiving or holding the following benefits in the following order:

(a) First, to benefits payable on the termination date:

(i) In the case of the benefit of a Member or Beneficiary which was in pay status as of the beginning of the three-year period ending on the termination date of the Plan, to each such benefit, based on the provisions of the Plan (as in effect during the five-year period ending on such date) under which such benefit would be the least, and

(ii) In the case of a retired Member's, a disabled Member's or a Beneficiary's benefit (other than a benefit described in subparagraph (i) above) which would have been in pay status as of the beginning of such three-year period if the Member had retired prior to the beginning of the three-year period and if his benefits had commenced (in the normal form of pension under the Plan) as of the

beginning of such period, to each such benefit based on the provisions of the Plan (as in effect during the five-year period ending on such date) under which such benefit would be the least.

For purposes of subparagraph (i) of this Paragraph (a), the lowest benefit in pay status during a three-year period shall be considered the benefit in pay status for such period.

(b) Second,

(i) To all other benefits (if any) of individuals under the Plan guaranteed under Title IV - Plan Termination Insurance - of ERISA (determined without regard to Section 4022(b)(5) thereof), and

(ii) To the additional benefits (if any) which would be determined under subparagraph (i) immediately above if Section 4022(b)(6) of ERISA did not apply.

For purposes of this Paragraph (b), Section 4021 of ERISA shall be applied without regard to subsection (c) thereof.

(c) Third, to all other nonforfeitable benefits under the Plan.

(d) Fourth, to all other benefits under the Plan.

If the assets available for allocation under paragraph (a) or (b) above are insufficient to satisfy in full the benefits of all individuals which are described in such paragraph, the assets shall be allocated pro rata among individuals on the basis of the present value (as of the termination date) of their respective benefits described in such paragraph. If the assets available for allocation under paragraph (c) or (d) above are not sufficient to satisfy in full the benefits or individuals described in such paragraph, then:

A. If this paragraph applies, except as provided in subparagraph (B) below, the assets shall be allocated to the benefits of individuals described in paragraph (c) on the basis of the benefits of individuals which would have been described in such paragraph (c) under the Plan as in effect at the beginning of the five-year period ending on the date of Plan termination.

B. If the assets available for allocation under subparagraph (A) are sufficient to satisfy in full the benefits described in such subparagraph (without regard to this subparagraph), then for purposes of subparagraph (A), benefits of individuals described in such subparagraph shall be determined on the basis of the Plan as amended by the most recent Plan amendment effective during such five-year period under which the

assets available for allocation are sufficient to satisfy in full the benefits of individuals described in subparagraph (A) and any assets remaining to be allocated under such subparagraph shall be allocated under subparagraph (A) on the basis of the Plan as amended by the next succeeding Plan amendment effective during such period.

17.4 Partial Termination: Upon termination of the Plan with respect to a group of Members which constitutes a partial termination of the Plan, the Employer shall cause the proportionate interest of the Members affected by such partial termination to be determined. The determination of such proportionate interest shall be done in an equitable manner, considering the remaining Members as well as the Members affected by the termination, and on the basis of the contributions made by the Employer, the provisions of this Article XVII and other appropriate considerations. After such proportionate interest has been determined, the assets of the Trust Fund shall be allocated and segregated according to such proportionate interest. The assets of the Trust Fund so allocated and segregated shall be used to pay benefits to or on behalf of Members in accordance with this Article XVII.

17.5 Distribution of Trust Fund: Any distribution after full termination of the Plan may be made in whole or in part, to the extent that no discrimination in value results, in cash, securities, or other assets in kind, or in annuity contracts, as the Committee, in its discretion, acting under the advice of the Actuary, shall determine; provided, however, that no such termination distribution shall be made without the written consent of the Member and the Member's Spouse, if any. The benefits as apportioned pursuant to Section 17.3 above may be provided:

(a) By the continuation of the Trust Fund for the payment of all or such of the benefits as are within the limits prescribed by the Committee and acceptable by the Trustee;

(b) Through the purchase of annuities from one or more insurance companies with the amount of the benefit determined by a premium equal to the Actuarial Value (determined by use of the interest rate used by the Pension Benefit Guaranty Corporation for determining the present value of a lump-sum distribution on plan termination) of each Member's benefit;

(c) By distribution in a single sum of the Actuarial Value (determined by use of the interest rate used by the Pension Benefit Guaranty Corporation for determining the present value of a lump-sum distribution on plan termination) of each Member's benefit; or

(d) By any combination of (a), (b) and (c).

In making such distributions, any and all determinations, divisions, appraisals, apportionments and allotments so made shall be final and conclusive and shall not be subject to question by any person. Any annuity contract distributed by the Trustee to a Member under subparagraph (b) above or under any other provision of this Plan shall bear on the face thereof a designation "Not

Transferable," and such annuity contract shall expressly provide that the contract may not be sold, assigned, discounted or pledged as collateral for a loan or as security for the performance of an obligation or for any other purpose to any person other than the issuer thereof. Notwithstanding the foregoing, the Employer shall promptly advise the appropriate District Director of Internal Revenue and the Pension Benefit Guaranty Corporation of the termination and shall direct the Trustee to delay the final distribution to Members until said District Director shall advise in writing that such termination does not adversely affect the previously qualified status of the Plan or the exemption from tax of the Trust Agreement under Section 401(a) or 501(a) of the Code and the Pension Benefit Guaranty Corporation has approved the proposed termination distribution or made any appropriate requirements concerning same. Any distribution due to the termination of the Plan will be made in accordance with the requirements of Code Sections 401(a)(11), 411(d)(6) and 417.

17.6 Residual Amounts: In no event shall any Employer receive any amounts from the Trust Fund except that upon termination of the Plan, and notwithstanding any other provision of the Plan, an Employer shall receive such amounts, if any, as may remain in the Trust Fund because of erroneous actuarial computation as defined in U.S. Treasury Regulations.

17.7 Limitations Imposed by Treasury Regulations Upon Early Termination of Plan: In the event the Plan is terminated by any Employer for any reason during the first 10 years after the original effective date of the Prior Plan ("Original Effective Date"), and if full current costs had not been met with respect to any Employer at the end of the first 10 years, until said full current costs are met, then notwithstanding any provision in this Plan to the contrary, the benefits provided by the Employer's contributions for the Members whose anticipated annual retirement benefit at Normal Retirement Date exceeds $1,500 and who on the Original Effective Date were among the 25 highest paid Employees of the Employer will be subject to the conditions set forth in the following provisions:

(a) The benefit payable to a Member described in this Section or his Beneficiary shall not exceed the greater of the following:

(i) those benefits purchasable by the greater of (A) $20,000, or (B) an amount equal to 20% of the first $50,000 of the Member's annual Compensation multiplied by the number of years from the Original Effective Date to the earlier of (1) the date of termination of the Plan, (2) the date the benefit of the Member becomes payable or (3) the date of a failure on the part of the Employer to meet the full current costs of the Plan; or

(ii) if a Member is a "substantial owner" (as defined in Section 4022(b)(5)(A) of ERISA), the present value of the benefit guaranteed for "substantial owners" under Section 4022 of ERISA; or

(iii) if the Member is not a "substantial owner," the present value of the maximum benefit provided in Section 4022(b)(3)(B) of ERISA, determined on the date the Plan terminates or on the date

benefits commence, whichever is earlier, and in accordance with regulations of the Pension Benefit Guaranty Corporation.

(b) If the Plan is terminated or the full current costs thereof have not been met at any time within 10 years after the Original Effective Date, the benefits which any of the Members described in this Section may receive from the Employer's contribution shall not exceed the benefits set forth in this Section 17.7. If at the end of the first 10 years the full current costs are not met, the restrictions will continue to apply until the full current costs are funded for the first time.

(c) If a Member described in this Section leaves the employ of the Employer or withdraws from participation in the Plan when the full current costs have been met, the benefits which he may receive from the Employer contributions shall not at any time within the first 10 years after the Original Effective Date exceed the benefits set forth in this Section 17.7.

(d) These conditions shall not restrict the full payment of any survivor's benefits on behalf of a Member who dies while in the Plan and the full current costs have been met.

(e) These conditions shall not restrict the current payment of full retirement benefits called for by the Plan for any retired Member while the Plan is in full effect and its full current costs have been met, provided an agreement, adequately secured, guarantees the repayment of any part of the distribution that is or may become restricted.

(f) If the benefits of, or with respect to, any Member shall have been suspended or limited in accordance with the limitations of this Section 17.7 because the full current costs of the Plan shall not then have been met, and if such full current costs shall thereafter be met, then the full amount of the benefits payable to such Member shall be resumed and the parts of such benefits which have been suspended shall then be paid in full.

(g) Notwithstanding anything in this Section 17.7, if on the termination of the Plan within the first 10 years after the Original Effective Date, the funds, contracts, or other property under the Plan are more than sufficient to provide Pensions for Members and their Beneficiaries including full benefits for all Members other than such of the 25 highest paid Employees as are still in the service of the Employer and also including Accrued Pensions as limited by this Section for such 25 highest paid Employees, then any excess of such funds, contracts, and property shall be used to provide Accrued Pensions for the 25 highest paid Employees in excess of such limitations of this Section up to the benefits to which such Employees would be entitled under this Plan without such limitations.

(h) In the event that Congress should provide by statute, or the Treasury Department or the Internal Revenue Service should provide by regulation or ruling, that the limitations provided for in this Section 17.7 are no longer necessary in order to meet the requirements for a qualified pension plan under the Code as then in effect, the limitations in this Section 17.7 shall become void and shall no longer apply without the necessity of amendment to this Plan.

(i) In the event a lump-sum distribution is made to an Employee subject to the above restrictions in an amount in excess of that amount otherwise permitted under this Section 17.7, an agreement shall be made, with adequate security guaranteeing repayment of any amount of the distribution that is restricted. Adequate security shall mean property having a fair market value of at least 125% of the amount which would be repayable if the Plan had terminated on the date of distribution of such lump sum. If the fair market value of the property falls below 110% of the amount which would then be repayable if the Plan were then to terminate, the distributee shall deposit additional property to bring the value of the property to 125% of such amount.

Notwithstanding the foregoing, from and after January 1, 1994, the following provisions are applicable in the event of an early plan termination rather than the foregoing provisions of this Section 17.7. In the event of an early plan termination, the benefit of any highly compensated active or former Employee is limited to a benefit that is non-discriminatory under Section 401(a)(4). In the event of early plan termination, benefits distributed to any of the 25 most highly compensated active and highly compensated former Employees with the greatest Compensation in the current or any prior year are restricted such that the annual payments are no greater than an amount equal to the payment that would be made on behalf of the Employee under a straight life annuity that is the actuarial equivalent of the sum of the Employee's Accrued Benefit, the Employee's other benefits under the Plan (other than a social security supplement, within the meaning of Section 1.411(a)-7(c)(4)(ii) of the Income Tax Regulations), and the amount the Employee is entitled to receive under a social security supplement.

The preceding paragraph shall not apply if: (i) after payment of the benefit to an Employee described in the preceding paragraph, the value of Plan assets equals or exceeds 110% of the value of current liabilities, as defined in Section 412(l)(7) of the Code, (ii) the value of the benefits for an Employee described above is less than 1% of the value of current liabilities before distribution, or (iii) the value of the benefits payable under the Plan to an Employee described above does not exceed $5,000, and did not exceed $5,000 at the time of a previous distribution.

For purposes of this Section, benefit includes loans in excess of the amount set forth in Section 72(p)(2)(A) of the Code, any periodic income, any withdrawal values payable to a living Employee, and any death benefits not provided for by insurance on the Employee's life.

## ARTICLE XVIII

## ADOPTION OF PLAN BY AFFILIATES

18.1 Adoptive Instrument: Any Affiliate which is not already an Employer under this Plan and which is otherwise eligible may, with the approval of the Committee, adopt and become an Employer under this Plan and the Trust Agreement by delivering to the Company and the Trustee a duly adopted resolution of its board of directors specifying the classification of its employees who are to be eligible to participate in the Plan and agreeing to be bound as an Employer by all of the terms of the Plan with respect to its eligible employees. The resolution may contain such changes and amendments in the terms and provisions of the Plan as adopted by such Employer as may be desired by such Employer and acceptable to the Committee. It shall not be necessary for the adopting organization to sign or execute the original or then amended Plan and Trust documents. Any such Affiliate which shall adopt this Plan shall designate the Committee as its agent to act for it in all transactions affecting the administration of the Plan and shall designate the Committee to act for it and its Members in the same manner in which they may act for the Company and its Members hereunder. The resolution shall specify the effective date of such adoption of the Plan and shall become as to such adopting Affiliate and its employees, a part of this Plan and the Trust Agreement. Such adopting Affiliate shall forthwith obtain a favorable determination letter from the appropriate District Director of Internal Revenue with respect to its participation in the Plan and Trust Agreement.

18.2 Effect of Adoption: The following special provisions shall apply to all Employers:

(a) An Employee shall be considered in continuous employment while regularly employed simultaneously or successively by one or more Employers.

(b) The transfer of a Member from one Employer to another shall not be deemed a termination of employment.

18.3 Separation of the Trust Fund: A separation of the Trust Fund as to the interests therein of the Members of any particular Employer may be made at the times and under the circumstances described in Section 17.3,18.4 or 18.5. In such event, the Trustee shall set apart that portion of the Trust Fund which the Committee shall certify to the Trustee is the equitable share of such Members pursuant to a valuation and allocation of the Trust Fund made as of the date when such separation of the Trust Fund shall be effective. Such portions of the Trust Fund may in the Trustee's discretion be set apart in cash or in kind out of the properties of the Trust Fund. That portion of the Trust Fund so set apart shall continue to be held by the Trustee as though such Employer had entered into the Trust Agreement as a separate trust agreement with the Trustee. Such withdrawing Employer may in such event designate a new trustee of its selection to act as trustee under the Trust Agreement, and shall thereupon be deemed to have adopted the Plan as its own separate Plan and shall subsequently have all the powers of amendment or modification of the Plan as are reserved herein to the Committee and/or the Company.

18.4 Voluntary Separation: If any Employer shall desire to separate its interest in the Trust Fund, it may request such a separation in a notice in writing to the Committee and the Trustee. Such separation shall then be made as of any specified date after service of such notice, and such separation shall be accomplished in the manner set forth in Section 18.3 above.

18.5 Approval of Amendment: Any amendment of the Plan or the Trust Agreement by the Company or the Committee pursuant to Article XV shall be promptly delivered to each other Employer who will be deemed to have consented to such amendment unless it, within 30 days after receipt of the amendment, rejects such amendment and seeks a separation of its interest in the Trust Fund in accordance with the provisions of Section 18.4 hereof.

ARTICLE XIX

MISCELLANEOUS

19.1 Plan Not an Employment Contract: The adoption and maintenance of the Plan shall not be deemed to constitute a contract between an Employer and any Member, and shall not be deemed to be consideration for, inducement to, or a condition of employment of any person. Nothing herein contained shall be construed to give any Member the right to be retained in the employment of an Employer or to interfere with the right of an Employer to terminate the employment of any Member at any time.

19.2 Controlling Law: Subject to the provisions of ERISA, as the same may be amended from time to time, which may be applicable and provide to the contrary, this Plan shall be construed, regulated and administered under the laws of the State of Texas.

19.3 Invalidity of Particular Provisions: In the event any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Plan but shall be fully severable, and this Plan shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

19.4 Non-Alienation of Benefits: Except as otherwise provided below and with respect to certain judgments and settlements pursuant to Section 401(a)(13) of the Code, benefits payable under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary. The preceding sentence shall also apply to the creation, assignment or recognition of a right to any benefit payable with respect to a Member pursuant to a domestic relations order unless such order is determined by the Committee to be a qualified domestic relations order, as defined in Section 414(p) of the Code.

19.5 Copy Available to Members: A copy of this Plan and Trust Agreement and of any and all future amendments thereto shall be available to Members and their Beneficiaries for inspection at all reasonable times. In addition thereto, the Company shall print and distribute to all Employees a pamphlet setting forth the terms of the Plan or a summary of the principal provisions thereof.

19.6 Evidence Furnished Conclusive: Each Employer, the Committee and any person or persons involved in the administration of the Plan shall be entitled to rely upon any certification, statement, or representation made or evidence furnished by an Employee, Member or Beneficiary with respect to his age, or other facts required to be determined under any of the provisions of the Plan, and shall not be liable on account of the payment of any monies or the doing of any act or failure to act in reliance thereon. Any such certification, statement, representation, or evidence, upon being duly made or furnished, shall be conclusively binding upon such Employee, Member or Beneficiary but not upon an Employer, the Committee, or any other person or persons involved in the administration of the Plan. Nothing herein contained shall be construed to prevent any of such parties from contesting any such certification, statement, representation, or evidence or to relieve the Employee, Member, or Beneficiary from the duty of submitting satisfactory proof of his age or such other fact.

19.7 Unclaimed Benefits: If at, after, or during the time when a benefit hereunder is payable to any Member, Beneficiary or other distributee, the Committee, upon request of the Trustee, or at its own instance, shall mail by registered or certified mail to such Member, Beneficiary or distributee at his last known address a written demand for his then address or for satisfactory evidence of his continued life, or both, and if such Member, Beneficiary or distributee shall fail to furnish the same to the Committee within two years from the mailing of such demand, then the Committee may, in its sole discretion, determine that such Member, Beneficiary or other distributee has forfeited his right to such benefit and may declare such benefit, or any unpaid portion thereof, terminated as if the death of the distributee (with no surviving Beneficiary) had occurred on the date of the last payment made thereon or on the date such Member, Beneficiary or distributee first became entitled to receive benefit payments, whichever is later; provided, however, that such forfeited benefits shall be reinstated if a claim for the same is made by the Member, Beneficiary or other distributee at any time thereafter.

19.8 Name and Address Changes: Each Member and each Beneficiary of a deceased Member shall at all times be responsible for notifying the Committee of any change in his name or address. If any check in payment of a benefit hereunder (which was mailed to the last address of the payee as shown on the Committee's records) is returned unclaimed, further payments shall be discontinued until the Committee directs otherwise.

19.9 Payments in Satisfaction of Claims of Members: Any payment or distribution to any Member or his legal representative or Beneficiary in accordance with the provisions of this Plan shall be in full satisfaction of all claims under the Plan against the Trust Fund, the Committee, the Trustee and the Employer.

19.10 Payment of Pre-Existing Pensions Assumed: Any person, who on the Effective Date of the Plan was a retired or former deferred vested Employee of the Employer receiving or entitled to receive a Pension from the Prior Plan or was the Spouse or Beneficiary of such an Employee, shall be deemed to be a retired Member or the Spouse or Beneficiary of a retired Member, respectively, for all purposes of the Plan except that, unless otherwise specified herein, the Pension such person is then receiving, or which would have become payable to such person or his Spouse or Beneficiary under the provisions of the Prior Plan of which he was a participant, shall be continued unchanged and shall be deemed to be the Pension payable under the Plan. Any such Pension shall be paid solely from the Trust Fund, and such person shall not have any right or claim against the Employer in respect of such Pension.

19.11 Headings for Convenience Only: The headings and subheadings in this Plan are inserted for convenience and reference only and are not to be used in construing this Plan or any provision herein.

19.12 Payments to Minors and Incompetents: If the Committee determines that any person to whom a payment is due hereunder is a minor or is incompetent by reason of physical or mental disability, the Committee shall have power to cause the payments becoming due to such person to be made to the guardian of the minor or the guardian of the estate of the incompetent, or to the County Clerk as allowed for under law without the Committee or the Trustee being responsible to see to the application of such payment. Payments made pursuant to such power

shall operate as a complete discharge of the Committee, the Trustee, the Employer and any Affiliate.

ARTICLE XX

TOP-HEAVY PLAN REQUIREMENTS

20.1 General Rule: For any Plan Year for which this Plan is a Top-Heavy Plan, as defined in Section 20.8, any other provisions of this Plan to the contrary notwithstanding, this Plan shall be subject to the provisions of this Article XX.

20.2 Vesting Provisions: Each Member who has completed an "Hour of Service" (as defined in Section 3.2 hereof) after the Plan becomes top heavy and while the Plan is top heavy and who has completed the Service specified in the following table shall be vested in his Accrued Benefit under this Plan at least as rapidly as is provided in the following schedule; except that the vesting provision set forth in Section 5.2 shall be used at any time in which it provides for more rapid vesting:

| Years of Service | Vested Percentage |
|---|---|
| Less than 2 years | 0% |
| 2 but less than 3 years | 20% |
| 3 but less than 4 years | 40% |
| 4 but less than 5 years | 60% |
| 5 but less than 6 years | 80% |
| 6 years of more | 100% |

If an account becomes vested by reason of the application of the preceding schedule, it may not thereafter be forfeited by reason of re-employment after retirement pursuant to a suspension of benefits provision, by reason of withdrawal of any mandatory employee contributions to which employer contributions were keyed, or for any other reason. If the Plan subsequently ceases to be top heavy, the preceding schedule shall continue to apply with respect to any Member who had at least three years of service (as defined in Treasury Regulation Section 1.411(a)-8T(b)(3)) as of the close of the last year that the Plan was top heavy, except that each Member whose non-forfeitable percentage of his Accrued Benefit derived from employer contributions is determined under such amended schedule, and who has completed at least three years of service with the employer, may elect, during the election period, to have the non-forfeitable percentage of his Accrued Benefit derived from employer contributions determined without regard to such amendment if his non-forfeitable percentage under the Plan as amended is, at any time, less than such percentage determined without regard to such amendment. For all other Members, the non-forfeitable percentage of their Accrued Benefit prior to the date the Plan ceased to be top heavy shall not be reduced, but future increases in the non-forfeitable percentage shall be made only in accordance with Section 8.1.

20.3 Minimum Benefit Provisions: Each Member who is a Non-Key Employee, as defined in Section 20.8, shall be entitled to an Accrued Benefit in the form of a single-life annuity (with no ancillary benefits) beginning at his Normal Retirement Date, that shall not be less than his average annual Member's Compensation, within the meaning of Code Section 415, for years in the Testing Period multiplied by the lesser of: (a) 2% multiplied by the number of

years of Top-Heavy Service or (b) 20%. A Non-Key Employee may not fail to receive a minimum benefit because of a failure to receive a specified amount of Compensation or a failure to make mandatory employee or elective contributions.

"Testing Period" means, with respect to a Member, the period of consecutive years of Top-Heavy Service, not exceeding five, during which the Member had the greatest aggregate compensation, within the meaning of Code Section 415, from the Company. "Top-Heavy Service" means his Service credited under Section 3.2. Top-Heavy Service shall not include any Service before July 1, 1984 or any Service that begins after the close of the last Plan Year in which the Plan was a Top-Heavy Plan. Years before and after such excluded periods shall be considered consecutive for purposes of determining the Testing Period.

20.4 Limitation on Compensation: A Member's annual Compensation taken into account under this Article XX for purposes of computing benefits under this Plan for any Plan Year shall not be in excess of $160,000 (as adjusted). Such amount shall be adjusted automatically for each Plan Year to the amount prescribed by the Secretary of the Treasury or his delegate pursuant to regulations for the calendar year in which such Plan Year commences.

20.5 Limitation of Benefits: In the event that the Company, other Employer or an Affiliate (hereinafter in this Article collectively referred to as a "Considered Company") also maintains a defined contribution plan providing contributions on behalf of Members in this Plan, one of the two following provisions shall apply:

(a) If for a Plan Year this would not be a Top-Heavy Plan if "90%" were substituted for "60%" in Section 20.8, then the percentages used in Section 20.3 are changed to be the lesser of (i) 3% multiplied by the number of years of Top-Heavy Service or (ii) the lesser of 30% or 20% plus 1% for each year the Plan is taken into account under this subsection (a).

(b) If for a Plan Year this Plan would continue to be a Top-Heavy Plan if "90%" were substituted for "60%" in Section 20.8, then the denominator of both the defined contribution plan fraction and the defined benefit plan fraction shall be calculated as set forth in Section 21.3, for the limitation year ending in such Plan Year by substituting "1.0" for "1.25" in each place such figure appears. This subsection (b) will not apply for such Plan Year with respect to any individual for whom there are no (i) Company contributions, forfeitures or voluntary non-deductible contributions allocated to such individual or (ii) accruals for such individual under the defined benefit plan. Furthermore, the transitional rule set forth in Code Section 415(e)(6)(B)(i) shall be applied by substituting "Forty-One Thousand Five Hundred Dollars ($41,500)" for "Fifty-One Thousand Eight Hundred Seventy-Five Dollars ($51,875)" where it appears therein.

This Section 20.5 shall not be effective for Limitation Years beginning after December 31, 1999.

20.6 Coordination With Other Plans: In the event that another defined contribution or defined benefit plan maintained by a Considered Company provides contributions or benefits on

behalf of Members in this Plan, such other plan shall be treated as a part of this Plan pursuant to applicable principles prescribed by U.S. Treasury Regulations or applicable IRS rulings (such as Revenue Ruling 81-202 or any successor ruling) to determine whether this Plan satisfies the requirements of Sections 20.2, 20.3 and 20.4 and to avoid inappropriate omissions or inappropriate duplication of minimum contributions. Such determination shall be made upon the advice of counsel by the Committee. In the event a Member is covered by a defined benefit plan which is top-heavy pursuant to Section 416 of the Code, a comparability analysis (as prescribed by Revenue Ruling 81-202 or any successor ruling) shall be performed in order to establish that the plans are providing benefits at least equal to the defined benefit minimum.

20.7 Distributions to Certain Key Employees: Notwithstanding any other provision of this Plan to the contrary, the entire interest in this Plan of each Member who is a 5% owner (as described in Section 416(i)(A) of the Code determined with respect to the Plan Year ending in the calendar year in which such individual attains age 70 1/2) shall be distributed to such Member not later than the first day of April following the calendar year in which such individual attains age 70 1/2.

20.8 Determination of Top-Heavy Status: The Plan shall be a Top-Heavy Plan for any Plan Year if, as of the Determination Date, the present value of the cumulative Accrued Benefits under the Plan determined as of the Valuation Date for Members (including former Members) who are Key Employees exceeds 60% of the present value of the cumulative accrued benefits under the Plan for all Members (including former Members) or, if this Plan is required to be in an Aggregation Group, any such Plan Year in which such Group is a Top-Heavy Group.

In determining Top-Heavy status, if an individual has not performed one Hour of Service for any Considered Company at any time during the five-year period ending on the Determination Date, any Accrued Benefit for such individual and the aggregate accounts of such individual shall not be taken into account. The Accrued Benefit of any employee (other than a Key Employee) shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Aggregation Group or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Code Section 411(b)(1)(C).

For purposes of this Section, the capitalized words have the following meanings:

(a) "Aggregation Group" means the group of plans, if any, that includes both the group of plans that is required to be aggregated and the group of plans that is permitted to be aggregated. The group of plans that is required to be aggregated (the "required aggregation group") includes:

(i) Each plan of a Considered Company in which a Key Employee is a member, including collectively bargained plans; and

(ii) Each other plan, including collectively bargained plans, of a Considered Company which enables a plan in which a Key Employee is a member to meet the requirements of either Code Section 401(a)(4) or 410.

The group of plans that is permitted to be aggregated (the "permissive aggregation group") includes the required aggregation group and any plan that is not part of the required aggregation group that the Committee certifies as constituting a plan within the permissive aggregation group. Such plans may be added to the permissive aggregation group only if, after the addition, the aggregation group as a whole continues to meet the requirements of both Code Sections 401(a)(4) and 410.

(b) "Determination Date" means for any Plan Year the last day of the immediately preceding Plan Year or in the case of the first Plan Year of the Plan, Determination Date means the last day of such Plan Year.

(c) "Key Employee" as defined in Code Section 416(i)(1) means any Employee or former Employee who at any time during the Plan Year containing the Determination Date or the four preceding Plan Years, is or was (1) an officer of the Employer having annual compensation for such Plan Year which is in excess of 50% of the dollar limit in effect under Code Section 415(b)(1)(A) for the calendar year in which such Plan Year ends; (2) an owner for (or considered as owning within the meaning of Code Section 318) both more than an one-half percent interest as well as one of the ten largest interests in the Employer and having annual compensation greater than the dollar limit in effect under Code Section 415(c)(1)(A) for the year; (3) a 5% owner of the Employer; or (4) a 1% owner of the Employer who has annual compensation of more than $150,000. For purposes of determining 5% and 1% owners, neither the aggregation rules nor the rules of subsections (b), (c) and (m) of Code Section 414 apply. Beneficiaries of an Employee acquire the character of the Employee who performed service for the Employer. Also, inherited benefits will retain the character of the benefits of the Employee who performed services for the Employer.

(d) A "Non-Key Employee" means any employee (and any beneficiary of an employee) who is not a Key Employee.

(e) "Top-Heavy Group" means the Aggregation Group, if as of the applicable Determination Date, the sum of the present value of the cumulative Accrued Benefits for Key Employees under all defined benefit plans included in the Aggregation Group plus the aggregate of the accounts of Key Employees under all defined contribution plans included in the Aggregation Group exceeds 60% of the sum of the present value of the cumulative Accrued Benefits for all employees, excluding former Key Employees as provided in paragraph (i) below, under all such defined benefit plans plus the aggregate accounts for all employees, excluding former Key Employees as provided in paragraph (i) below, under all such defined contribution plans. In determining Top-Heavy status, if an individual has not performed one Hour of Service for any Considered Company at any time during the five-year period ending on the Determination Date, any Accrued Benefit for such individual and the aggregate accounts of such individual shall not be taken into account. If the Aggregation Group that is a Top-Heavy Group is a permissive aggregation group, only those plans that are part of the

required aggregation group will be treated as Top-Heavy Plans. If the Aggregation Group is not a Top-Heavy Group, no plan within such group will be a Top-Heavy Plan.

In determining whether this Plan constitutes a Top-Heavy Plan, the Committee (or its agent) will make the following adjustments in connection therewith:

(a) When more than one plan is aggregated, the Committee shall determine separately for each plan as of each plan's Determination Date the present value of the Accrued Benefits (for this purpose using the actuarial assumptions set forth in the applicable plan, and if such assumptions are not set forth in the applicable plan, using the assumptions set forth in this Plan) or account balance. The results shall then be aggregated by adding the results of each plan as of the Determination Dates for such plans that fall within the same calendar year.

(b) In determining the present value of the cumulative Accrued Benefit (for this purpose using the actuarial assumptions set forth in Section 1.3 hereof) or the amount of the account of any employee, such present value or account will include the amount in dollar value of the aggregate distributions made to such employee under the applicable plan during the five-year period ending on the Determination Date unless reflected in the value of the Accrued Benefit or account balance as of the most recent Valuation Date. The amounts will include distributions to employees which represented the entire amount credited to their accounts under the applicable plan.

(c) Further, in making such determination, such present value or such account shall include any rollover contribution (or similar transfer) as follows:

(i) If the rollover contribution (or similar transfer) is initiated by the employee and made to or from a plan maintained by a Considered Company, the plan providing the distribution shall include such distribution in the present value or such account; the plan accepting the distribution shall not include such distribution in the present value or such account unless the plan accepted it before December 31, 1983.

(ii) If the rollover contribution (or similar transfer) is not initiated by the employee or made from a plan maintained by a Considered Company, the plan accepting the distribution shall include such distribution in the present value or such account, whether the plan accepted the distribution before or after December 31, 1983; the plan making the distribution shall not include the distribution in the present value or such account.

(d) Further, in making such determination, in any case where an individual is a Non-Key Employee with respect to an applicable plan but was a

Key Employee with respect to such plan for any prior Plan Year, any Accrued Benefit and any account of such employee shall be altogether disregarded. For this purpose, to the extent that a Key Employee is deemed to be a Key Employee if he or she met the definition of Key Employee within any of the four preceding Plan Years, this provision shall apply following the end of such period of time.

(e) "Valuation Date" means for purposes for determining the present value of an Accrued Benefit as of the Determination Date the date determined as of the most recent valuation date which is within a 12-month period ending on the Determination Date. For the first plan year of a plan, the Accrued Benefit for a current employee shall be determined either as if the individual (i) terminated service as of the Determination Date or (ii) terminated service as of the Valuation Date, but taking into account the estimated Accrued Benefit as of the Determination Date. The Valuation Date shall be determined in accordance with the principles set forth in Q.&A. T-25 of Treasury Regulations Section 1.416-1.

(f) For purposes of this Article, "Compensation" shall have the meaning given to it in Section 21.4(e) of the Plan.

## ARTICLE XXI

## LIMITATION ON BENEFITS

Notwithstanding any provision of this Plan to the contrary, the total Annual Benefit received by an Employee shall be subject to the following limitations:

21.1 Single Defined Benefit Plan.

The normal retirement benefit of any Employee under this Plan cannot exceed the lesser of $90,000 (increased annually for Limitation Years beginning after December 31, 1987 in accordance with Section 415(d) of the Code to reflect cost-of-living adjustments) or 100% of such Employee's Average Compensation. For purposes of determining whether an Employee's benefits exceed these limitations, the following rules shall apply:

(a) Adjustment If Benefit Not Single Life Annuity

If the normal form of benefit is other than a Single Life Annuity, such form must be adjusted actuarially to the equivalent of a Single Life Annuity. This Single Life Annuity cannot exceed the maximum dollar or percent limitations outlined above. No adjustment is required for the following: qualified joint and survivor annuity benefits, pre-retirement disability benefits, pre-retirement death benefits and post-retirement medical benefits.

(b) Adjustment If Benefit Commences Before Social Security Retirement Age

If benefit distributions commence before Social Security Retirement Age, the actual retirement benefit cannot exceed the lesser of 100% of the Employee's Average Compensation or the adjusted dollar limitation. The adjusted dollar limitation is the Actuarial Equivalent of $90,000 commencing at Social Security Retirement Age.

(c) Adjustment If Benefit Commences After Social Security Retirement Age

If Plan benefits commence after Social Security Retirement Age, the dollar limitation shall be adjusted to the Actuarial Equivalent of $90,000 commencing at Social Security Retirement Age.

(d) Social Security Retirement Age Defined

"Social Security Retirement Age" as used herein shall mean the age used as the retirement age under Section 216(l) of the Social Security Act, except that such Section shall be applied without regard to the age increase factor and as if the early retirement age under Section 216(l)(2) of such Act were 62.

(e) Interest Assumption

The interest rate used for adjusting the maximum limitations above shall be:

(i) For benefits commencing before Social Security Retirement Age and for forms of benefit other than straight life annuity, the greater of:

A 5%; or

B the rate used to determine actuarial equivalence for other purposes of this Plan.

(ii) For benefits commencing after Social Security Retirement Age, the lesser of:

A 5%; or

B the rate used to determine actuarial equivalence for other purposes of this Plan.

(f) Reduction For Service Less Than 10 Years

In the case of an Employee who has less than 10 years of participation in a defined benefit plan of the Employer, the benefits shall not exceed the limit set forth in Article XXI above multiplied by a fraction, the numerator of which is the number of years (or part thereof) of participation in a defined benefit plan of the Employer and the denominator of which is 10.

(g) Adjustment For Small Benefits

In the case of an Employee whose Annual Benefit is not in excess of $10,000, the benefits payable with respect to such Employee under this Plan shall be deemed not to exceed the limitation of this Section if:

(i) The Annual Benefits payable with respect to such Employee under this Plan and all other defined benefit plans of the Employer do not exceed $10,000 for the Plan Year or for any prior Plan Year; and

(ii) The Employer has not at any time maintained a defined contribution plan in which the Employee participated.

(h) Protected Accrued Benefit

Notwithstanding anything in this Article XXI to the contrary, the maximum annual benefit for any Member in a defined benefit plan in existence on

July 1, 1982 shall not be less than the protected current Accrued Benefit, payable annually, as provided for under question T-3 of Internal Revenue Service Notice 83-10, 1983-1 C.B. 536. In the case of an individual who was a participant in one or more defined benefit plans of the Employer as of the first day of the first Limitation Year beginning after December 31, 1986, the application of the limitation of this Article XXI shall not cause the maximum permissible amount for such individual under all such defined benefit plans to be less than the individual's current Accrued Benefit. The preceding sentence applies only if such defined benefit plans met the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

21.2 Two or More Defined Benefit Plans

If the Employer maintains one or more defined benefit plans in addition to this Plan, the sum of the normal retirement benefits of all plans will be treated as a single benefit for the purposes of applying the limitations in Article XXI. If these benefits exceed, in the aggregate, the limitations in Article XXI, the normal retirement benefit under this Plan shall be reduced (but not below zero) until the sum of the benefits of the remaining plans satisfy the limitations.

21.3 Defined Contribution Plan and Defined Benefit Plan

(a) General Rule: Effective for Limitation Years beginning prior to January 1, 2000, if the Employer maintains (or has ever maintained) one or more defined contribution plans and one or more defined benefit plans, the sum of the "defined contribution plan fraction" and the "defined benefit plan fraction," as defined below, cannot exceed 1.0 for any Limitation Year. For purposes of this paragraph, employee contributions to a qualified defined benefit plan are treated as a separate defined contribution plan. For purposes of this paragraph, all defined contribution plans of an Employer are to be treated as one defined contribution plan and all defined benefit plans of an Employer are to be treated as one defined benefit plan, whether or not such plans have been terminated.

If the sum of the defined contribution plan fraction and defined benefit plan fraction exceeds 1.0, the Annual Benefit of this Plan and any other defined benefit plans of an Employer will be reduced so that the sum of the fractions will not exceed 1.0. In no event will the Annual Benefit be decreased below the amount of the Accrued Benefit to date. If additional reductions are required for the sum of the fractions to equal 1.0, the reductions will then be made to the Annual Additions of the defined contribution plans.

(b) Defined Contribution Plan Fraction

(i) General Rule: The defined contribution plan fraction for any year is (A) divided by (B), where:

A is the sum of the actual Annual Additions to the Employee's account at the close of the Limitation Year; and

B is the sum of the lesser of the following amounts determined for such year and for each prior year of service of the Employee:

A.1 1.25 times the dollar limitation in effect for each such year (without regard to the special dollar limitations for employee stock ownership plans); or

A.2 1.4 times 25% of the Employee's Compensation for each such year.

(ii) If the Employee was a participant as of the first day of the First Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the plans made after May 5, 1986, but using the Code Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

(c) Defined Benefit Plan Fraction

(i) General Rule: The defined benefit plan fraction for any year is A divided by B, where:

A is the projected Annual Benefit of the Employee under the Plan (determined as of the close of the Limitation Year); and

B is the lesser of:

A.1 1.25 times the dollar limitation (adjusted, if necessary) for such year; or

A.2 1.4 times 100% of the Employee's Average Compensation for the high three years (adjusted, if necessary).

(ii) Notwithstanding the above, if the Employee was a participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans

maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125% of the sum of the Annual Benefits under such plans which the Employee had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the plans after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Code Section 415 as in effect for all Limitation Years beginning before January 1, 1987.

(d) Termination of Section 21.3 - From and after January 1, 2000, the provisions of this Section 21.3 shall no longer apply.

21.4 Definitions

(a) Employer: The Company and any other Employer that adopts this Plan. In the case of a group of employers which constitutes a controlled group of corporations (as defined in Code Section 414(b) as modified by Code Section 415(h)) or which constitutes trades and businesses (whether or not incorporated) which are under common control (as defined in Code Section 414(c) as modified by Code Section 415(h)) or an affiliated service group (as defined in Code Section 414(m)), all such employers shall be considered a single Employer for purposes of applying the limitations of this Section.

(b) Excess Amount: The excess of the Employee's Annual Additions for the Limitation Year over the Maximum Permissible Amount.

(c) Limitation Year: A 12 consecutive month period ending on December 31.

(d) Maximum Permissible Amount: For a Limitation Year, the Maximum Permissible Amount with respect to any Employee shall be the lesser of:

(i) $30,000 (increased annually for Limitation Years beginning after December 31, 1987 in accordance with Section 415(d) of the Code to reflect cost-of-living adjustments); or

(ii) 25% of the Employee's Compensation for the Limitation Year.

(e) Compensation: For purposes of determining compliance with the limitations of Code Section 415, Compensation shall mean an Employee's earned income, wages, salaries, fees for professional services and other amounts received for personal services actually rendered in the course of employment with an Employer maintaining the Plan, including, but not limited to, commissions paid to salesmen, compensation for services based on a percentage of profits,

commissions on insurance premiums, tips and bonuses, and excluding the following:

(i) Employer contributions to a plan of deferred compensation to the extent contributions are not included in gross income of the Employee for the taxable year in which contributed, or on behalf of an Employee to a simplified employee pension plan to the extent such contributions are deductible under Code Section 219(b)(2), and any distributions from a plan of deferred compensation whether or not includable in the gross income of the Employee when distributed (however, any amounts received by an Employee pursuant to an unfunded non-qualified plan may be considered as Compensation in the year such amounts are included in the gross income of the Employee);

(ii) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by an Employee becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(iii) amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(iv) other amounts which receive special tax benefits, or contributions made by an Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity contract described under Code Section 403(b) (whether or not the contributions are excludable from the gross income of the Employee).

For purposes of applying the limitations in this Article, amounts included as Compensation are those actually paid or made available to an Employee within the Limitation Year. For Limitation Years beginning after December 31, 1998, Compensation shall be limited to $160,000 (unless adjusted in the same manner as permitted under Code Section 415(d)). Notwithstanding anything to the contrary in the definition, Compensation shall include any and all items which may be includable in Compensation under Section 415(c)(3) of the Code.

(f) Average Compensation: The average Compensation during an Employee's high three years of service, which period is the three consecutive calendar years (or, the actual number of consecutive years of employment for those Employees who are employed for less than three consecutive years with the Employer) during which the Employee had the greatest aggregate Compensation from the Employer.

(g) Annual Benefit: A benefit payable annually in the form of a straight life annuity (with no ancillary benefits) under a plan to which Employees do not contribute and under which no rollover contributions are made.

(h) Annual Additions: With respect to each Limitation Year, the total of the employer contributions, employee contributions, forfeitures, and amounts described in Code Sections 415(l) and 419A(d)(2) which are allocated on behalf of an Employee.

ARTICLE XXII

CERTAIN WELFARE BENEFITS FOR
ELIGIBLE RETIRED EMPLOYEES AND THEIR DEPENDENTS

This Article XXII provides for the payment of Welfare Benefits to Eligible Retirees and to Eligible Dependents as provided below. The Welfare Benefits are intended to meet the requirements of Section 401(h) of the Code and the regulations thereunder.

22.1 Definitions: For purposes of this Article XXII, the following terms shall have the meanings set forth below and shall, with respect to this Article XXII, supersede any other definitions of the same terms which appear in any other Article of the Plan. Capitalized terms not defined in this Section 22.1 shall have the meanings assigned to them in Article I of the Plan.

(a) "Eligible Dependent" means an individual who is covered under any Welfare Benefit Program as a spouse or dependent of an Eligible Retiree.

(b) "Eligible Retiree" means any individual who is covered under any Welfare Benefit Program as a "Retired Person" (as such term is defined in the applicable Welfare Benefit Program) and who meets the following conditions:

(i) the individual was employed by HL&P on his or her Retirement Date;

(ii) the individual's entitlement to Welfare Benefit Program benefits as a Retired Person is not a consequence of good faith bargaining between employee representatives and one or more employers;

(iii) the individual was not a Key Employee at any time during any Plan Year during which contributions were made to the Welfare Benefits Account on his behalf;

(iv) the individual, if employed by HL&P on December 1, 1995, will not have attained age 60 as of January 1, 1996; and

(v) the individual meets all requirements for participation in the applicable Welfare Benefit Program, including the payment of any required contributions.

(c) "HL&P" means Houston Lighting & Power Company, a Texas corporation, or any successor thereto.

(d) "Key Employee" means a Key Employee within the meaning of Section 416(i) of the Code.

(e) "Welfare Benefits" means payment of benefits under this Article XXII pursuant to the terms of any Welfare Benefit Program, whether directly or through the payment of insurance premiums for such benefits.

(f) "Welfare Benefits Account" means the account established pursuant to Section 22.4.

(g) "Welfare Benefit Programs" means the Reliant Energy, Incorporated Medical Plan, as amended and restated effective January 1, 1999 and as thereafter amended from time to time and the Reliant Energy, Incorporated Dental Plan, as amended and restated effective January 1, 1999 and as thereafter amended from time to time.

22.2 Payment of Welfare Benefits: Welfare Benefits shall be paid from the Welfare Benefits Account to or on behalf of Eligible Retirees and Eligible Dependents in accordance with the terms and conditions, and subject to the limitations, of the Welfare Benefit Program(s) under which they are eligible to receive benefits. The applicable provisions of each of the Welfare Benefit Programs are incorporated in this document by reference, and all references in this Article XXII to the Welfare Benefit Programs shall be interpreted to mean the applicable provisions of all such programs as incorporated by reference.

Welfare Benefits shall be paid under this Article XXII only to the extent that there are sufficient funds to provide such benefits available in the Welfare Benefits Account. In no event shall any benefits be paid under this Article XXII to the extent the same benefits are paid directly by HL&P or any other plan, program or arrangement.

22.3 Effect of This Article on the Welfare Benefit Programs: The Committee may amend, suspend or terminate the Welfare Benefit Programs in accordance with their terms at any time, including without limitation, changing the class of Eligible Retirees and Eligible Dependents eligible for benefits thereunder, the types of benefits covered, the level of payment to providers or reimbursement to Eligible Retirees and Eligible Dependents, and the contributions required of Eligible Retirees and Eligible Dependents. The addition of this Article XXII to the Plan shall not in any way affect the ability to amend, suspend or terminate the Welfare Benefit Programs. In the event of any amendment, suspension or termination of either of the Welfare Benefit Programs, covered services and expenses incurred prior to the effective date of the amendment, suspension or termination shall be payable under Section 22.2 without regard to such amendment, suspension or termination.

22.4 Establishment of Welfare Benefits Account: A separate Welfare Benefits Account shall be established and maintained with respect to contributions made to the Plan to fund the Welfare Benefits. Such account shall be for recordkeeping purposes only and the Trustee need not separately invest the assets of the Welfare Benefits Account from other Plan funds unless instructed to do so by the Committee. If the Welfare Benefits Account is not separately invested from other Plan funds, a proportionate share of the gain and loss for the entire Trust Fund shall be allocated to the Welfare Benefits Account annually as specified by the Committee. The establishment of the Welfare Benefits Account shall not obligate HL&P to maintain any specific level of funding in such account.

22.5 Contributions to the Welfare Benefits Account: HL&P shall contribute to the Welfare Benefits Account in such amounts and at such times as it may determine. Welfare Benefits shall be subordinate to the pension benefits provided under the other Articles of this Plan, in that the aggregate contributions to the Welfare Benefits Account, when added to any amounts contributed to the Plan with respect to death benefits provided under the Plan, shall not at any time exceed 25% of the total contributions made to the Plan on or after December 1, 1995 (other than contributions to fund past Service credits) for all benefits under the Plan. All contributions to the Welfare Benefits Account shall be so designated when paid to the Trustee, who shall hold such contributions in trust for the payment of Welfare Benefits.

22.6 Forfeiture: In the event an individual's interest in the Welfare Benefits Account is forfeited prior to (a) the termination of the Plan, (b) elimination of the obligation to provide Welfare Benefits hereunder or (c) termination of all of the Welfare Benefit Programs (as further described in Section 22.7), an amount equal to the amount of such forfeiture shall be applied as soon as practicable thereafter to reduce HL&P's future contributions to the Welfare Benefits Account.

22.7 Expenses: All reasonable expenses of administering the Welfare Benefits Account, including, but not limited to, reasonable expenses and compensation of the Trustee, attorneys, auditors, investment advisors, investment managers, actuaries and other consultants, shall be paid out of the Trust Fund at the direction of the Committee, unless the amount of such expenses and compensation shall be paid by HL&P.

22.8 Non-Diversion of Welfare Benefit Account Assets: Plan assets allocated to the Welfare Benefits Account may not be used for, or diverted to, any purpose (including the payment of pension benefits) other than payment of Welfare Benefits and expenses as described in Section 22.7 prior to the satisfaction of all liabilities under this Article XXII to provide for the payment of Welfare Benefits. In this regard, if (a) the Plan is terminated, (b) the requirement that Welfare Benefits be provided under this Article XXII is eliminated by amendment, or (c) the Welfare Benefit Programs are all terminated, Welfare Benefits payable with respect to periods occurring prior to such amendment or termination shall continue to be payable under this Article XXII to the extent then funded. Any amounts remaining in the Welfare Benefits Account after the satisfaction of all liabilities for such Welfare Benefits shall be returned to HL&P.

22.9 Amendment or Termination of Welfare Benefits: The Company may amend or terminate this Article XXII in whole or in part at any time. The Committee may, at any time and from time to time to the extent that it may deem advisable, (a) amend any provision of this Article XXII for any changes required by applicable law or by the Internal Revenue Service to maintain the qualified status of the Plan or compliance of this Article XXII with the requirements of Code Section 401(h) and the regulations thereunder and (b) amend the administrative provisions of this Article XXII for any reason.

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officers and its seal to be hereunto affixed in a number of copies each of which shall be deemed an original but all of which shall constitute but one and the same instrument, this 29th day of December, 1999, but effective as of January 1, 1999.

RELIANT ENERGY, INCORPORATED

By /s/ LEE W. HOGAN
---
Lee W. Hogan, Chairman of the Benefits Committee

ATTEST:

/s/ LYNNE HARKEL-RUMFORD
- ---
Lynne Harkel-Rumford,
Secretary of the Benefits Committee

APPENDIX A

This Appendix A forms part of the Reliant Energy, Incorporated Retirement Plan (the "Plan"), amended and restated effective January 1, 1999. Terms used in this Appendix A shall have the meanings provided in the Plan, unless the context clearly indicates otherwise. The provisions of this Appendix A shall apply to certain NorAm Members and Minnegasco Members, as detailed below.

A.1 NorAm Members: In addition to the optional forms of payment provided in Section 11.4 of the Plan, the following additional optional forms of benefit are available with respect to the Member's NorAm Pension. For purposes of this Section A.1, Spouse means the individual to whom the NorAm Member is legally married under the laws of the State (within the meaning of Section 3(10) of ERISA) in which he is domiciled, or if he is domiciled outside the United States, under the laws of the State of Texas.

(A) Joint and 66 2/3% Survivor Annuity: A NorAm Member may elect a monthly annuity payable to the NorAm Member during the joint lifetime of the Member and the Member's Spouse, and after the death of either of them, a monthly survivor annuity for the life of the survivor of them which is equal to 66 2/3% of the amount of the monthly annuity payable during the joint lives of the NorAm Member and the Spouse.

(B) Straight-Life Annuity with Guaranteed Payments: In the event that a NorAm Member elects Option 2 under Section 11.4, then with respect to his or her NorAm Pension, if the NorAm Member dies leaving no Beneficiaries surviving him, then remaining monthly payment will be converted into an Actuarial Equivalent lump sum payment and paid to the NorAm Member's surviving spouse or, if he has no surviving spouse, equally to his surviving children, and if he has no surviving spouse or children, to his estate.

A.2 Minnegasco Members: In addition to the optional forms of payment provided in Section 11.4 of the Plan, the following additional optional forms of benefit are available with respect to the Minnegasco Pension for a Minnegasco Member who was also a "Midwest Employee" within the meaning of Section 15.6 of the Minnegasco Plan.

(A) Five-Year Certain and Life Annuity: The benefit provided in Option 1 under Section 11.4(a) of the Plan, provided, however, that the Member may elect a period certain of five years.

(B) Joint Annuity with Guaranteed Five-Year Payment Period: The benefit provided in Option 2 under Section 11.4(a) of the Plan, provided, however, that the Member may elect such benefit with a five-year period certain such that, in the event the Member dies before payments have been made for a five-year period, then payments shall continue at the level of the Member's payment for the balance of such period, at which point the reduced payment, if applicable, payable to the Beneficiary shall commence.

(C) Level Income Option:

(1) The Actuarial Equivalent of the Single Life Annuity otherwise payable for the life of the Member with monthly payments during the Member's life, provided that the amount of such monthly payment shall be adjusted to reflect that the Member receives a Primary Social Security Benefit at Social Security Retirement Age or such earlier age as the Member elects to receive a Primary Social Security Benefit so that the sum of the monthly payment hereunder plus the monthly payment of the Member's Primary Social Security Benefit approximately equals the amount of monthly pension payment hereunder prior to such adjustment.

(2) For purposes of the Level Income Option provided pursuant to this Section A.2(C), the following words and phrases shall have the respective meanings set forth below:

(a) Old Age Insurance Benefit shall have the meaning ascribed to it in the federal Social Security Act as amended and in effect on the affected Member's date of death, termination of Service, or on his Normal Retirement Date if earlier, as the case may be.

(b) Primary Social Security Benefit means the amount of annual benefit which a Member would be entitled to receive as such Member's Old Age Insurance Benefit assuming that such Member has made or will make the appropriate application to receive such benefit as soon as eligible therefor, and that no event occurs to delay or forfeit any part of such benefit. If the Member is eligible for an early retirement benefit as set forth in the Minnegasco Plan, then the Primary Social Security Benefit shall be determined as if the Member receives no further Compensation. In all other situations, the Primary Social Security Benefit may be calculated by estimating future Compensation history using the last rate of Compensation from the Employer.

(c) Social Security Retirement Age means age 65 for Members born before 1938, age 66 for Members born after 1937 and prior to 1955, and age 67 for Members born after 1954.

APPENDIX B

This Appendix B forms part of the Reliant Energy, Incorporated Retirement Plan (the "Plan"), amended and restated effective January 1, 1999. Terms used in this Appendix B shall have the meanings provided in the Plan, unless the context clearly indicates otherwise. The provisions of this Appendix B shall apply to NorAm Members whose Accrued Pension consists in part of an Employee Derived Accrued Benefit.

B.1 Definitions:

(A) Employee Derived Accrued Benefit means the portion of the NorAm Member's Accrued Pension equal to his "accumulated contributions" as defined in Code Section 411(c)(2)(C) expressed as an annual benefit commencing at age 65 using the "Applicable Interest Rate," as defined in the NorAm Plan, and actuarially adjusted in the manner required under Code Section 411(c)(3) for benefits payable as an amount other than an annual benefit commencing at age 65 or other than an annual benefit in the form of a Single Life Annuity (without ancillary benefits) commencing at age 65.

(B) Entex Participant is defined in the NorAm Plan.

B.2 Distribution of Employee Derived Accrued Benefit: An Entex Participant who is entitled to receive a vested Pension under Section 5.1 of the Plan may elect, no later than 45 days after receipt of a written explanation of his payment options, to receive an immediate lump-sum payment in an amount equal to the Member's Employee Derived Accrued Benefit, without regard to whether such Member elects an immediate lump-sum payment of the rest of his Pension. In lieu of such lump-sum payment, the Member may elect to receive an immediate annuity paid in the normal form that is the Actuarial Equivalent of such lump-sum payment. If an Entex Participant elects to receive a benefit under this subsection, the Member's Pension will be reduced by the Actuarial Equivalent of the benefit paid hereunder. An Entex Participant's elections under this subsection are subject to the consent requirements of Section 11.3 of the Plan.

EXHIBIT 10(u)(11)

RELIANT ENERGY, INCORPORATED
RETIREMENT PLAN

(As Amended and Restated Effective January 1, 1999)

First Amendment

The Benefits Committee of Reliant Energy, Incorporated, having reserved the right under Section 15.1 of the Reliant Energy, Incorporated Retirement Plan, as amended and restated effective January 1, 1999 (the "Plan"), to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of January 1, 1995, new Section 21.5 is hereby added to the Plan to read as follows:

"21.5 GATT Code Section 415(b)(2)(E) Transition Rule.

(a) Effective as of January 1, 1995, the Plan is amended to comply with Code Section 415(b)(2)(E), as amended by the Retirement Protection Act of 1994 under the General Agreement on Tariffs and Trades, as amended (`GATT'), but applied as provided in this Section 21.5 prior to January 1, 2000, in accordance with the transition rule under Rev. Rul. 98-1, 1998-2 I.R.B. 5, 98-1 C.B. 249, as described in this Section 21.5.

(b) In the case of a Member as of January 1, 1995, the application of the limitations under Article XXI of the Plan shall not cause the maximum permissible amount for such Member under the Plan to be less than the Member's Accrued Benefit as of December 31, 1999 (the `Freeze Date'), as determined for each possible annuity starting date and optional form of benefit as of such Freeze Date after applying Section 415(b) of the Code as in effect on December 7, 1994, including the participation requirements of Code Section 415(b)(5) (`Old Law Benefit'). A Member's Old Law Benefit shall not increase, but may decrease, after the Freeze Date. Any amendment changing the actuarial assumptions under Section 21.1 of the Plan that is adopted and effective prior to the Freeze Date shall be included when determining a Member's benefit accrued as of the Freeze Date. In applying the Code Section 415(b) limitation in determining a Member's Accrued Benefit, if the Member has an Old Law Benefit, such benefit will be determined using `Method 2' under Rev. Rul. 98-1, Q&A 14. The applicable interest rate and mortality table used to determine the annual benefit that is equivalent to the Old Law Benefit shall be based on (i) the Plan provisions as in effect on December 7, 1994, if the determination is being made

before January 1, 2000 (the `Final Implementation Date'), and (ii) Plan provisions as in effect on such date of determination if the determination is being made on or after the Final Implementation Date."

2. Effective as of January 1, 1999, the second sentence of the first paragraph and the second paragraph of Article II of the Plan are hereby amended to read as follows:

"Each other Employee who is not (i) a `leased employee' (as defined in Section 414(n)(2) of the Code, subject to Code Section 414(n)(5)), (ii) designated, compensated, or otherwise classified or treated as an independent contractor or a leased employee by an Employer or an Affiliate, or (iii) a non-resident alien who receives no United States source earned income from the Employer shall participate in the Plan on the later of January 1, 1999, or the date on which the Employee completes one hour of service in accordance with Section 3.2.

Leased employees, including leased employees as defined in Code Section 414(n)(2), subject to Code Section 414(n)(5), and any other person performing services pursuant to an arrangement between an Employer or an Affiliate and a third party, are not eligible to participate in the Plan."

3. Effective as of January 1, 1999, the parenthetical phrase in the fourth line of Section 1.16 of the Plan is hereby amended to add the word "cash" after the word "including" and before the word "bonuses" in such parenthetical phrase.

4. Effective as of January 1, 1999, Section 5.1 of the Plan is hereby amended to add the following new sentence to the end thereof:

"The foregoing to the contrary notwithstanding, in the event of termination of Service due to the death of a Member, Minnegasco Member or NorAm Member, such Member, Minnegasco Member or NorAm Member shall be fully vested in his Pension as of his date of death."

5. Effective as of January 1, 1999, Section 19.4 of the Plan is hereby amended to add the following new sentence to the end thereof:

"If the Committee receives a qualified domestic relations order with respect to a Member, the amount assigned to the Member's former spouse may be immediately distributed, to the extent permitted by law, from the vested portion of the benefit payable to the Member."

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, Incorporated has caused these presents to be executed by its duly authorized Chairman 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 6th day of September, 2000, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By: /s/ DAVID MCCLANAHAN
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David McClanahan, Chairman

ATTEST:

/s/ LYNNE HARKEL-RUMFORD
---
Lynne Harkel-Rumford, Secretary

EXHIBIT 10(u)(12)

RELIANT ENERGY, INCORPORATED
RETIREMENT PLAN

(As Amended and Restated Effective January 1, 1999)

Second Amendment

The Benefits Committee of Reliant Energy, Incorporated, having reserved the right under Section 15.1 of the Reliant Energy, Incorporated Retirement Plan, as amended and restated effective January 1, 1999 (the "Plan"), to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of January 1, 1999, the first sentence of Section 1.21 is hereby amended to read as follows:

"Any person employed by an Employer, and including (i) any individual on Disability Leave of Absence and (ii) any Leased Employee performing services for an Employer."

2. Effective as of January 1, 1999, the following new definition of "Hour of Service" is hereby added as Section 1.25 of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.25 Hour of Service: For purposes of Section 11.7:

(a) An Hour of Service shall be credited to an Employee for each hour for which an Employee is directly paid, or entitled to payment, by the Employer or an Affiliate for the performance of duties during the applicable computation period. Such hours shall be credited to the Employee for the computation period or periods in which the duties were performed.

(b) An Hour of Service shall be credited to an Employee for each hour for which back pay, irrespective of mitigation of damages, has been either awarded or agreed to by the Employer or an Affiliate. These hours shall be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement, or payment is made. Hours of Service shall not be credited to an Employee under both paragraphs (a) and (b) of this Section.

(c) In addition to Hours of Service credited in paragraphs (a) and (b) of this Section, an Hour of Service shall be credited to an Employee for each hour for which such Employee is directly or indirectly paid, or entitled to such payment by the Employer or an Affiliate for reasons (such as vacation or sickness) other than for the performance of duties during the applicable computation period. For purposes of this paragraph (c), irrespective of whether such hours have accrued in other computation periods, such hours shall be counted in the computation period in which either payment is actually made or amounts payable to the Employee come due. For purposes of this paragraph (c), Hours of Service shall be determined by dividing the payments received or due for reasons other than the performance of duties by the lesser of (i) the Employee's most recent hourly rate of compensation for the performance of duties or (ii) the Employee's average hourly rate of compensation for the performance of duties for the most recent computation period in which the Employee completed more than 500 Hours of Service.

(d) The number of Hours of Service to be credited to an Employee shall be determined in accordance with Department of Labor Regulation Sections 2530.200b-2(b) and (c) (Title 29 Code of Federal Regulations Part 2530). Hours of Service shall also include any hours required to be credited by federal law other than the ERISA or the Code, but only under the conditions and to the extent so required by such federal law.

(e) Hours of Service will be credited for employment with other members of an affiliated service group (under Section 414(m)), a controlled group of corporations (under Section 414(b)), or a group of trades or businesses under common control (under Section 414(c)), of which the adopting Employer is a member."

3. Effective as of January 1, 1999, the following new definition of "Leased Employee" is hereby added as Section 1.28 (prior to the redesignation in Paragraph 2 herein) of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.28 Leased Employee: Each person who is not an employee of the Employer or an Affiliate but who performs services for the Employer or an Affiliate pursuant to a leasing agreement (oral or written) between the Employer or an Affiliate and any leasing organization, provided that such person has performed such services for the Employer or an Affiliate or for related persons (within the meaning of Section 144(a)(3) of the Code) on a substantially full-time basis for a period of at least one year and such services are performed under primary direction or control by the Employer or an Affiliate. The term 'Leased

Employee' shall also include any individual who is deemed to be an employee of the Employer under Section 414(o) of the Code. Notwithstanding the preceding sentences, if individuals described in the preceding sentences constitute less than 20% of the Employer's nonhighly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the Plan shall not treat an individual as a Leased Employee if the leasing organization covers the individual in a money purchase pension plan providing immediate participation, full and immediate vesting and a nonintegrated contribution formula equal to at least 10% of the individual's annual compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the individual's gross income under Section 125, 402(a)(8), 402(h) or 403(b) of the Code. If any Leased Employee shall be treated as an Employee of the Employer, however, contributions or benefits provided by the leasing organization which are attributable to services of the Leased Employee performed for the Employer shall be treated as provided by the Employer."

4. Effective as of January 1, 1999, the first sentence of Section 5.1 of the Plan is hereby amended to read as follows:

"A Member shall be fully vested in his Pension upon completion of five years of Vesting Service, or, if earlier, upon the later of (a) the attainment of age 65 or (b) the fifth anniversary of the date he commenced participation in the Plan."

5. Effective as of May 26, 2000, the following new clause (4) is hereby added to Section 7.6(b) of the Plan:

"(iv) Prior Plan Early Retirement Factors Effective on and after May 26, 2000 - Notwithstanding anything to the contrary in this Section 7.6, effective from and after May 26, 2000, with respect to the calculation of a Member's benefit under clause (1), (2) or (3) of this Section 7.6(b) that requires the application of the "Early Retirement Factors" set forth in Section 9.2(d) of the Prior Plan, the following factors shall be applied in lieu thereof:

| Age | Early Retirement Factor |
|---|---|
| 55 | 79% |
| 56 | 84% |
| 57 | 89% |
| 58 | 93% |
| 59 | 97% |
| 60 | 100%" |

6. Effective as of January 1, 1999, Section 8.2 of the Plan is hereby amended in its entirety to read as follows:

"8.2 Early Retirement: A Member who retires on or before his Early Retirement Date and has met the age and service requirements to receive a Grandfathered Benefit under the Prior Plan pursuant to Section 7.6 or an early retirement benefit under the NorAm Plan or the Minnegasco Plan, shall be eligible to receive a Pension commencing on his Annuity Starting Date."

7. Effective as of January 1, 2000, Section 9.2(c) of the Plan is hereby amended to read as follows:

"(c) Notwithstanding any provision herein to the contrary, if the Actuarial Equivalent value of a Death Benefit payable on behalf of a Member does not exceed Five Thousand Dollars ($5,000), then such Death Benefit shall be paid to the Spouse or other Beneficiary, as applicable, in a cash lump sum as soon as administratively practicable after the Member's death."

8. Effective as of January 1, 1999, the following new sentence is hereby added immediately following the second sentence in Section 11.1(b) of the Plan:

"If a Member's Required Beginning Date is later than the April 1 following the end of the calendar year in which such Member attains age 70 1/2, then such Member's Pension shall be actuarially adjusted to take into account the period after age 70 1/2 in which he is not receiving his Pension, in accordance with Code Section 401(a)(9)(C)(iii) and applicable Internal Revenue Service guidance addressing the same."

9. Effective as of January 1, 2000, the phrase ", and did not exceed at the time of any previous distribution," in the first and second sentences in Section 11.6 of the Plan is hereby deleted.

10. Effective as of January 1, 1999, each use of the term "hours of Service" in Section 11.7(a) is hereby deleted and the term "Hours of Service" is hereby substituted therefor.

11. Effective as of January 1, 2000, the phrase ", and did not exceed at the time of a previous distribution," in Section 11.10 of the Plan is hereby deleted.

12. Effective as of January 1, 2000, the phrase ", and did not exceed at the time of a previous distribution," in the second paragraph of Section 17.7 of the Plan is hereby deleted.

13. Effective as of January 1, 1995, Section 21.1(b) is hereby amended in its entirety to read as follows:

"(b) Adjustment If Benefit Commences Before Social Security Retirement Age

If benefit distributions commence before a Member's Social Security Retirement Age, the actual retirement benefit shall not exceed the lesser of 100% of the Employee's Average Compensation or the $90,000 dollar limitation (as adjusted in accordance with Code Section 415(d) to reflect cost-of-adjustments) ("Dollar Limitation") adjusted as follows:

(i) For benefits commencing on or after age 62, but before Social Security Retirement Age, the Dollar Limitation is reduced by 5/9ths of 1% for each of the first 36 months and by 5/12ths of 1% for each of the additional months (up to 24 months) by which the benefit distributions commence before the month in which the Member attains Social Security Retirement Age; and

(ii) For benefits commencing before age 62, the Dollar Limitation is the Actuarial Equivalent of the Dollar Limitation beginning at age 62, as determined in clause (i) above, reduced for each month by which the benefit distributions commence before the month in which the Member attains age 62."

14. Effective as of January 1, 1995, Section 21.1(c) is hereby amended in its entirety to read as follows:

"(c) Adjustment If Benefit Commences After Social Security Retirement Age

If Plan benefits commence after a Member's Social Security Retirement Age, the Dollar Limitation (as defined in subsection (b) above) shall be adjusted to the Actuarial Equivalent of the Dollar Limitation beginning at the Member's Social Security Retirement Age."

15. Effective as of January 1, 1999, the Plan is hereby amended by adding new Appendix C, with such Appendix C attached hereto as Exhibit 1 to this Second Amendment.

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, Incorporated has caused these presents to be executed by its duly authorized Chairman 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 20th day of August, 2002, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By /s/ DAVID MCCLANAHAN
---
David McClanahan, Chairman

ATTEST:

/s/ LYNNE HARKEL-RUMFORD
- ---
Lynne Harkel-Rumford, Secretary

EXHIBIT 10(u)(13)

RELIANT ENERGY, INCORPORATED
RETIREMENT PLAN

(As Amended and Restated Effective January 1, 1999)

Third Amendment

Reliant Energy, Incorporated, having reserved the right under Section 15.1 of the Reliant Energy, Incorporated Retirement Plan, as amended and restated effective January 1, 1999 (the "Plan"), to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of March 1, 2001, the following new definition of "Distribution" is hereby added as Section 1.19 of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.19 Distribution: The distribution by the Company to the holders of its common stock of all of the shares of the common stock of Reliant Resources, Inc. it then owns."

2. Effective as of March 1, 2001, the following new definition of "Distribution Date" is hereby added as Section 1.20 of the Plan (prior to the redesignation in Paragraph 1 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.20 Distribution Date: The earlier of (i) the date of the Distribution or (ii) the date the Board of Directors of the Company affirmatively elects not to proceed with the Distribution."

3. Effective as of March 1, 2001, the following new definition of "GPU Protected Employee" is hereby added as Section 1.25 of the Plan (prior to the redesignations in Paragraphs 1 and 2 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.25 GPU Protected Employee: An Employee who is entitled to certain retiree welfare benefits under Schedule 6.10(h) of the applicable Purchase and Sale Agreement, dated as of October 29, 1998, as amended by amendments 1 through 9, between (i) Pennsylvania Electric Company, as Seller, and Sithe Energies, Inc., as Buyer, (ii) Jersey Central Power & Light Company and Metropolitan Edison Company, as Sellers, and GPU, Inc. and Sithe Energies, Inc., as Buyer, (iii) Jersey Central Power & Light Company, as Seller, and Sithe

Energies, Inc., as Buyer or (iv) Metropolitan Edison Company, as Seller, and Sithe Energies, Inc., as Buyer."

4. Effective as of March 1, 2001, the following new definition of "Resources Group" is hereby added as Section 1.51 of the Plan (prior to the redesignations in Paragraphs 1, 2 and 3 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.51 Resources Group: Reliant Resources, Inc., a Delaware corporation, or a successor to Reliant Resources, Inc. in the ownership of substantially all of its assets, and its subsidiaries that have adopted this Plan, and Reliant Energy Tegco, Inc., or its successor."

5. Effective as of March 1, 2001, the following new definition of "Resources Group Employee" is hereby added as Section 1.52 of the Plan (prior to the redesignations in Paragraphs 1, 2, 3 and 4 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.52 Resources Group Employee: An Employee of an Employer that is included within the Resources Group."

6. Effective as of March 1, 2001, the following new definition of "Resources IPO" is hereby added as Section 1.50 of the Plan (prior to the redesignations in Paragraphs 1, 2, 3, 4 and 5 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.50 Resources IPO: The initial public offering of shares of common stock of Reliant Resources, Inc., a Delaware corporation, pursuant to a registration statement on Form S-1 filed pursuant to the Securities Act of 1933, as amended."

7. Effective as of March 1, 2001, the following new definition of "Transfer Period" is hereby added as Section 1.58 of the Plan (prior to the redesignations in Paragraphs 1, 2, 3, 4, 5 and 6 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.58 Transfer Period: The period commencing after March 1, 2001 and ending on the Distribution Date."

8. Effective as of March 1, 2001, Section 5.1 of the Plan is hereby amended to add the following new sentence to the end thereof:

"The foregoing to the contrary notwithstanding, a Member (i) who is a Resources Group Employee as of March 1, 2001, or who becomes a Resources Group Employee during the Transfer Period, and (ii) whose employment is not covered by a collective bargaining agreement, shall be fully vested in his Pension, regardless of whether he has completed five (5) years of Vesting Service, as of the applicable date described in clause (i) above; provided, however, that if such Member becomes a Resources Group Employee during the Transfer Period, such Member was continuously employed by an Employer at all times from March 1, 2001 through the date immediately preceding such transfer date."

9. Effective as of March 1, 2001, Section 7.6 of the Plan is hereby amended to add the following new subsection (d) thereto:

"(d) Eligibility for Certain Resources Group Employees: If a Member who is eligible for the benefit under this Section 7.6 becomes a Resources Group Employee as of March 1, 2001 or during the Transfer Period, but is not eligible for the Transition Benefit in Section 7.8 of the Plan, is subsequently reemployed by an Employer prior to December 31, 2002, then such Member shall again be eligible for the benefit under this Section 7.6 as of his reemployment date as an Employee if he satisfies the following requirements:

(1) the Member was eligible for the benefit under this Section 7.6 immediately prior to becoming a Resources Group Employee and, after becoming such an employee, was continuously a Resources Group Employee at all times prior to his reemployment date; and

(2) if the Member received a lump-sum distribution of his Accrued Pension, the Member repays such distribution to the Trust Fund in accordance with Section 4.2 of the Plan.

The foregoing notwithstanding, such Member's employment as a Resources Group Employee during the period commencing on and after the later of March 1, 2001 or the date he became a Resources Group Employee and ending immediately prior to his reemployment date by an Employer shall not be considered or treated as Service for Accrued Benefit purposes for the Grandfathered Benefit under this Section."

10. Effective as of March 1, 2001, Article VII of the Plan is hereby amended to add the following new Section 7.8:

"7.8 Transition Benefit: A Transition Benefit shall be calculated under this Section 7.8 with respect to each Member who meets the eligibility

requirements set forth in this Section. Except as otherwise provided in this Section, the Transition Benefit shall be equal to the sum of the amount, if any, determined under subsection (a) of this Section, hereinafter referred to as the "Base Transition Benefit Amount," and the amount, if any, determined under subsection (b) of this Section, hereinafter referred to as the "Additional Transition Benefit Amount," subject to a Member satisfying the separate eligibility requirements for each such amount as described herein. Any Transition Benefit shall be credited to an eligible Member's Cash Balance Account, shall be vested as provided in subsection (d) of this Section, and shall be distributable as provided in subsection (e) of this Section.

(a) Base Transition Benefit Amount: A Member who meets the eligibility requirements in clause (1) below shall be entitled to a Base Transition Benefit Amount as calculated in clause (2) below.

(1) Eligibility for Base Transition Benefit Amount: A Member shall be eligible for a Base Transition Benefit Amount, with each such eligible Member hereinafter referred to as a "BTB Eligible Member," if such Member meets each and all of the following requirements:

(i) as of December 31, 2000, the Member was (a) an Employee who was an active Member or was a Member on Authorized Absence, (b) age 42 or older with five (5) or more years of Vesting Service and (c) eligible for the Grandfathered Benefit under Section 7.6(a) of the Plan; and

(ii) as of March 1, 2001, the Member was, or during the Transfer Period becomes, a Resources Group Employee; provided, however, that if the Member becomes a Resources Group Employee during the Transfer Period, such Member was continuously employed by an Employer at all times from March 1, 2001, through the date immediately preceding the date he becomes a Resources Group Employee; and

(iii) as of the Distribution Date, the Member is not an Employee whose employment is covered by a collective bargaining agreement.

(2) Calculation of Base Transition Benefit Amount: Each BTB Eligible Member's Base Transition Benefit Amount, if any, shall be equal to the Discounted Excess Amount, which shall be calculated as follows:

Step 1: Determination of Excess Amount: The "Excess Amount" shall be equal to:

(a) In the case of a BTB Eligible Member who was born after December 31, 1943, his "Normal Excess Amount," as determined in clause (i) below; or

(b) In the case of a BTB Eligible Member who was born prior to January 1, 1944, the greater of the Member's Normal Excess Amount or "Alternate Excess Amount," as determined in clause (ii) below.

(i) Normal Excess Amount: The Normal Excess Amount shall be equal to the excess, if any, of the Member's Final Average Pay Lump Sum Benefit, as determined in clause (A) below, over his Cash Balance Lump Sum Benefit, as determined in clause (B) below, as follows:

(A) Final Average Pay Lump Sum Benefit: A BTB Eligible Member's Final Average Pay Lump Sum Benefit shall be equal to the greater of the amounts determined in paragraphs (I) or (II):

(I) The Actuarial Equivalent present value, determined as of December 31, 2008, of the projected Accrued Benefit calculated under the terms of the Prior Plan, the Minnegasco Plan or the NorAm Plan, as applicable, assuming the eligible Member's Service continued through December 31, 2008, using Transition Benefit Compensation (as defined in subsection (c) of this Section). For purposes of this paragraph (I) "Actuarial Equivalent" shall be computed using the return on the 30-Year Treasury Securities for November 2000 (5.78%) and the blended 1983 Group Annuity Mortality Table published in Rev. Rule. 95-6 ("GAM 1983").

(II) The Actuarial Equivalent present value, determined as of December 31, 2008, of the projected benefit (including the early retirement subsidy) as an immediate annuity calculated under the terms of the Prior Plan, the Minnegasco Plan or the NorAm Plan, as applicable, assuming the eligible Member's Service continued through December 31, 2008, using Transition Benefit Compensation. For purposes of this paragraph (II) "Actuarial Equivalent" shall be computed using an interest rate of 8.5% and GAM 1983.

(B) Cash Balance Lump Sum Benefit: The Cash Balance Lump Sum Benefit shall be equal to a BTB Eligible Member's Cash Balance Account as of December 31, 1999, projected forward to December 31, 2008. The Member's Service shall be assumed to continue during such projection period, with such Member's Cash Balance Account deemed to receive (a) Basic Contribution Credits and, if applicable, Additional Contribution Credits, in accordance with Sections 7.3 and 7.4, respectively, based on Transition Benefit Compensation (as defined in subsection (c) of this Section), and (b) Interest Credits in accordance with Section 7.5. The Interest Rate applied for such period shall be equal to the return on the 30-Year Treasury Securities for November 2000 (5.78%).

(ii) Alternate Excess Amount: The Alternate Excess Amount shall be equal to the excess, if any, of the BTB Eligible Member's Alternate Final Average Pay Lump Sum Benefit, as determined in clause (A) below, over his Alternate Cash Balance Lump Sum Benefit, as determined in clause (B) below, as follows:

(A) Alternate Final Average Pay Lump Sum Benefit: A BTB Eligible Member's Alternate Final Average Pay Lump Sum Benefit shall be equal to the Actuarial Equivalent present value, determined as of the last day of the month during which such Member will attain age 65, of the projected Accrued Benefit calculated under the terms of the Prior Plan, the Minnegasco Plan or the NorAm Plan, if applicable, assuming the eligible Member's Service continued through the last day of the month during which such Member will attain age 65 (or, as of March 1, 2001, if a Member attained age 65 prior to December 31, 2000), using Transition Benefit Compensation. For purposes of this clause (A), "Actuarial Equivalent" shall be computed using the return on the 30-Year Treasury Securities for November 2000 (5.78%) and GAM 1983.

(B) Alternate Cash Balance Lump Sum Benefit: The Alternate Cash Balance Lump Sum Benefit shall be equal to a BTB Eligible Member's Cash Balance Account as of December 31, 1999, projected forward to the last day of the month during which such Member will attain age 65. The Member's Service shall be assumed to continue during such projection period, with the Member's Cash Balance Account deemed to receive (a) Basic Contribution Credits and, if applicable, Additional Contribution Credits, in accordance with Sections 7.3 and 7.4, respectively, based

on Transition Benefit Compensation, and (b) Interest Credits in accordance with Section 7.5. The Interest Rate applied for such period shall be equal to the return on the 30-Year Treasury Securities for November 2000 (5.78%).

Step 2: Determination of Discounted Excess Amount: The Discounted Excess Amount shall be equal to:

(a) In the case of a BTB Eligible Member who was born after December 31, 1943, the present value of the Member's Excess Amount (determined in Step 1 above) discounted for the period March 1, 2001, or such later date during the Transfer Period that the Member becomes a Resources Group Employee, through December 31, 2008; or

(b) In the case of a BTB Eligible Member who was born prior to January 1, 1944, the greater of (1) the present value of the Member's Excess Amount discounted for the period March 1, 2001, or such later date during the Transfer Period that the Member becomes a Resources Group Employee, through December 31, 2008, or (2) the present value of the Member's Alternate Excess Amount (as determined under Step 1 above) discounted for the period March 1, 2001, or such later date during the Transfer Period that the Member becomes a Resources Group Employee, through the beginning on last day of the month during which the Member attains age 65.

For purposes of this Step 2, the present value calculations shall be based on the return on the 30-Year Treasury Securities for November 2000 (5.78%).

(b) Additional Transition Benefit Amount: A Member who meets the eligibility requirements in clause (1) below shall be entitled to an Additional Transition Benefit Amount as calculated in clause (2) below.

(1) Eligibility for Additional Transition Benefit Amount: A Member shall be eligible for the Additional Transition Benefit Amount, with each such eligible Member hereinafter referred to as an "ATB Eligible Member," if such eligible Member meets each and all of the following requirements:

(i) as of December 31, 2000, the Member was (a) an Employee who was an active Member or was a Member on Authorized Absence and (b) age 42 or older with five (5) or more years of Vesting Service; and

(ii) as of March 1, 2001, the Member was, or during the Transfer Period becomes, a Resources Group Employee; provided, however, that if the Member becomes a Resources Group Employee during the Transfer Period, such Member must be continuously employed by an Employer at all times from March 1, 2001, through the date immediately preceding the date he becomes a Resources Group Employee; and

(iii) as of the Distribution Date the Member is not an Employee whose employment is covered by a collective bargaining agreement; and

(iv) as of the date immediately preceding the later of (1) the date the Member became a Resources Group Employee or (2) the date of the Resources IPO, such Member had not attained age 55 with five (5) or more years of Vesting Service earned after age 50 and is not a GPU Protected Employee.

(2) Calculation of Additional Transition Benefit Amount: Except as otherwise provided below, each ATB Eligible Member's Additional Transition Benefit Amount shall be equal to the balance as of his "Final Credit Date," which shall be the later of (i) March 1, 2001 or (ii) the date during the Transfer Period on which the Member becomes a Resources Group Employee, of a notional account ("ATB Account"), deemed established for each ATB Eligible Member as of December 31, 1998, with the balance of the ATB Account determined as follows:

(A) Beginning Balance: Each ATB Account Member whose Vesting Service as of December 31, 1998 (if applicable, as adjusted in paragraph (E) below) is greater than zero shall have a deemed beginning ATB Account balance as of January 1, 1999 equal to the greater of the amount determined under "x" or "y", where:

"x" is equal to the sum of ($750 x (1.075(n)-1)/.075) + (p x $750 x 1.075(n))

where, "n" is equal to the number of completed years of Vesting Service for a Member, and "p" is equal to the partial year of Vesting Service for a Member, as of December 31, 1998; and

"y" is equal to the amount corresponding to the Member's age as of December 31, 1998, as follows:

| Member's Age As Of 12/31/98 | Amount |
|---|---|
| 40 | $ 8,000 |
| 41 | $11,000 |
| 42 | $14,000 |
| 43 | $17,000 |
| 44 | $20,000 |
| 45 | $25,000 |
| 46 | $30,000 |
| 47 | $35,000 |
| 48 | $40,000 |
| 49 | $45,000 |
| 50 or more | $50,000 |

(B) Basic Contribution Credits: Each ATB Eligible Member shall be deemed to receive the following credit or credits to his ATB Account:

(I) For 1999 and 2000: For 1999 and 2000, a $750 credit as of December 31, 1999 and a $750 credit as of December 31, 2000, with such credit or credits prorated for the number of months and days during such year(s) that the Member is not employed by an Employer and for such number of months and days that the Member does not receive Vesting Service (if applicable, as adjusted in paragraph (E) below); and

(II) After 2000: After December 31, 2000, a $750 credit as of his Final Credit Date and a $750 credit as of each December 31st, if any, occurring after January 1, 2001 but prior to his Final Credit Date, provided that the credit on his Final Credit Date shall be prorated for the number of months and days from January 1st of the year including his Final Credit Date through his Final Credit Date.

(C) Additional Contribution Credits: In addition to the credits in paragraph (B) above, each ATB Eligible Member shall be eligible to receive the following additional credits to his ATB Account:

(I) For 1999 and 2000: For 1999 and 2000, as of December 31, 1999 and December 31, 2000, based on a Member's completed years of Vesting Service (if applicable, as adjusted in paragraph (E) below)

as of December 31, 1998, a credit equal to the following amount:

| Member's Completed Years of Vesting Service As Of 12/31/98 | Credit Amount |
|---|---|
| Less than 10 | $ 0 |
| 10-14 | $150 |
| 15-19 | $300 |
| 20-24 | $450 |
| 25 or More | $600 |

(II) After 2000: After December 31, 2000, a credit, in the amount determined in subparagraph (I) above based on a Member's completed years of Vesting Service (if applicable, as adjusted in paragraph (E) below), on his Final Credit Date and a credit as of each December 31st, if any, occurring after January 1, 2001 but prior to his Final Credit Date, provided that the credit on his Final Credit Date shall be prorated for the number of months and days from January 1st of the year including his Final Credit Date through his Final Credit Date.

(D) Interest Credits: As of December 31, 1999 and each December 31st occurring prior to an ATB Eligible Member's Final Credit Date and as of his Final Credit Date, such Member's ATB Account shall be credited with an interest credit equal to the "Applicable Interest Rate" (as defined below) times the balance of his ATB Account as of each such December 31st and Final Credit Date, as applicable, prior to allocation of the Basic Contribution Credit and Additional Contribution Credit, if any, in paragraphs (B) and (C) above, respectively, for such Member for such Plan Year, provided that such interest credits shall be prorated for the number of months and days from January 1st of the year including his Final Credit Date through his Final Credit Date. For purposes of this paragraph (D), the "Applicable Interest Rate" shall be equal to the average annual interest rate on 30-year Treasury securities as reported daily during the month of November preceding the first day of the applicable Plan Year.

(E) ATB Calculation Adjustments: Solely for purposes of the calculation of the amount of the ATB Account under this clause (2), and notwithstanding any provision of this clause (2) or the Plan to the contrary, the following shall apply:

(I) A Member who immediately prior to May 12, 2000, was an employee of Sithe Mid-Atlantic Power Services, Inc., Sithe Pennsylvania Holdings, LLC, Sithe Maryland Holdings, LLC, Sithe New Jersey Holdings, LLC or Sithe Northeast Management Company and who became an Employee on May 12, 2000, pursuant to that certain purchase agreement dated as of February 19, 2000, among Reliant Energy Power Generation, Inc. as Buyer, Reliant Energy, Incorporated, as Guarantor, and Sithe Energies, Inc. and Sithe Northeast Generating Company, Inc. as Sellers ("REMA Member") and who meets the eligibility requirements of clause (1) of this subsection (b) shall be deemed to have been a Member as of December 31, 1998.

(II) If an ATB Eligible Member who is not employed by an Employer on December 31, 1998 is subsequently reemployed with an Employer after December 31, 1998, then (a) his ATB Account shall be deemed established as of such Member's subsequent reemployment date ("Reemployment Date"); (b) the beginning balance of his ATB Account shall be determined solely under "x" in paragraph (A) of this clause (2) above; (c) his ATB Account shall not receive any Additional Contribution Credits under paragraph (C) of this clause (2) above; (d) for any years prior to his Reemployment Date, he shall not receive any Basic Contributions or Interest Credits under paragraphs (B) or (D) above, and (e) for the year during which his Reemployment Date occurs, the Basic Contribution Credits and Interest Credits to such Member's ATB Account, under paragraphs (B) and (D) of this clause (2) above, shall be prorated for the number of months and days from his Reemployment Date through December 31 of such year or the Final Credit Date, as applicable.

(III) Except with respect to an ATB Eligible Member who is a Minnegasco Member, NorAm Member or REMA Member, an ATB Eligible Member's Vesting Service for purposes of paragraphs (A), (B), and (C) above shall be based solely upon his Service earned on and after the date his Employer becomes an Affiliate.

(IV) Notwithstanding any provision of this subsection (b) to the contrary, if an ATB Eligible Member's employment with an Employer terminates after December 31, 1998, but prior to his Final Credit Date, his ATB Account shall receive Basic and Additional Contribution Credits pursuant to paragraphs (B) and (C) only through such Member's termination date, with such credits prorated for the number of months and days from January 1st of the year of termination through his termination date. If such Member is subsequently reemployed by an Employer prior to his Final Credit Date, his ATB Account shall receive Basic Contribution Credits pursuant to paragraph (B) only (and shall not receive any Additional Contribution Credits) from and after his reemployed date through his Final Credit Date, with such credit prorated for the number of months and days from January 1st of the year of reemployment through his reemployment date.

(c) Transition Benefit Compensation: For purposes of this Section, the term "Transition Benefit Compensation" shall mean the following:

(1) Plan Years Prior to 2000: For Plan Years commencing prior to January 1, 2000, Transition Benefit Compensation shall mean Compensation as defined in the applicable of the Prior Plan, the Minnegasco Plan or the NorAm Plan for purposes of the Final Average Pay Lump Sum Benefit, Alternate Final Average Pay Lump Sum Benefit, Cash Balance Lump Sum Benefit, and Alternate Cash Balance Lump Sum Benefit under subsection (a)(2) of this Section.

(2) Plan Year 2000: For the 2000 Plan Year commencing on January 1, 2000, Transition Benefit Compensation shall mean projected compensation based on the following:

(A) for purposes of the Cash Balance Lump Sum Benefit and Alternate Cash Balance Lump Sum Benefit, the sum of (i) the amount of a BTB Eligible Member's base pay earned for the month of November 2000 annualized ("Deemed 2000 Base Pay"); plus (ii) the amount of such Member's short term incentive target bonus for 2000 under the Reliant Energy, Incorporated Annual Incentive Compensation Plan, with such amount deemed paid in December 2000 ("Deemed Target Bonus"); and

(B) for purposes of the Final Average Pay Lump Sum Benefit and Alternate Final Average Pay Lump Sum Benefit, the

sum of (i) the Member's Deemed 2000 Base Pay; plus (ii) for Members who participated in the Minnegasco or NorAm Plan, the amount of such Member's Deemed Target Bonus.

(3) For Plan Years After 2000: For Plan Years commencing after December 31, 2000, Transition Benefit Compensation shall mean projected compensation based on the following:

(A) for purposes of the Cash Balance Lump Sum Benefit and Alternate Cash Balance Lump Sum Benefit, the sum of (i) the amount of a BTB Eligible Member's Deemed 2000 Base Pay, assuming that such amount increased annually by 3.5% for the 2001 Plan Year and for each Plan Year thereafter; plus (ii) the amount of such Member's Deemed Target Bonus assuming that the target bonus percentage for each such Member remains constant for each such Plan Year and is deemed paid in each December of the Plan Year for which it relates; provided, however, that, with respect to the Alternate Cash Balance Lump Sum Benefit, for the Plan Year in which such Member attains age 65, (x) the Deemed 2000 Base Pay amount shall be equal to such Member's year-to-date Deemed 2000 Base Pay, as adjusted in this paragraph (A), and (y) the Deemed Target Bonus amount shall be equal to such Member's Deemed Target Bonus percentage multiplied by the foregoing year-to-date Deemed 2000 Base Pay, with each such amount deemed earned by the Member for such year through the last day of the month in which such Member attains age 65; and

(B) for purposes of the Final Average Pay Lump Sum Benefit and Alternate Final Average Pay Lump Sum Benefit, the sum of (i) the Member's Deemed 2000 Base Pay, assuming that such amount increased annually by 3.5% for the 2001 Plan Year and for each Plan Year thereafter; plus (ii) for Members who participated in the Minnegasco or NorAm Plan, such Member's Deemed Target Bonus assuming that the target bonus percentage for each such Member remains constant for each such Plan Year and is deemed paid in each December of the Plan Year for which it relates; provided, however, that, with respect to the Alternate Final Average Pay Lump Sum Benefit, for the Plan Year in which such Member attains age 65, the Deemed Target Bonus amount shall be equal to such Member's Deemed Target Bonus percentage multiplied by year-to-date Deemed 2000 Base Pay, as adjusted in this paragraph (B), and deemed earned by the Member for such year through the last day of the month in which such Member attains age 65.

The foregoing to the contrary notwithstanding, for any Plan Year in which Transition Benefit Compensation exceeds the compensation limitation under Code Section 401(a)(17), Transition Benefit Compensation for such year shall be deemed equal to the applicable compensation limitation under the Code. For purposes of Plan Years commencing after December 31, 2000, the Code Section 401(a)(17) limitation for 2001, $170,000, shall be applied in determining whether Transition Benefit Compensation for any such year exceeds the Code Section 401(a)(17) limitation for such year.

(d) Crediting and Vesting of Transition Benefit to Cash Balance Account: The balance of a BTB Eligible Member's Cash Balance Account as of the later of March 1, 2001, or the date he becomes a Resources Group Employee during the Transfer Period (with such later date hereinafter the "Adjustment Date") shall be adjusted, to the extent necessary, as of such date to be equal to the greater of (1) the balance of the Member's Cash Balance Account as of the Adjustment Date or (2) the Actuarial Equivalent present value of the Member's Grandfathered Benefit, as described in Section 7.6, calculated assuming that the Member terminated Service on the Adjustment Date.

An eligible Member's Transition Benefit shall be equal to the sum of his (1) if any, Base Transition Benefit Amount and (2) if any, Additional Transition Benefit Amount, subject to the applicable limitations under Article XXI of the Plan and otherwise under the Code, ERISA and other applicable law and regulations. The Transition Benefit, if applicable, as adjusted in the foregoing paragraph, shall be credited to an eligible Member's Cash Balance Account as of or as soon as practicable after the later of (1) March 1, 2001, or (2) the date such Member becomes eligible for such benefit(s). Notwithstanding any provision in this Plan to the contrary, a Member shall be fully vested in the portion of his Cash Balance Account attributable to his Transition Benefit at all times on and after the date such amount is credited to such account.

(e) Earliest Commencement of Transition Benefit from Cash Balance Account: Notwithstanding Section 11.1 or any other provision in this Plan to the contrary, a Member who has terminated his Service (or, in the event of his death, his Beneficiary) may not elect to commence the distribution of the portion of his Pension attributable to the Transition Benefit prior to the earliest of (1) the Distribution Date, (2) his Early Retirement Date, (3) his date of death or (4) such other date determined by the Board of Directors of the Company. The foregoing shall not prevent the application of Section 11.6 when otherwise applicable with respect to a Member's Pension.

(f) Amendment to Transition Benefit: The Company reserves the right to amend this Section 7.8 as necessary to comply with requirements of the Code, ERISA, the Internal Revenue Service and/or the U.S. Department of Labor."

11. Effective as of March 1, 2001, Article VIII of the Plan is hereby amended to add the following new Section 8.4:

"8.4 Transition Benefit: Anything to the contrary notwithstanding, to the extent Section 8.1, 8.2 or 8.3 conflicts with the provisions of Section 7.8 with respect to the commencement of the portion of a Member's Pension, if any, that is attributable to the Transition Benefit under such Section 7.8, then solely with respect to the Transition Benefit, the provisions of Section 7.8 shall apply in lieu of the applicable of Section 8.1, 8.2 or 8.3."

12. Effective as of January 1, 2001, Article VIII of the Plan is hereby amended to add the following new Section 8.5:

"8.5 Involuntary Separation Benefit For Members Severed Between January 1, 2001 and December 31, 2001: A Member (i) whose Service is terminated involuntarily on or after January 1, 2001 and on or before March 1, 2001 in the case of a Resources Group Employee, or on or before December 31, 2001 with respect to all other Members, (ii) who has attained age 45, but not age 55, and completed at least five (5) years of Service on the date of such involuntary termination, and (iii) who qualifies for a benefit under a Company-sponsored involuntary severance benefit plan which provides for this benefit, and who satisfies all requirements for such benefit under such severance plan, may be entitled to receive an Early Retirement benefit, as described in Section 8.2, (x) in the case of a NorAm Member or Minnegasco Member, based on his Service accrued for benefit accrual purposes as of his actual termination of Service but not payable until the NorAm Member or Minnegasco Member has attained at least age 55 or (y) in the case of a Prior Plan Member, based on his Service accrued for benefit accrual purposes as of his actual termination of Service plus such Service which would have accrued for purposes of eligibility for the Early Retirement benefit but not for purposes of benefit accrual had the Member remained actively employed with an Employer until attaining age 55 but not payable until the Prior Plan Member has attained at least age 55. The Actuarial Equivalent present value of the benefit (including the early retirement subsidy) shall be calculated under the terms of the Prior Plan, the Minnegasco Plan or the NorAm Plan, as applicable, based on Compensation (as defined in such applicable plan) and Service until termination. For purposes of this Section 8.5, "Actuarial Equivalent" shall be computed using the Unisex Mortality Table UP-1984 without any age adjustments and an interest rate of 8.5% per annum."

IN WITNESS WHEREOF, Reliant Energy, Incorporated has caused these presents to be executed by its duly authorized 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 20th day of August, 2002, but effective as of the dates specified herein.

RELIANT ENERGY, INCORPORATED

By /s/ DAVID M. MCCLANAHAN
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David M. McClanahan
Vice Chairman, Reliant Energy,
Incorporated, and President & COO,
Regulated Group

EXHIBIT 10(u)(14)

RELIANT ENERGY, INCORPORATED
RETIREMENT PLAN

(As Amended and Restated Effective January 1, 1999)

Fourth Amendment

The Benefits Committee of Reliant Energy, Incorporated, having reserved the right under Section 15.1 of the Reliant Energy, Incorporated Retirement Plan, as amended and restated effective January 1, 1999 (the "Plan"), to amend the Plan, does hereby amend the Plan, as follows:

1. Effective as of January 1, 2002, Article XII of the Plan is hereby amended in its entirety to read as follows:

"ARTICLE XII

CLAIM PROCEDURES

12.1 Presenting Claims for Benefits: Any Member or any other person claiming under a deceased Member, such as the Spouse or Beneficiary, (collectively, the 'Applicant') may submit written application to the claims administrator for the payment of any benefit asserted to be due him under the Plan. Such application shall set forth the nature of the claim and such other information as the Committee may reasonably request.

The Committee shall notify the Applicant of the benefits determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the application. If such an extension of time for processing is required, written notice of the extension shall be furnished to the Applicant prior to the end of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render its final decision. Notice of the Committee's decision to deny a claim in whole or in part shall be set forth in a manner calculated to be understood by the Applicant and shall contain the following:

(a) the specific reason or reasons for the denial;

(b) specific reference to the pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the Applicant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the claims review procedures set forth in Section 12.2 hereof, including the claimant's right to bring a civil action under Section 502(a) of ERISA following a denial on review.

If notice of denial is not furnished and if the claim is not granted within the period of time set forth above, the claim shall be deemed denied for purposes of proceeding to the review stage described in Section 12.2. Applicants shall be given timely written notice of the time limits set forth herein for determination on claims, appeal of claim denial and decisions on appeal.

12.2 Claims Review Procedure: If an application filed by an Applicant under Section 12.1 above shall result in a denial of the benefit applied for, either in whole or in part, such Applicant shall have the right, to be exercised by written request filed with the Committee within 60 days after receipt of notice of the denial of his application or, if no such notice has been given, within 60 days after the application is deemed denied under Section 12.1, for the review of his application and of his entitlement to the benefit for which he applied, by the Committee. Such request for review may contain such additional information and comments as the Applicant may wish to present. The Committee shall reconsider the application in light of such additional information and comments as the Applicant may have presented and, if the Applicant shall have so requested, may grant the Applicant a formal hearing before the Committee in its discretion. The Committee shall also permit the Applicant or his designated representative to review pertinent documents in its possession, including copies of the Plan document and information provided by the Employer relating to the Applicant's entitlement to such benefit. The Committee shall render a decision no later than the date of the Committee meeting next following receipt of the request for review, except that (i) a decision may be rendered no later than the second following Committee meeting if the request is received within 30 days of the first meeting and (ii) under special circumstances which require an extension of time for rendering a decision (including but not limited to the need to hold a hearing), the decision may be rendered not later than the date of the third Committee meeting following the receipt of the request for review. If such an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the Applicant prior to the commencement of the extension. Notice of the Committee's final decision shall be furnished to the Applicant in writing, in a manner calculated to be understood by him, and if the Applicant's claim on review is denied in whole or in part, the notice shall set forth the specific reason or reasons for the denial and the specific reference to the pertinent plan provisions on which the denial is based, the Applicant's right to receive upon request, free of charge, reasonable access to, and copies of, all relevant documents, records and other information to his claim, and his right to bring a civil action under Section 502(a) of ERISA. If the decision on review is

not furnished within the time period set forth above, the claim shall be deemed denied on review. Benefits under this Plan will only be paid if the Committee decides in its discretion that the Applicant is entitled to them.

12.3 Disputed Benefits: If any dispute shall arise between an Applicant and the Committee after review of a claim for benefits, or in the event any dispute shall develop as to the person to whom the payment of any benefit under the Plan shall be made, the Trustee may withhold the payment of all or any part of the benefits payable hereunder to the Applicant until such dispute has been resolved by a court of competent jurisdiction or settled by the parties involved."

2. Effective as of January 1, 2001, the definition of "Compensation" in Section 21.4(e) of the Plan is hereby amended to add the following model language provided in Internal Revenue Service Notice 2001-37, 2000-25 I.R.B. 1340, with respect to amendments made by section 314(e) of the Community Renewal Tax Relief Act of 2000 to Section 415(c)(3) of the Internal Revenue Code of 1986 ("Code"), to the end thereof:

"For Limitation Years beginning on and after January 1, 2001, for purposes of applying the limitations described in Article XXI of the Plan, Compensation paid or made available during such Limitation Years shall include elective amounts that are not includible in the gross income of the Employee by reason of Code Section 132(f)(4)."

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, Incorporated has caused these presents to be executed by its duly authorized Chairman 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 19th day of December, 2001, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By /s/ DAVID MCCLANAHAN
---
David McClanahan, Chairman

ATTEST:

/s/ LYNNE HARKEL-RUMFORD
- ---
Lynne Harkel-Rumford, Secretary

EXHIBIT 10(u)(15)

RELIANT ENERGY, INCORPORATED
RETIREMENT PLAN

(As Amended and Restated Effective January 1, 1999)

Fifth Amendment

CenterPoint Energy, Inc., a Texas corporation, formerly Reliant Energy, Incorporated (the "Company"), having reserved the right to amend the Reliant Energy, Incorporated Retirement Plan, as amended and restated effective January 1, 1999, and thereafter amended (the "Plan"), under Section 15.1 of 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 Article I of the Plan is hereby amended to read as follows:

"1.15 Company: CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets."

2. Effective as of October 2, 2002, the Plan is hereby renamed the CenterPoint Energy, Inc. Retirement Plan, with all references in the Plan amended accordingly, and the definition of "Plan" in Article I of the Plan is hereby amended to read as follow:

"1.44 Plan: The CenterPoint Energy, Inc. Retirement Plan, as amended and restated effective January 1,1999, including all subsequent amendments thereto."

3. Effective as of October 2, 2002, the first sentence in Section 16.1 of the Plan is hereby amended to delete the reference to "Reliant Energy, Incorporated Master Retirement Trust" and replace in lieu thereof with "CenterPoint Energy, Inc. Master Retirement Trust."

4. Effective as of November 15, 2002, Article VIII of the Plan is hereby amended to add the following new Section 8.6 thereto:

"8.6 2002 Voluntary Early Retirement Program: A Member who is an 'Eligible VERP Employee' (as defined below) and who has attained at least age 55 and completed at least 20 years of Service as of December 31, 2002, may elect to participate in the 2002 Voluntary Early Retirement Program adopted by the Company on November 6, 2002 (the '2002 Program'). Any election to participate in the 2002 Program shall be made in writing between November 15, 2002 and December 31, 2002 (or within 45 days of receipt of the 2002 Program materials, including the related form of waiver and release, if later), and shall be in the form and manner prescribed by the Committee, including subsequent execution of said waiver and release, as a condition of eligibility for the 2002 Program. Except as provided below, any Eligible VERP Employee who elects to participate in the 2002 Program shall voluntarily terminate his Service on December 31, 2002, or such earlier date after November 14, 2002 but prior to December 31, 2002, as agreed to by the Employer and the Eligible VERP Employee (as applicable, the 'Termination Date') (or, as described below, voluntarily terminated his Service after August 31, 2002, but prior to November 15, 2002), and shall be eligible to elect to receive the 'Voluntary Early Pension' (as described below) in lieu of any other pension hereunder, which shall be payable in accordance with the provisions of Article XI (including the optional forms of payment), effective as of the Termination Date. Any Eligible VERP Employee who elects to participate in the 2002 Program and who, at the request of his Employer, elects to extend his Service beyond the Termination Date to a later termination date based on a specific business need of his Employer, shall receive the Voluntary Early Pension commencing no earlier than the first day of the month coincident with or next following his actual termination of Service and payable in accordance with the provisions of Article XI in effect as of such later date (with such later date, his Termination Date).

For purposes of this Section 8.6, an 'Eligible VERP Employee' is a Member who (i)(A) is an active Employee who is employed by Texas Genco, LP ('Texas Genco') on November 15, 2002, or (B) was an active Employee who voluntary terminated his employment with Texas Genco after August 31, 2002, but prior to November 15, 2002, (ii) is not (or was not as of his termination date) an officer of Texas Genco at the vice president level or above, and (iiii) is not subsequently employed by the Employer or any Affiliate prior to his Termination Date.

An Eligible VERP Employee who has elected to participate in the 2002 Program, subject to his execution and delivery without subsequent revocation of the waiver and release required under the 2002 Program, shall be eligible to receive a Voluntary Early Pension commencing on his Termination Date equal to the normal or early retirement Pension for which the Member is eligible (or, in the case of an Eligible VERP Employee who is on Disability Leave of Absence,

would have been eligible had his employment continued through the period of disability and terminated on the Termination Date), calculated as set forth in Section 8.1 or 8.2, but adding three (3) deemed years to the Member's age and three (3) deemed years to the Member's Service for all purposes under the Plan (including for purposes of the Grandfathered Benefit under Section 7.6), other than Actuarial Equivalent calculations under Article XI.

For purposes of this Section 8.6, to the extent applicable, a Member's Compensation, as provided in Section 1.16, in effect on his Termination Date shall be deemed to continue unchanged during his deemed three (3) years of Service."

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, on this 13th day of November, 2002, but effective as of the dates stated herein.

CENTERPOINT ENERGY, INC.

By /s/ DAVID MCCLANAHAN
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David McClanahan
President and Chief Executive Officer

EXHIBIT 10(u)(16)

CENTERPOINT ENERGY, INC. RETIREMENT PLAN

(As Amended and Restated Effective as of January 1, 1999)

Sixth Amendment

CenterPoint Energy, Inc., a Texas corporation, 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 the Plan to make certain law changes intended to comply with the Economic Growth and Tax Relief Reconciliation Act of 2001 and certain design changes, effective as of the dates set forth below, as follows:

1. Effective as of January 1, 2002, clauses (i) and (ii) of subsection (b) of the definition of "Actuarial Equivalent" in Section 1.3 of the Plan are hereby amended to read as follows:

"(i) The average 'applicable interest rate' as defined in Section 417(e)(3)(A)(ii)(II) of the Code for the month of November preceding the first day of the Plan Year that contains the Annuity Starting Date for the distribution; and

(ii) The 'applicable mortality table' as defined in Section 417(e)(3)(A)(ii)(I) of the Code; provided, however, that effective for Annuity Starting Dates on or after January 1, 2003, the applicable mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C), and (D) of the Code and the applicable mortality table used for the purpose of satisfying the requirements of Section 417(e) of the Code is the table prescribed in Revenue Ruling 2001-62."

2. Effective as of January 1, 2002, clause (ii) of subsection (c) of the definition of "Actuarial Equivalent" in Section 1.3 of the Plan is hereby amended to read as follows:

(ii) The 'applicable mortality table' as defined in Section 417(e)(3)(A)(ii)(I) of the Code; provided, however, that effective for Annuity Starting Dates on or after January 1, 2003, the applicable mortality table used for purposes of adjusting any benefit or limitation

under Section 415(b)(2)(B), (C), and (D) of the Code and the applicable mortality table used for the purpose of satisfying the requirements of Section 417(e) of the Code is the table prescribed in Revenue Ruling 2001-62."

3. Effective as of January 1, 2002, the last sentence of the definition of "Compensation" in Section 1.16 of the Plan is hereby amended to read as follows:

"Notwithstanding anything herein to the contrary, in no event shall the annual Compensation taken into account under the Plan for any Employee exceed $200,000, with such amount adjusted automatically to reflect any amendments to Section 401(a)(17) of the Code and any cost-of-living increases pursuant to Section 401(a)(17)(B) of the Code."

4. Effective as of January 1, 2002, subject to approval by the Company's Board of Directors, Article VIII of the Plan is hereby amended to add the following new Section 8.7 to the end thereof:

"8.7 Involuntary Separation Benefit For Members Severed On or After January 1, 2002: A Member (i) whose Service is terminated involuntarily on or after January 1, 2002, (ii) who has attained age 50, but not age 55, and completed at least twenty (20) years of Service on the date of such involuntary termination, and (iii) who qualifies for a benefit under a Company-sponsored involuntary severance benefit plan which provides for this benefit, and who satisfies all requirements for such benefit under such severance plan, may be entitled to receive an early retirement benefit payable in a form other than a lump sum, as described in Section 8.2, (x) in the case of a NorAm Member or Minnegasco Member, based on his Service accrued for benefit accrual purposes as of his actual termination of Service but not payable until the NorAm Member or Minnegasco Member has attained at least age 55 or (y) in the case of a Prior Plan Member, based on his Service accrued for benefit accrual purposes as of his actual termination of Service plus such Service which would have accrued for purposes of eligibility for the Early Retirement benefit but not for purposes of benefit accrual had the Member remained actively employed with an Employer until attaining age 55 but not payable until the Prior Plan Member has attained at least age 55."

5. Effective as of January 1, 2002, Section 11.9(b) of the Plan is hereby amended in its entirety to read as follows:

"(b) 'Eligible Retirement Plan' shall mean (i) an individual retirement account described in Code Section 408(a); (ii) an individual retirement annuity described in Code Section 408(b); (iii) an annuity plan described in Code Section 403(a); (iv) an annuity contract described in Code Section 403(b); (v) a

qualified trust described in Code Section 401(a) that is exempt from taxation under Code Section 501(a); or (vi) an eligible plan under Code Section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and that agrees to separately account for amounts transferred into such plan from the Plan; that accepts the Distributee's Eligible Rollover Distribution. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in Code Section 414(p)."

6. Effective as of January 1, 2002, Section 12.1 of the Plan is hereby amended to delete the penultimate sentence in such section.

7. Effective as of January 1, 2002, the first sentence of Section 12.2 of the Plan is hereby amended to read as follows:

"If an application filed by an Applicant under Section 12.1 above shall result in a denial of the benefit applied for, either in whole or in part, such Applicant shall have the right, to be exercised by written request filed with the Committee within 60 days after receipt of notice of the denial of his application, to request a review of his application, and of his entitlement to the benefit for which he applied, by the Committee."

8. Effective as of January 1, 2002, Section 12.2 of the Plan is hereby amended to delete the penultimate sentence in such section.

9. Effective as of January 1, 2002, Section 20.4 of the Plan is hereby amended to read as follows:

"Limitation on Compensation: A Member's annual Compensation taken into account under this Article XX for purposes of computing benefits under this Plan for any Plan Year shall not be in excess of $200,000 (as adjusted). Such amount shall be adjusted automatically for each Plan Year to the amount prescribed by the Secretary of the Treasury or his delegate pursuant to regulations for the calendar year in which such Plan Year commences."

10. Effective as of January 1, 2002, Article XX of the Plan is hereby amended to add the following new Section 20.9 to the end thereof:

"20.9 Modification of Top-Heavy Rules:

(a) Effective Date. This Section shall apply for purposes of determining whether the Plan is a top-heavy plan under Section 416(g) of the

Code for Plan Years beginning after December 31, 2001, and whether the Plan satisfies the minimum benefits requirements of Section 416(c) of the Code for such years. This Section amends Article XX of the Plan.

(b) Determination of Top-Heavy Status.

(1) 'Key Employee' means any Employee or former Employee (including any deceased employee) who at any time during the Plan Year that includes the Determination Date was an officer of the employer having annual compensation greater than $130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of the employer, or a 1-percent owner of the employer having annual compensation of more than $150,000. For this purpose, annual compensation means compensation within the meaning of Section 415(c)(3) of the Code. The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(2) This subparagraph (2) shall apply for purposes of determining the present values of accrued benefits and the amounts of account balances of Employees as of the Determination Date.

(A) Distributions during year ending on the Determination Date. The present values of accrued benefits and the amounts of account balances of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under Section 416(g)(2) of the Code during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting '5-year period' for '1-year period.'

(B) Employees not performing services during the year ending on the Determination Date. The accrued benefits and accounts of any individual who has not performed services for the employer during the 1-year period ending on the Determination Date shall not be taken into account.

(c) Minimum Benefits. For purposes of satisfying the minimum benefit requirements of Section 416(c)(1) of the Code and the Plan, in determining years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a Plan Year when the Plan benefits (within the meaning of Section 410(b) of the Code) no key employee or former key employee."

11. Effective as of January 1, 2002, the first sentence of Section 21.1 of the Plan is hereby amended to read as follows:

"The normal retirement benefit of any Employee under the Plan cannot exceed the lesser of $160,000 (with such amount adjusted automatically to reflect any amendments to Section 415(b)(1) of the Code and any annual cost-of-living increases pursuant to Section 415(d) of the Code) or 100% of such Employee's Average Compensation."

12. Effective as of January 1, 2002, the first sentence in Section 21.1(b) of the Plan is hereby amended to read as follows:

"If benefit distributions commence before a Member's Social Security Retirement Age, the actual retirement benefit shall not exceed the lesser of 100% of the Employee's Average Compensation or the $160,000 (with such amount adjusted automatically to reflect any amendments to Section 415(b)(1) of the Code and any annual cost-of-living increases pursuant to Section 415(d) of the Code) ('Dollar Limitation') adjusted as follows:"

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 30th day of December, 2002, 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/ RUFUS S. SCOTT
- ---
Assistant Secretary

EXHIBIT 10(x)

[LETTERHEAD OF CENTERPOINT ENERGY, INC.]

November 27, 2002

Mr. Milton Carroll
7114 Belfort
Houston, Texas 77087

Dear Milton:

As authorized by CenterPoint's Board of Directors at its November 6, 2002 meeting, we wish to set forth what your supplemental compensation and related perquisites will be for your service as non-executive Chairman of the Board of Directors of CenterPoint Energy, Inc., which the Board envisions will require a substantial amount of your time and attention over the next two years:

1. Effective October 1, 2002 and continuing until September 30, 2004 (which will be the term of this letter agreement for all purposes), in addition to the normal retainer paid to all members of the CenterPoint Board (which you shall continue to receive while a member of the Board), CenterPoint will pay you an annual supplemental retainer of $300,000, payable in equal monthly amounts of $25,000 on the last day of each month, commencing on November 30, 2002 (with the first such payment to include the October and November 2002 monthly payments); and continuing each month thereafter until September 30, 2004. This supplemental retainer shall not be included for purposes of calculating any benefits under the Board members' retirement programs.

2. You will be provided an office commensurate with your position as Chairman of the Board at CenterPoint's Houston headquarters. In addition, CenterPoint will employ for you a full-time executive assistant, acceptable to you, who will be an employee of CenterPoint with full participation in CenterPoint's employee benefit plans, programs and practices. The duties of your executive assistant will be determined by you consistent with the overall employment practices, guidelines and policies of CenterPoint. You and your executive assistant will also be provided parking spaces acceptable to you at CenterPoint's Houston headquarters.

3. You will be reimbursed by CenterPoint, promptly upon submission of appropriate written requests, for all reasonable and necessary expenses incurred by you in furtherance of CenterPoint business.

4. In addition to shares of CenterPoint common stock to be received by you under its stock plan for outside directors, you will be issued (1) 10,000 shares of CenterPoint common stock immediately and (2) an additional 10,000 shares of CenterPoint common stock on October 1, 2003. The shares will be fully vested when issued, but will be subject to the holding period and resale restrictions contained in Rule 144 under the Securities Act of 1933.

If this letter is consistent with your prior understandings, then please so indicate by signing below and returning a counterpart copy to CenterPoint's General Counsel. You understand, of course, that your rights to the supplemental compensation and perquisites described above are personal to you and may not be assigned to any other person.

Very truly yours,

/s/ DAVID M. MCCLANAHAN
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David M. McClanahan
President and Chief Executive Officer

/s/ ROBERT J. CRUIKSHANK
---
Robert J. Cruikshank
Director

AGREED TO AND ACCEPTED
AS OF November 27, 2002

/s/ MILTON CARROLL
- ---
Milton Carroll

EXHIBIT 10(y)(2)

# RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES COMMON STOCK PARTICIPATION PLAN FOR DESIGNATED NEW EMPLOYEES AND NON-OFFICER EMPLOYEES

(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2001)

## RECITAL

CenterPoint Energy, Inc. (the "Company") established the Reliant Energy, Incorporated and Subsidiaries Common Stock Participation Plan for Designated New Employees and Non-Officer Employees, effective as of March 4, 1998 (the "Prior Plan"), for the benefit of its eligible key employees and retained the right to amend the Prior Plan under Article IX thereof.

Effective as of January 1, 2001 and in connection with the Company's planned distribution of the shares of Reliant Resources, Inc. Common Stock to its shareholders, the Board authorized the amendment, restatement and continuation of the Prior Plan, as in effect on December 31, 2000, in the form of this plan (the "Plan") to provide for the vesting and conversion of certain outstanding Stock Awards, that no performance-based or restricted Stock Awards in the form of shares of Common Stock shall be made from and after April 10, 2001, that employment with Reliant Resources, Inc. and its subsidiaries is not a termination hereunder, and to make certain other changes therein.

NOW, THEREFORE, effective as of January 1, 2001, the Company hereby amends, restates in its entirety and continues the Prior Plan as follows:

## INTRODUCTION

## ARTICLE I

## PURPOSE

The purpose of the Plan is to strengthen the alignment of financial interests of selected employees of the Company and its Subsidiaries with those of the Company's shareholders through the increased ownership of shares of the Company's Common Stock by such employees. The Plan (i) enhances the Company's ability to maintain a competitive position in attracting and retaining qualified personnel, (ii) provides a means of rewarding the outstanding performance of such employees, and (iii) enhances the interest of such employees in the Company's continued success and progress by enabling them to obtain a proprietary interest in the Company. Pursuant to the Plan, the Company may provide for the delivery of shares of Common Stock to (i) persons not previously employed by the Company or its Subsidiaries as an inducement to their entering into employment with the Company or its Subsidiaries and (2) employees who are not officers of the Company who it is determined should be rewarded for exceptional performance.

ARTICLE II

DEFINITIONS

For purposes of the Plan, the following terms shall have the meanings below stated, subject to the provisions of Section 7.1.

"BOARD" means the Board of Directors of the Company.

"CAUSE" means a Participant's (a) gross negligence in the performance of the Participant's duties, (b) intentional and continued failure to perform the Participant's duties, (c) intentional engagement in conduct which is materially injurious to an Employer (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of a Participant will be deemed "intentional" only if done or omitted to be done by the Participant not in good faith and without reasonable belief that his/her action or omission was in the best interest of his/her Employer, and no act or failure to act on the part of the Participant will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

A "CHANGE IN CONTROL" or "CIC" 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 (if the Company 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 September 1, 1997 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 from time to time.

"COMMITTEE" means the Special Stock Award Committee or the Compensation Committee of the Board, it being understood that either such Committee shall have authority to grant Stock Awards and take other action contemplated by this Plan.

"COMMON STOCK" means, subject to the provisions of Section 9.3, the presently authorized common stock, without par value, of the Company.

"COMPANY" means CenterPoint Energy, Inc., a Texas corporation, and any successor thereto.

"DISABILITY" means a physical or mental impairment of sufficient severity such that an Employee is both eligible for and in receipt of benefits under the long-term disability provisions of the Company's or Resources's benefit plans.

"DISTRIBUTION" means the distribution by the Company to the holders of its Common Stock of all of the shares of the common stock of Resources it then owns.

"EMPLOYEE" means an employee of the Company, Resources, a Subsidiary or a Resources Subsidiary.

"EMPLOYER" means the Company, Resources, a Subsidiary, or a Resources Subsidiary that employs the Participant.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"FAIR MARKET VALUE" means the average of high and low sales price of a share of Common Stock on the New York Stock Exchange--Composite Transactions reporting system, as

reported on the date as of which such value is being determined or, if no sales occurred on such day, then on the next preceding day on which there were such sales.

"PARTICIPANT" means a person selected to participate in this Plan pursuant to the terms hereof.

"PLAN" means the Reliant Energy, Incorporated and Subsidiaries Common Stock Participation Plan for Designated New Employees and Non-Officer Employees, as set forth herein and as from time to time amended.

"RESOURCES" means Reliant Resources, Inc., a Delaware corporation, or a successor to Reliant Resources, Inc. in the ownership of substantially all of its assets.

"RESOURCES SUBSIDIARY" means a subsidiary corporation of Resources as defined in Section 424(f) of the Code.

"RESTRICTED PERIOD" means the period of employment established by the Committee which the Participant must complete for the restrictions to lapse pursuant to Section 6.2.

"STOCK AWARD" means an award of shares of Common Stock or units denominated in shares of Common Stock, of options to purchase shares of Common Stock, or of the right to a payment measured by the appreciation in the value of shares of Common Stock or the value of units denominated in shares of Common Stock, granted by the Company to a Participant pursuant to Section 5.1.

"SUBSIDIARY" means a subsidiary corporation of the Company as defined in Section 424(f) of the Code.

## ARTICLE III

## RESERVATION OF SHARES

The aggregate number of shares of Common Stock which may be issued under this Plan shall not exceed One Million (1,000,000) shares, subject to adjustment as hereinafter provided. The number of shares of Common Stock that are subject to awards under this Plan that are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the shares covered by an award are not issued to a Participant, shall again immediately become available for awards hereunder. In the event that any option or other award granted hereunder is exercised through the delivery of shares of Common Stock or in the event that withholding tax liabilities arising from such award are satisfied by the withholding of shares of Common Stock by the Company, the number of shares of Common Stock available for awards under the Plan shall be increased by the number of shares of Common Stock so surrendered or withheld. All or any part of such One Million shares may be issued pursuant to Stock Awards. The shares of Common Stock which may be granted pursuant to Stock Awards will 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 hereafter reacquired by the Company as treasury shares. 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 9.3 and to give effect to any amendment adopted as provided in Section 8.1. The foregoing limitation on the number of shares of Common Stock issuable under the Plan is a limitation on the aggregate number of shares of Common Stock issued, but subject to such rules and procedures concerning the counting of shares against the Plan maximum as the Committee may deem appropriate.

## ARTICLE IV

## PARTICIPATION IN THE PLAN

4.1 ELIGIBILITY TO RECEIVE STOCK AWARDS. Stock Awards under this Plan may be granted only to persons selected by the Committee who are not officers of the Company and who are Employees of the Company or a Subsidiary on the date the Stock Award is granted. Stock Awards under this Plan may be granted to any Employee who has become entitled to an award pursuant to another incentive plan of the Company or a Subsidiary provided that the award is consistent with the purposes of this Plan.

4.2 PARTICIPATION NOT GUARANTEE OF EMPLOYMENT. Nothing in this Plan or in the instrument evidencing the grant of a Stock Award shall in any manner be construed to limit in any way the right of the Employer to terminate a Participant's employment at any time, without regard to the effect of such termination on any rights such Participant would otherwise have under this Plan, or give any right to such Participant to remain employed by an Employer in any particular position or at any particular rate of compensation.

## ARTICLE V

## STOCK AWARDS

5.1 GRANT OF STOCK AWARDS.

(a) SELECTION OF PARTICIPANTS. Subject to the terms of this Plan, the Committee shall select the persons to whom Stock Awards shall be awarded. Subject to the eligibility requirements of Section 4.1, awards pursuant to other incentive plans of the Company or any Subsidiaries denominated in shares of Common Stock, in the discretion of the Committee, may be granted to Employees pursuant to the terms of the Plan. Notwithstanding any provision of this Plan to the contrary, no performance-based or restricted Stock Awards in the form of shares of Common Stock under Section 5.2 shall be made from and after April 10, 2001.

(b) AWARD OF SHARES. The Committee shall determine the number of shares of Common Stock covered by each Stock Award awarded to a Participant, as well as all other terms and conditions of each Stock Award. Shares issued pursuant to the terms of other incentive plans of the Company or a Subsidiary may be issued subject to terms established with reference to such other plans. Shares of Common Stock may be awarded subject to a Restricted Period, without any restriction whatsoever or subject to such other vesting and forfeiture conditions, which may be performance based, as may be established by the Committee. If Stock Awards are issued subject to a Restricted Period, then on or about the close of, and, if appropriate and in accordance with Section 6.3 or 6.5, during the term of, each Restricted Period, the Committee shall determine whether restrictions set forth in Article VI hereof shall lapse with respect to a

portion or all of the shares awarded under a Stock Award. Notwithstanding the foregoing to the contrary, in the event of the Distribution, effective as of the date of the Distribution, the number of any performance-based Stock Awards granted under this Plan for a performance cycle shall be converted into a number of shares of Common Stock, as determined by the Company, subject to a Restricted Period.

The Committee shall implement the grant of a Stock Award subject to a Restricted Period by credit to a bookkeeping account maintained by the Company evidencing the accrual to a Participant of unsecured and unfunded rights to receive, subject to the terms of the Stock Award, shares of Common Stock.

(c) FORM OF INSTRUMENT. Each Stock Award shall be made pursuant to an instrument prescribed in form by the Committee. Such instrument shall specify the number of shares covered thereby and the restrictions, if any, which, if not achieved, may cause all or part of the shares to be forfeited.

5.2 RIGHTS WITH RESPECT TO SHARES. No Participant who is granted a Stock Award implemented by credit to a Company bookkeeping account shall have any rights as a stockholder by virtue of such grant until shares are actually issued or delivered to the Participant. The Committee may establish and express in the written instrument evidencing the Stock Award terms and conditions under which the Participant granted such Stock Award shall be entitled to receive an amount equivalent to any dividend payable with respect to the number of shares which, as of the record date for which dividends are payable, have been credited but not delivered to the Participant. At the Committee's discretion, any such dividend equivalents (i) may be paid at such time or times during the period when the shares are as yet undelivered pursuant to the terms of the Stock Award, (ii) may be paid at the time the shares to which the dividend equivalents apply are delivered, or (iii) may be reflected by the credit of additional full or fractional shares to three decimal places in an amount equal to the amount of such dividend equivalents divided by the Fair Market Value of a full share on the date of payment of the dividend on which the dividend equivalent is based, all as shall be expressed in the written instrument evidencing the Stock Award. Any arrangements for the payment or credit of dividend equivalents shall be terminated if, and to the extent that, under the terms and conditions so established, the right to receive shares pursuant to the terms of the Stock Award shall terminate or lapse.

## ARTICLE VI

## STOCK AWARDS SUBJECT TO A RESTRICTED PERIOD

6.1 RESTRICTIONS. Each Stock Award granted under this Plan subject to a Restricted Period shall contain the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Committee.

Until the restrictions set forth in this Section 6.1 shall lapse pursuant to this Article VI, shares of Common Stock awarded to a Participant pursuant to each Stock Award:

(a) shall not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of; and

(b) shall be returned to the Company, and all rights of the Participant to such shares shall terminate without any payment of consideration by the Company, if the Participant's continuous employment with an Employer shall terminate for any reason, except as provided in Section 6.2, 6.3 or 6.5.

6.2 LAPSE OF RESTRICTIONS DUE TO TERMINATION OF RESTRICTED PERIOD. At the time of the Stock Award, there may be established for a Participant a "Restricted Period" which shall be such length of time as established by the Committee in its discretion. Shares of Common Stock awarded to Participants may not be sold, assigned, transferred, pledged, otherwise encumbered or disposed of, except as hereinafter provided, during the Restricted Period. Except for such restrictions on transfer, the Participant, as owner of such shares, shall have all the rights of the holder of Common Stock, including but not limited to, the right to vote the same and to receive all dividends paid on such shares.

6.3 LAPSE OF RESTRICTIONS DUE TO CERTAIN TERMINATIONS OF EMPLOYMENT. Unless otherwise provided by the Committee with respect to a particular Stock Award, if a Participant who has been in the continuous employment of any Employer since the date on which a Stock Award was granted to such Participant shall, while in such employment and prior to the close of the Restricted Period with respect to which such Stock Award was granted, terminate employment by reason of death, Disability or retirement on or after attainment of age fifty-five (55), the restrictions set forth in Section 6.1 shall lapse with respect to all of the shares subject to the Award.

6.4 TERMINATIONS OF EMPLOYMENT. A termination of employment except by reason of death, Disability or retirement on or after attainment of age fifty-five, with any Employer prior to the close of the Restricted Period with respect to which a particular Stock Award was granted would result in the forfeit of all such shares. Following the Distribution, a termination of employment with an Employer includes a transfer of employment from the Company (or a Subsidiary) to Resources (or a Resources Subsidiary) and vice versa.

6.5 TREATMENT UPON CHANGE IN CONTROL. Unless otherwise provided by the Committee with respect to a particular Stock Award, notwithstanding any provision of Section 6.1 or any other provision of this Plan, forthwith upon the occurrence of any Change in Control of the Company, the Company shall pay cash to each Participant to whom a Stock Award has been made (and with respect to which the restrictions have not previously lapsed) in an amount equal to the number of shares of Common Stock granted under this Plan pursuant to outstanding performance-based Stock Awards as if the performance objectives had been met at the maximum level times the Fair Market Value on the date of the Change in Control.

## ARTICLE VII

## ADMINISTRATION OF THE PLAN

7.1 THE COMMITTEE. This Plan shall be administered solely by the Committee. The Committee shall have full and final authority to interpret this Plan and the instruments evidencing Stock Awards granted hereunder, to prescribe, amend and rescind rules and regulations, if any, relating to this Plan and to make all determinations necessary or advisable for the administration of this Plan. The Committee's determination in all matters referred to herein

shall be conclusive and binding for all purposes and upon all persons including, but without limitation, the Employers, the shareholders of the Company, the Committee and each of the members thereof, as well as Participants and Employees and their respective successors in interest.

7.2 LIABILITY OF COMMITTEE. No member of the Committee shall be liable for anything done or omitted to be done by such member or by any other member of the Committee or by any person to whom authority is delegated as provided in the last sentence of Section 7.1 in connection with this Plan, except for the willful misconduct of such member or as expressly required by law. The Committee shall have power to engage outside consultants, auditors or other professionals to assist in the fulfillment of the Committee's duties under this Plan at the Company's expense.

7.3 DETERMINATION OF THE COMMITTEE. In making its determinations concerning the individuals who will become Participants, as well as the number of shares to be awarded to each Participant, the Committee shall take into account such factors as the Committee may deem relevant. The Committee shall also determine the form of Stock Awards to be issued under this Plan and the terms and conditions to be included therein, provided such terms and conditions are not inconsistent with the terms of this Plan. The Committee may, in its sole discretion, waive any provisions of any Stock Award, provided such waiver is not inconsistent with the terms of this Plan as then in effect.

## ARTICLE VIII

## AMENDMENT AND TERMINATION OF PLAN

8.1 AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION. The Board may amend, modify, suspend or terminate the Plan at any time except that no amendment or alteration that would impair the rights of any Participant under any outstanding Stock Award shall be made without such Participant's consent.

8.2 TERMINATION. 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. After this Plan has terminated, the function of the Committee with respect to this Plan will be limited to determinations, interpretations and other matters provided herein with respect to Stock Awards previously granted.

## ARTICLE IX

## MISCELLANEOUS PROVISIONS

9.1 RESTRICTIONS UPON GRANT OF STOCK AWARDS. The listing upon 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 Participants receiving such shares) may be necessary or desirable and, in any event, if the Committee in its sole discretion so determines, delivery of the certificates for 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 (the "1933 Act"), 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.

9.2 RESTRICTIONS UPON RESALE OF UNREGISTERED STOCK. If the shares of Common Stock that have been transferred to a Participant pursuant to the terms of this Plan are not registered under the 1933 Act pursuant to an effective registration statement, such Participant, if the Committee deems it advisable, may be required to represent and agree in writing (i) that any shares of Common Stock acquired by such Participant pursuant to this Plan will not be sold except pursuant to Rule 144 under the 1933 Act, pursuant to an effective registration statement under the 1933 Act, or pursuant to an exemption from registration under the 1933 Act; and (ii) that such Participant is acquiring such shares of Common Stock for such Participant's own account and not with a view to the distribution thereof.

9.3 ADJUSTMENTS.

(a) The existence of outstanding Stock Awards shall not affect in any manner the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or combination of outstanding shares of Common Stock or declaration of a dividend on the Common Stock payable in shares of Common Stock, the Committee may adjust proportionally the number of shares of Common Stock reserved under this Plan and covered by outstanding Stock Awards denominated in Common Stock or units of Common Stock and may also adjust, if it deems appropriate, any price criteria or other determination in respect of such Stock Awards. In the event of any consolidation or merger of the Company with another corporation or entity or the adoption by the Company of a plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock) or any reclassification of this Common Stock, the Committee may make such adjustments or other provisions as it may deem equitable, including adjustments to avoid fractional shares, to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, or liquidating distribution, the Committee shall be authorized to issue or assume Stock Awards, regardless of whether in a transaction to which Section 424(a) of the Code applies, by means of substitution of new Stock Awards for previously issued Stock Awards or an assumption of previously issued Stock Awards, or to make provision for the acceleration of the exercisability of, or lapse of restrictions with respect to, Stock Awards and the termination of unexercised rights with respect to Stock Awards in connection with such transaction.

9.4 WITHHOLDING OF TAXES: The Company or its designated third party administrator shall have the right to deduct taxes at the applicable supplemental rate from any payment or delivery hereunder and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes or other amounts required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes, provided that withholding obligations with respect to options may only be satisfied in cash as long as withholding of stock following the exercise of an option would result in a charge to earnings. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the award with respect to which withholding is required, except with respect to options. If shares of Common Stock are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value when the tax withholding is required to be made.

9.5 EFFECTIVE DATE OF PLAN: This Plan shall be effective as of March 4, 1998, and the amendment and restatement evidenced hereby shall be effective January 1, 2001.

CENTERPOINT ENERGY, INC.

By /s/ DAVID M. MCCLANAHAN
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David M. McClanahan
Vice Chairman

# FIRST AMENDMENT TO TEXAS GENCO OPTION AGREEMENT

This First Amendment to Texas Genco Option Agreement (this "Amendment"), entered into this 21st day of February, 2003, but effective as of December 31, 2000, between CenterPoint Energy, Inc., a Texas corporation ("CenterPoint Energy" or "Regco"), and Reliant Resources, Inc., a Delaware corporation ("Resources");

WHEREAS, Reliant Energy, Incorporated and Resources executed that certain Texas Genco Option Agreement, dated as of December 31, 2000 (the "Agreement");

WHEREAS, on August 31, 2002, CenterPoint Energy became the successor to the rights and obligations of Reliant Energy, Incorporated under the Agreement pursuant to the corporate restructuring of Reliant Energy, Incorporated contemplated in that Agreement;

WHEREAS, CenterPoint Energy and Resources desire to amend the Agreement in certain respects;

NOW THEREFORE, the parties, in consideration of the premises and for good and valuable consideration agree as follow:

1. Definitions.

Capitalized terms used herein and not defined shall have the meaning given in the Agreement.

2. Amendment to Section 2.1.

Section 2.1 of the Agreement, Organization of Genco LP, is amended by deleting the reference therein to "December 31, 2001" and substituting therefor "September 1, 2002."

3. Amendment to Section 2.4.

Section 2.4 of the Agreement, Genco Employee Matters, is amended by deleting the reference therein to "January 1, 2002" and substituting therefor "September 1, 2002."

4. Amendment to Section 3.1.

The penultimate sentence of the first paragraph of Section 3.1 shall be amended to read: "The Control Premium Amount shall apply to the extent that the PUCT includes up to a 10% control premium in the valuation of Texas Genco pursuant to Section 39.262(h)(3) of the Utilities Code and shall equal the proportional amount of the control premium applicable to the Shares.

5. Amendment to Section 3.2.

Section 3.2 of the Agreement, Exercise of Option, is amended to read:

Resources may exercise the Option by giving written notice thereof to Regco during the Option Period. Subject to compliance with Section 3.3, and to satisfaction of the Regulatory Conditions to Exercise, delivery of and payment for the Shares (assuming the Option has been so exercised) shall be made at 10:00 A.M., Houston time, on the later of (a) the forty-fifth (45th) business day (or the next business day after the expiration of 45 days in the event the 45th day is a bank holiday) following the giving of such notice (or such other date as the parties agree) and (b) the first business day following the satisfaction of the Regulatory Conditions to Exercise (satisfaction of which shall be a condition precedent to such delivery and payment) (which date shall be the "Option Closing Date"), provided that if the amount of any Control Premium Amount included in the exercise price has not been determined by Final Order of the PUCT prior to the date for delivery and payment so determined, the payment made on the date so determined shall exclude any Control Premium Amount and such Control Premium Amount shall be paid in immediately available funds no later than 5 business days after the PUCT issues a Final Order determining market value under Section 39.262(h)(3) of the Utilities Code. Delivery of the Shares shall be made to Resources on the Option Closing Date against payment by Resources of the purchase price by wire transfer payable in same-day funds to the account specified by Regco. Delivery of the Shares shall be made by delivery to Resources of stock certificates representing the Shares, accompanied by appropriate stock powers or other instruments in proper form to effect such transfer. If Resources determines prior to the Option Period and within one year prior to the anticipated Option Closing Date that it intends in good faith, subject to economic conditions and other reasonable assumptions identified at such time, to exercise the Option, it and Regco shall make all appropriate regulatory filings, including filings under the Hart-Scott-Rodino Antitrust Improvements Act ("H-S-R") and the Nuclear Regulatory Commission, with a view to obtaining required approvals or expiration or termination of the applicable waiting period prior to the Option Exercise Date. Regco and Resources shall use commercially reasonable efforts to cause all other Regulatory Conditions to Exercise to be satisfied as promptly as practicable after the Option Exercise Date.

If Resources exercises the Option by giving notice as provided above, Resources shall be entitled to rescind its exercise of the Option by notice given to Regco on or before the 45th day following the Option Exercise Date if Resources has been unable by that date to secure financing for its purchase of the Shares on terms reasonably acceptable to Resources, despite the exercise by Resources of commercially reasonable efforts to obtain such financing. Upon the giving of such notice of rescission by Resources, the Option Period shall be deemed to have expired without the exercise of the Option.

If the Option Closing Date has not occurred by the last day of the sixteenth (16th) month after the month in which the Option Exercise Date occurs, the rights of the parties under this Agreement shall terminate.

6. Amendment of Section 3.6.

Section 3.6 of the Agreement, Prohibitions on Market Activity, is amended to read: "Prior to the later of (a) the Option Exercise Date; (b) if the Option is not exercised, the Option Expiration Date; or (c) the conclusion of the trading period for the Genco Stock as determined pursuant to Section 39.262(h)(3), neither Regco, Resources nor Genco shall, directly or indirectly through any Subsidiary or other Person, purchase, sell, contract to purchase or sell, or otherwise acquire or dispose of any shares of Genco Common Stock or any options, warrants, rights, convertible securities or other securities convertible into or exercisable or exchangeable for Common Stock, except as may be necessary to effectuate this Agreement.

7. Amendment to Section 6.1.

Section 6.1 of the Agreement, Genco IPO or Genco Spinoff, is amended by deleting the reference to "June 30, 2002" and substituting therefor "January 9, 2003."

8. Amendment to Section 7.9.

Section 7.9 of the Agreement, Dividends; No Repurchases of Capital Stock, is deleted and the following Section 7.9 is substituted therefor:

7.9 Dividends; No Repurchases of Capital Stock

For the period beginning on the Genco Public Ownership Date, the Genco Board of Directors shall establish a dividend policy under which it will distribute to its shareholders a dividend based on Genco's earnings and cash flows, subject to any limitations under corporate law or applicable regulatory restrictions, its financial condition and other factors the Board of Directors deems relevant. The dividend shall be set annually for each calendar year on or before December 31 of the immediately preceding calendar year. The initial annual dividend for 2003 will be $1.00. The dividend as established may be revised during any calendar year in the event the Genco Board of Directors reasonably concludes that circumstances would warrant a change or that an adjustment is required to the dividend to satisfy its obligations to the corporation. However, the dividend may only be increased by up to 10 percent once during any calendar year. Such dividend amount shall be paid through regular quarterly cash dividends complying with this Section 7.9 ("Regular Cash Dividends"). If the Option is exercised, Resources agrees that it will maintain this dividend policy so long as Resources owns less than 100% of Genco common stock.

If Resources exercises the Option, the purchase price for the Shares shall be adjusted for the difference between:

(a) the actual earnings of Genco per share from the Genco Public Ownership Date to the Option Closing Date (the Earnings Period), multiplied by the number of Shares, and

(b) the dividends per share paid by Genco to Regco during the Earnings Period multiplied by the Shares.

To the extent dividends paid for each Share during the Earnings Period have been less than the actual per share earnings of Genco during the Earnings Period, the Option Price shall be adjusted upward for the difference; and to the extent dividends paid for each Share during the Earnings Period exceed the actual earnings of Genco per Share during the Earnings Period, the option price shall be credited with that difference. If and to the extent financial statements are not available to permit the earnings for the entire Earnings Period to be calculated at the date any such payment is to be made, the payment shall be made as promptly thereafter as practicable. Earnings for any portion of a month shall be calculated by pro rating earnings for the entire month based on the number of days in the applicable portion of such month.

From and after the Genco Public Ownership Date, Genco will not declare, set aside or pay any dividend payable in cash, stock or property, except for (a) Regular Cash Dividends, or (b) dividends payable solely in Genco Common Stock for which, if occurring during the Pricing Period, an adjustment is made pursuant to Section 3.1. Genco will not, and will not permit any of its Subsidiaries to, purchase or otherwise acquire for value any shares of Genco Common Stock.

9. Amendment to Section 7.13.1.

Section 7.13.1 is amended by deleting the reference therein to "15 days" and by substituting therefor "45 days."

10. Amendment to Section 8.1.

Section 8.1 of the Agreement, Board Composition, is amended by the addition of the following at the end of the Section:

> If the Option is exercised, Regco agrees it will, subject to the satisfaction of the Regulatory Conditions to Exercise and the expiration of the 45-day rescission period set forth in Section 3.2, cause the shares of common stock of Genco owned or controlled by Regco to be voted in favor of nominees for Director proposed by Resources so that a majority of the Board of Directors as of the Option Closing Date will be nominees of Resources.

11. No Implied Amendments. Except as specifically amended by this Amendment, the Agreement shall remain in full force and effect in accordance with its terms and is hereby ratified and confirmed.

12. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned, by their officers thereunto duly authorized, have executed this Amendment to the Texas Genco Option Agreement as of the day and year first above written.

| | |
|---|---|
| CENTERPOINT ENERGY, INC. | RELIANT RESOURCES, INC. |
| By /s/ DAVID M. MCCLANAHAN | By /s/ DAN HANNON |

EXHIBIT 10(cc)(1)

# SEPARATION AGREEMENT

BETWEEN

CENTERPOINT ENERGY, INC.

AND

TEXAS GENCO HOLDINGS, INC.

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SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this "Agreement") is entered into effective as of August 31, 2002 between CenterPoint Energy, Inc., a Texas corporation ("CenterPoint"), and Texas Genco Holdings, Inc., a Texas corporation ("Genco"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in Article I hereof.

RECITALS

WHEREAS, Genco was incorporated on August 24, 2001 and organized as a wholly owned direct Subsidiary of Reliant Energy, Incorporated, a Texas corporation ("REI"), on September 21, 2001; and

WHEREAS, effective August 31, 2002, REI consummated a restructuring transaction (the "Holding Company Restructuring") as a result of which it became an indirect wholly owned subsidiary of CenterPoint; and

WHEREAS, as part of the Holding Company Restructuring, REI conveyed the Genco Assets to Genco and Genco contributed the Genco Assets to Texas Genco, LP, a Texas limited partnership and a wholly owned subsidiary of Genco ("Genco LP"); and

WHEREAS, as part of the Holding Company Restructuring REI was converted into a Texas limited liability company named CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston"); and

WHEREAS, under the Texas Electric Choice Plan (the "Texas Electric Restructuring Law"), CenterPoint Houston is entitled to recover its "stranded costs" associated with the Genco Assets; and

WHEREAS, the Texas Electric Restructuring Law allows alternate methods for establishing a market value for the Genco Assets, and under the Business Separation Plan, REI agreed that the fair market value of the Genco Assets will be determined using the partial stock market valuation method permitted under the law; and

WHEREAS, CenterPoint intends to distribute (the "Genco Distribution") approximately 19% of the outstanding shares of Genco Common Stock to CenterPoint's common shareholders on a pro rata basis in order to effect the partial stock valuation method for the Genco Assets as contemplated under the Business Separation Plan; and

WHEREAS, in 2004 following the Genco Distribution, Reliant Resources, Inc., a Delaware corporation ("Resources"), will have the option purchase all of the shares of Genco Common Stock then owned by CenterPoint pursuant to the Genco Option Agreement; and

WHEREAS, the parties intend in this Agreement, including the Exhibits and Schedules hereto, to set forth the principal arrangements between them regarding the separation of the Genco Business from the CenterPoint Business and the Genco Distribution.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 Action. "Action" means any demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any federal, state, local, foreign or international Governmental Authority or any arbitration or mediation tribunal.

1.2 Affiliates. An "Affiliate" of any Person means another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For this purpose "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Person controlled, whether through ownership of voting securities, by contract or otherwise. The fact that any Person may be deemed at any time an Affiliate of another Person for purposes of the Utilities Code shall not create any implication that such Persons are "affiliates" for purposes of this Agreement. Notwithstanding anything herein to the contrary, no member of the Genco Group shall be deemed an Affiliate of any member of the CenterPoint Group and no member of the CenterPoint Group shall be deemed an Affiliate of any member of the Genco Group.

1.3 Ancillary Agreements. "Ancillary Agreements" means (i) the Genco Transition Services Agreement and the Genco Tax Allocation Agreement between the parties hereto of even date herewith, (ii) the conveyances and other related documents delivered in connection with the transfer of the Genco Assets to Genco LP in connection with the Holding Company Restructuring, (iii) the Technical Services Assignment and Assumption Agreement, (iv) the Genco Option Agreement Undertaking, and (v) such other agreements, documents or instruments as the parties may agree are necessary or desirable and which specifically state that they are Ancillary Agreements within the meaning of this Agreement.

1.4 Business. "Business" means either of the CenterPoint Business or the Genco Business, as the context requires.

1.5 Business Day. "Business Day" means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of Texas are authorized or obligated by law or executive order to close.

1.6 Business Separation Plan. "Business Separation Plan" means the Business Separation Plan, as amended, filed by REI with the PUCT in accordance with Section 39.051 of the Utilities Code and approved by the PUCT at its open meeting on December 1, 2000 (Docket No. 21956).

1.7 CenterPoint's Auditors. "CenterPoint's Auditors" means CenterPoint's independent certified public accountants.

1.8 CenterPoint Business. "CenterPoint Business" means any business of CenterPoint and its Subsidiaries other than the Genco Business.

1.9 CenterPoint Field of Use. "CenterPoint Field of Use" means electric power transmission and distribution; natural gas distribution; thermal utilities and systems; and interstate pipeline and gathering activities.

1.10 CenterPoint Group. "CenterPoint Group" means CenterPoint, each Subsidiary of CenterPoint (other than any member of the Genco Group) immediately after the Genco Separation Date and each Person that becomes a Subsidiary of CenterPoint after the Genco Separation Date.

1.11 CenterPoint Indemnitees. "CenterPoint Indemnitees" has the meaning assigned to that term in Section 3.2.

1.12 CenterPoint Intellectual Property. "CenterPoint Intellectual Property" means that Intellectual Property owned, in whole or in part, immediately prior to the Genco Separation Date, by any entity that, subsequent to the Separation Date, will be a part of the CenterPoint Group.

1.13 Code. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.14 Commission. "Commission" means the Securities and Exchange Commission.

1.15 Distribution Shares. "Distribution Shares" has the meaning set forth in Section 2.1.

1.16 Exchange Act. "Exchange Act" means the Securities Exchange Act of 1934, as amended.

1.17 Final Order. Unless the context requires otherwise, "Final Order," "Order," "Injunction," "Decree," "Legal Restraint," "Prohibition," "Writ" or other words of similar import shall mean final adjudication by a court or regulatory agency that is no longer subject to rehearing or appeal.

1.18 Genco Assets. "Genco Assets" means all of the generation assets (as that term is defined in Section 39.251(3) of the Utilities Code) that belonged to the Reliant Energy HL&P Division of REI before such assets were conveyed, assigned, transferred and delivered to Genco LP pursuant to a Bill of Sale and Assignment dated as of August 31, 2002 (the "Genco Bill of Sale"). The Genco Assets include, without limitation, the generation plants and other assets and contract and permit rights associated with those generation plants as described in the Genco Bill of Sale. The methodology for determining the demarcation between Genco Assets and CenterPoint's transmission and distribution assets is set forth in Section D of the Business Separation Plan.

1.19 Genco Auditors. "Genco Auditors" means Genco's independent certified public accountants.

1.20 Genco Balance Sheet. "Genco Balance Sheet" means the consolidated balance sheet of Genco and affiliates as of August 31, 2002.

1.21 Genco Business. "Genco Business" means the electric generation business and operations conducted with the Genco Assets.

1.22 Genco Common Stock. "Genco Common Stock" means the Common Stock, par value $.001 per share, of Genco.

1.23 Genco Debt Obligations. "Genco Debt Obligations" means all Indebtedness of Genco or any other member of the Genco Group, excluding all Indebtedness of any member of the CenterPoint Group to the extent it constitutes Indebtedness of Genco by virtue of clause (f) or clause (g) of the definition of Indebtedness. Genco Debt Obligations shall include, as of the date of the Genco Balance Sheet, the Indebtedness of Genco reflected on such balance sheet.

1.24 Genco Distribution Agent. "Genco Distribution Agent" has the meaning set forth in Section 2.1.

1.25 Genco Distribution Date. "Genco Distribution Date" has the meaning set forth in Section 2.1.

1.26 Genco Excluded Liabilities. "Genco Excluded Liabilities" means any and all Liabilities that are expressly contemplated by this Agreement or any Ancillary Agreement as Liabilities to be retained or assumed by CenterPoint or any other member of the CenterPoint Group, and all agreements and obligations of any member of the CenterPoint Group under this Agreement or any of the Ancillary Agreements.

1.27 Genco Group. "Genco Group" means Genco, each Subsidiary of Genco immediately after the Genco Separation Date, including the Subsidiaries set forth in Schedule 1.27, and each Person that becomes a Subsidiary of Genco after the Genco Separation Date.

1.28 Genco Indemnitees. "Genco Indemnitees" has the meaning set forth in Section 3.3.

1.29 Genco Intellectual Property. "Genco Intellectual Property" means that Intellectual Property owned, in whole or in part, immediately prior to the Genco Separation Date, by any entity which, subsequent to the Genco Separation Date, will be a part of the Genco Group.

1.30 Genco Liabilities. "Genco Liabilities" means:

(i) any and all Liabilities under contracts for the purchase of fuel, equipment or other goods and services for use in the Genco Business;

(ii) any and all Liabilities that are expressly contemplated by this Agreement or any Ancillary Agreement as Liabilities to be assumed by Genco or any member of the Genco Group, including Liabilities under the Technical Services Agreement and the contracts, agreements and permits included in the Genco Assets; and

(iii) all Liabilities (other than Taxes based on, or measured by reference to, net income), primarily relating to, arising out of, or resulting from:

(A) the operation of the Genco Business, as conducted at any time prior to, on or after, the Genco Separation Date (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority));

(B) the operation of any business conducted by the Genco Group at any time after the Genco Separation Date (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority));

(C) the ownership or use of the Genco Assets; and

(D) the Genco Debt Obligations.

Notwithstanding the foregoing, the Genco Liabilities shall not include the Genco Excluded Liabilities.

1.31 Genco LP. "Genco LP" means Texas Genco, LP, a Texas limited partnership and a wholly owned direct Subsidiary of Genco.

1.32 Genco Option. "Genco Option" means the "Option" as defined in the Genco Option Agreement.

1.33 Genco Option Agreement. "Genco Option Agreement" means the Texas Genco Option Agreement dated as of December 31, 2000 between REI and Resources.

1.34 Genco Option Agreement Undertaking. "Genco Option Agreement Undertaking" means that certain Undertaking to Comply with Certain Provisions of Option Agreement entered into as of August 31, 2002 by Genco under which Genco has agreed to observe and comply with certain covenants of the Genco Option Agreement.

1.35 Genco Separation Date. "Genco Separation Date" means August 31, 2002, the date on which the Genco Assets were transferred to Genco LP and the Genco Liabilities were assumed by Genco or Genco LP pursuant to that certain Bill of Sale and Assignment of even date therewith.

1.36 Genco Tax Allocation Agreement. "Genco Tax Allocation Agreement" means the Tax Allocation Agreement of even date herewith between CenterPoint and Genco.

1.37 Genco Transition Services Agreement. "Genco Transition Services Agreement" means the Transition Services Agreement of even date herewith between CenterPoint and Genco.

1.38 Governmental Approvals. "Governmental Approvals" means any notices, reports or other filings to be made, or any consents, registrations, approvals, permits or authorizations to be obtained from, any Governmental Authority.

1.39 Governmental Authority. "Governmental Authority" means any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

1.40 Holding Company Restructuring. "Holding Company Restructuring" has the meaning set forth in the recitals hereto.

1.41 Indebtedness. "Indebtedness" of any Person means (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge, or other encumbrance on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, and (i) all securities or other similar instruments convertible or exchangeable into any of the foregoing, but excluding daily cash overdrafts associated with routine cash operations.

1.42 Indemnifying Party. "Indemnifying Party" has the meaning set forth in Section 3.4.

1.43 Indemnitee. "Indemnitee" has the meaning set forth in Section 3.4.

1.44 Indemnity Payment. "Indemnity Payment" has the meaning set forth in Section 3.4.

1.45 Information. "Information" means information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data.

1.46 Insurance Proceeds. "Insurance Proceeds" means those monies:

(a) received by an insured from an insurance carrier; or

(b) paid by an insurance carrier on behalf of the insured;

in any such case net of any applicable premium adjustments (including reserves and retrospectively rated premium adjustments) and net of any costs or expenses (including allocated costs of in-house counsel and other personnel) incurred in the collection thereof.

1.47 Intellectual Property. "Intellectual Property" means all U.S. and foreign intellectual and industrial property, including patent applications, patents and any reissues or reexaminations thereof, trademarks, service marks, trademark/service mark registrations and applications, brand names, trade names, all other names and slogans embodying business or product goodwill (or both), copyright registrations, mask works, copyrights, (including copyrights in computer programs, software, computer code, documentation, programming tools, drawings, specifications and data), moral rights of authorship, rights in designs, trade secrets, technology, inventions, discoveries, improvements, know-how, proprietary rights, formulae, processes, methods, technical information, confidential and proprietary information, and all other intellectual and industrial property rights, whether or not subject to statutory registration or protection.

1.48 Liabilities. "Liabilities" means any and all Indebtedness, liabilities and obligations, whether accrued, fixed or contingent, mature or inchoate, known or unknown, reflected on a balance sheet or otherwise, including, but not limited to, those arising under any law, rule, regulation, Action, order, injunction or consent decree of any Governmental Authority or any judgment of any court of any kind or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking.

1.49 Losses. "Losses" means any and all damages, losses, deficiencies, Liabilities, obligations, penalties, judgments, settlements, claims, payments, fines, interest costs and expenses (including, without limitation, the costs and expenses of any and all Actions and demands, assessments, judgments, settlements and compromises relating thereto and the costs and expenses of attorneys', accountants', consultants' and other professionals' fees and expenses incurred in the investigation or defense thereof or the enforcement of rights hereunder), including direct and consequential damages, but excluding punitive damages (other than punitive damages awarded to any third party against an Indemnified Party).

1.50 Master Separation Agreement. "Master Separation Agreement" means that certain Master Separation Agreement dated as of December 31, 2000 between REI and Resources.

1.51 NYSE. "NYSE" means the New York Stock Exchange.

1.52 Person. "Person" means an individual, a partnership, a limited partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

1.53 PUCT. "PUCT" means the Public Utility Commission of Texas.

1.54 Record Date. "Record Date" means the close of business on the date determined by the Board of Directors of CenterPoint as the record date for determining the shareholders of CenterPoint entitled to receive shares of Genco Common Stock in the Genco Distribution.

1.55 Regulatory Proceedings. "Regulatory Proceedings" means filings, notices, adjudicatory proceedings, rulemakings, enforcement actions before an agency or in court relative to regulatory activity, and any other proceedings at or before any regulatory or administrative agency. The term shall refer also to appellate activities relative to any of the foregoing, including actions seeking injunctions, writs of mandamus and appeals.

1.56 REI. "REI" has the meaning set forth in the recitals hereto.

1.57 Resources. "Resources" has the meaning set forth in the recitals hereto.

1.58 Subsidiary. A "Subsidiary" of any Person means any corporation or other organization whether incorporated or unincorporated of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries.

1.59 Taxes. "Taxes" has the meaning set forth in the Genco Tax Allocation Agreement.

1.60 Technical Services Agreement. "Technical Services Agreement" means that certain Technical Services Agreement dated as of December 31, 2000 between REI and Resources.

1.61 Technical Services Assignment and Assumption Agreement. "Technical Services Assignment and Assumption Agreement" means that certain Assignment and Assumption Agreement for the Technical Services Agreement entered into as of August 31, 2002 by and between Genco LP and REI under which Genco LP assumed certain obligation of REI and REI assigned certain rights to Genco LP under the Technical Services Agreement.

1.62 Third Party Claim. "Third Party Claim" has the meaning set forth in Section 3.5.

1.63 Utilities Code. "Utilities Code" means the Utilities Code of Texas.

ARTICLE II

THE GENCO DISTRIBUTION AND THE ACTIONS PENDING THE GENCO DISTRIBUTION

2.1 DELIVERY OF SHARES FOR GENCO DISTRIBUTION. (a) On or prior to the date the Genco Distribution is made (the "Genco Distribution Date"), CenterPoint will deliver or cause to be delivered to the distribution agent to be appointed by CenterPoint (the "Genco Distribution Agent") a single stock certificate, endorsed by CenterPoint in blank, representing approximately 19.0% of the shares of Genco Common Stock then owned by CenterPoint (the "Distribution Shares") and shall cause the transfer agent for the shares of CenterPoint common stock to instruct the Genco Distribution Agent to distribute on a prorata basis on the Genco Distribution Date the appropriate number of such Distribution Shares to each such holder of record or designated transferee or transferees of such holder of record of CenterPoint common stock as of the Record Date.

(b) Obligation to Provide Information. CenterPoint and Genco, as the case may be, will provide to the Genco Distribution Agent all share certificates and any information required in order to complete the Genco Distribution on the basis specified above.

2.2 ACTIONS PRIOR TO THE GENCO DISTRIBUTION. CenterPoint and Genco shall use their reasonable commercial efforts to consummate the Genco Distribution. Such efforts shall include, but not necessarily be limited to, the following:

(a) CenterPoint and Genco shall cooperate in preparing, filing with the Commission and causing to become effective a registration statement on Form 10 registering the Genco Common Stock under the Exchange Act. CenterPoint and Genco shall each use its reasonable commercial efforts to obtain all necessary approvals from the Commission with respect thereto as soon as practicable.

(b) CenterPoint and Genco shall prepare and mail, prior to the Genco Distribution Date, to the holders of record of CenterPoint common stock as of the Record Date such information concerning Genco and the Genco Distribution and such other matters as CenterPoint shall reasonably determine are necessary and as may be required by law.

(c) CenterPoint and Genco shall take all such actions as may be necessary or appropriate under the securities or blue sky laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Genco Distribution.

(d) Genco shall prepare and file, and shall use its reasonable commercial efforts to have approved, an application for the listing of the Genco Common Stock to be distributed in the Genco Distribution on the NYSE, subject to official notice of distribution.

2.3 CONDITIONS PRECEDENT TO THE GENCO DISTRIBUTION. The parties hereto shall use their reasonable commercial efforts to satisfy the conditions listed below to the consummation of the Genco Distribution. The obligations of the parties to use their reasonable commercial efforts

to consummate the Genco Distribution shall be conditioned on the satisfaction, or waiver by CenterPoint, of the following conditions:

(a) The registration statement on Form 10 related to the Genco Distribution shall have been filed with and declared effective by the Commission, and no stop order shall be in effect with respect thereto.

(b) The information concerning Genco and the Genco Distribution described in Section 2.2(b) shall have been prepared and mailed to the holders of common stock of CenterPoint.

(c) The actions and filings with regard to state securities and blue sky laws of the United States (and any comparable laws under any foreign jurisdictions) described in Section 2.2(c) shall have been taken and, where applicable, have become effective or been accepted.

(d) The Genco Common Stock to be issued in the Genco Distribution shall have been approved for listing on the NYSE, on official notice of distribution.

(e) CenterPoint shall be satisfied in its sole discretion that it will satisfy the stock ownership requirements of Section 1504(a)(2) of the Code with respect to the stock of Genco.

(f) Any material Governmental Approvals necessary to consummate the Genco Distribution shall have been obtained and be in full force and effect.

(g) No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Genco Distribution or any of the other transactions contemplated by this Agreement or any Ancillary Agreement shall be in effect and no other event outside the control of Genco shall have occurred or failed to occur that prevents the consummation of the Genco Distribution.

(h) Such other actions as the parties hereto may, based upon the advice of counsel, reasonably request to be taken prior to the Genco Distribution in order to assure the successful completion of the Genco Distribution shall have been taken.

(i) This Agreement and all Ancillary Agreements have been executed and shall not have been terminated.

(j) No events or developments shall have occurred that, in the judgment of the Board of Directors of CenterPoint, would result in the Genco Distribution's having a material adverse effect on CenterPoint or on the shareholders of CenterPoint.

2.4 COOPERATION. Genco shall consult with, and cooperate in all respects with, CenterPoint in connection with the Genco Distribution and shall, at CenterPoint's direction, promptly take any and all actions necessary or desirable to consummate the Genco Distribution.

2.5 FRACTIONAL SHARES. CenterPoint shall direct the Genco Distribution Agent to determine the number of whole shares and fractional shares of Genco Common Stock allocable

to each holder of record of CenterPoint common stock as of the Record Date, to aggregate all such fractional shares and to appoint an independent broker-dealer that is not an Affiliate of CenterPoint or Genco (the "Independent Broker-Dealer") to sell the whole shares obtained thereby in open market transactions. The Independent Broker-Dealer shall, in its sole discretion, determine when, how and at what price to make its sales. The Genco Distribution Agent shall cause to be distributed to each such holder or for the benefit of each such beneficial owner to which a fractional share shall be allocable such holder's or owner's ratable share of the proceeds of such sales by the Independent Broker Dealer, after making appropriate deductions of any amount required to be withheld for federal income tax purposes. CenterPoint shall direct the Genco Distribution Agent to aggregate the shares of CenterPoint common stock known to be held by any beneficial owner thereof through more than one account in determining the fractional share allocable to such beneficial owner.

## ARTICLE III

## MUTUAL RELEASES; INDEMNIFICATION

### 3.1 RELEASE OF PRE-DISTRIBUTION CLAIMS.

(a) Except as provided in Section 3.1(c), effective as of the Genco Distribution Date, Genco does hereby, for itself and each other member of the Genco Group, their respective Affiliates (other than any member of the CenterPoint Group), successors and assigns, and all Persons who at any time prior to the Genco Distribution Date have been shareholders, directors, officers, agents or employees of any member of the Genco Group (in each case, in their respective capacities as such), remise, release and forever discharge CenterPoint, each member of the CenterPoint Group and their respective Affiliates (other than any member of the Genco Group), successors and assigns, and all Persons who at any time prior to the Genco Distribution Date have been shareholders, directors, officers, agents or employees of any member of the CenterPoint Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever to Genco and each other member of the Genco Group, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Genco Distribution Date, including in connection with the transactions and all other activities to implement the Genco Distribution.

(b) Except as provided in Section 3.1(c), effective as of the Genco Distribution Date, CenterPoint does hereby, for itself and each other member of the CenterPoint Business, their respective Affiliates (other than any member of the Genco Group), successors and assigns, and all Persons who at any time prior to the Genco Distribution Date have been shareholders, directors, officers, agents or employees of any member of the CenterPoint Group (in each case, in their respective capacities as such), remise, release and forever discharge Genco, each member of the Genco Group, and their respective Affiliates (other than any member of the CenterPoint Group), successors and assigns, and all Persons who at any time prior to the Genco Distribution Date have been shareholders, directors, officers, agents or employees of any member of the Genco Business (in each case, in their respective capacities as such), and their

respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever to CenterPoint and each other member of the CenterPoint Group, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Genco Distribution Date, including in connection with the transactions and all other activities to implement the Genco Distribution.

(c) Nothing contained in Section 3.1(a) or (b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified in this Agreement or in any Ancillary Agreement. Nothing contained in Section 3.1(a) or (b) shall release any Person from:

(i) any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement;

(ii) any Liability for the sale, lease, construction or receipt of goods, property or services purchased, obtained or used in the ordinary course of business by a member of one Group from a member of any other Group prior to the Genco Distribution Date;

(iii) any Liability for unpaid amounts for products or services or refunds owing on products or services due on a value-received basis for work done by a member of one Group at the request or on behalf of a member of another Business;

(iv) any Liability that the parties may have with respect to indemnification or contribution pursuant to this Agreement for claims brought against the parties by third Persons, which Liability shall be governed by the provisions of this Article III and, if applicable, the appropriate provisions of the Ancillary Agreements; or

(v) any Liability the release of which would result in the release of any Person other than a Person released pursuant to this Section 3.1; provided that the parties agree not to bring suit or permit any of their Subsidiaries to bring suit against any Person with respect to any Liability to the extent that such Person would be released with respect to such Liability by this Section 3.1 but for the provisions of this clause (v).

(d) Genco shall not make, and shall not permit any member of the Genco Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against CenterPoint or any member of the CenterPoint Group, or any other Person released pursuant to Section 3.1(a), with respect to any Liabilities released pursuant to Section 3.1(a). CenterPoint shall not make, and shall not permit any member of the CenterPoint Group to make, any claim or demand, or commence any

Action asserting any claim or demand, including any claim of contribution or any indemnification, against Genco or any member of the Genco Group, or any other Person released pursuant to Section 3.1(b), with respect to any Liabilities released pursuant to Section 3.1(b).

(e) It is the intent of each of CenterPoint and Genco by virtue of the provisions of this Section 3.1 to provide for a full and complete release and discharge of all Liabilities existing or arising from all acts and events occurring or failing to occur or alleged to have occurred or to have failed to occur and all conditions existing or alleged to have existed on or before the Genco Distribution Date, between or among Genco or any member of the Genco Group, on the one hand, and CenterPoint or any member of the CenterPoint Group, on the other hand (including any contractual agreements or arrangements existing or alleged to exist between or among any such members on or before the Genco Distribution Date), except as expressly set forth in Section 3.1(c). At any time, at the request of any other party, each party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions hereof.

3.2 INDEMNIFICATION BY GENCO. Except as provided in Section 3.4, Genco shall, and in the case of clauses (a), (b) and (c) below shall in addition cause the Appropriate Member of the Genco Group (as defined below) to, indemnify, defend and hold harmless CenterPoint, each member of the CenterPoint Group and each of their respective directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "CenterPoint Indemnitees") from and against any and all Losses of the CenterPoint Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) the failure of Genco or any other member of the Genco Group or any other Person to pay, perform or otherwise promptly discharge any Genco Liabilities in accordance with their respective terms, whether prior to or after the Genco Distribution Date or the date thereof;

(b) the Genco Business or any Genco Liability;

(c) any breach by Genco or any member of the Genco Group of this Agreement or any of the Ancillary Agreements; and

(d) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the registration statement on Form 10 and the related information statement sent to the holders of CenterPoint's common stock related to the Genco Distribution (other than information regarding CenterPoint provided by CenterPoint to Genco for inclusion therein).

As used in this Section 3.2, "Appropriate Member of the Genco Group" means the member or members of the Genco Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the loss from and against which indemnity is provided.

3.3 INDEMNIFICATION BY CENTERPOINT. Except as provided in Section 3.4, CenterPoint shall, and in the case of clauses (a), (b) and (c) below shall in addition cause the Appropriate Member of the CenterPoint Group (as defined below) to, indemnify, defend and hold harmless Genco, each member of the Genco Group and each of their respective directors,

officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "Genco Indemnitees") from and against any and all Losses of the Genco Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) the failure of CenterPoint or any other member of the CenterPoint Group or any other Person to pay, perform or otherwise promptly discharge any Liabilities of any member of the CenterPoint Group other than the Genco Liabilities, in accordance with their respective terms, whether prior to or after the Genco Distribution Date or the date hereof;

(b) the CenterPoint Business or any Liability of any member of the CenterPoint Group other than the Genco Liabilities;

(c) any breach by CenterPoint or any member of the CenterPoint Group of this Agreement or any of the Ancillary Agreements; and

(d) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to information regarding CenterPoint provided by CenterPoint to Genco for inclusion in the registration statement on Form 10 or the information statement sent to the holders of CenterPoint's common stock related to the Genco Distribution.

As used in this Section 3.3, "Appropriate Member of the CenterPoint Group" means the member or members of the CenterPoint Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the Loss from and against which indemnity is provided.

3.4 INDEMNIFICATION OBLIGATIONS NET OF INSURANCE PROCEEDS AND OTHER AMOUNTS. (a) The parties intend that any Loss subject to indemnification or reimbursement pursuant to this Article III will be net of Insurance Proceeds that actually reduce the amount of the Loss. Accordingly, the amount which any party (an "Indemnifying Party") is required to pay to any Person entitled to indemnification hereunder (an "Indemnitee") will be reduced by any Insurance Proceeds theretofore actually recovered by or on behalf of the Indemnitee in reduction of the related Loss. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any Loss and subsequently receives Insurance Proceeds, then the Indemnitee will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the Insurance Proceeds recovery had been received, realized or recovered before the Indemnity Payment was made.

(b) An insurer who would otherwise be obligated to pay any claims shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provisions hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of the indemnification provisions hereof. Nothing contained in this Agreement or any Ancillary

Agreement shall obligate any member of any Business to seek to collect or recover any Insurance Proceeds.

3.5 PROCEDURES FOR INDEMNIFICATION OF THIRD PARTY CLAIMS. (a) If an Indemnitee shall receive notice or otherwise learn of the assertion by a Person (including any Governmental Authority) who is not a member of the CenterPoint Group or the Genco Group of any claims or of the commencement by any such Person of any Action (collectively, a "Third Party Claim") with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to Section 3.2 or 3.3, or any other Section of this Agreement or any Ancillary Agreement, such Indemnitee shall give such Indemnifying Party written notice thereof within 20 days after becoming aware of such Third Party Claim. Any such notice shall describe the Third Party Claim in reasonable detail. Notwithstanding the foregoing, the failure of any Indemnitee or other Person to give notice as provided in this Section 3.5(a) shall not relieve the related Indemnifying Party of its obligations under this Article III, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice.

(b) An Indemnifying Party may elect to defend (and, unless the Indemnifying Party has specified any reservations or exceptions, to seek to settle or compromise), at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Third Party Claim. Within 30 days after the receipt of notice from an Indemnitee in accordance with Section 3.5(a) (or sooner, if the nature of such Third Party Claim so requires), the Indemnifying Party shall notify the Indemnitee of its election whether the Indemnifying Party will assume responsibility for defending such Third Party Claim, which election shall specify any reservations or exceptions. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third Party Claim, such Indemnitee shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise, or settlement thereof, but the fees and expenses of such counsel shall be the expense of such Indemnitee except as set forth in the next sentence. In the event that the Indemnifying Party has elected to assume the defense of the Third Party Claim but has specified, and continues to assert, any reservations or exceptions in such notice, then, in any such case, the reasonable fees and expenses of one separate counsel for all Indemnitees shall be borne by the Indemnifying Party.

(c) If an Indemnifying Party elects not to assume responsibility for defending a Third Party Claim, or fails to notify an Indemnitee of its election as provided in Section 3.5(b), such Indemnitee may defend such Third Party Claim at the cost and expense (included allocated costs of in-house counsel and other personnel) of the Indemnifying Party.

(d) Unless the Indemnifying Party has failed to assume the defense of the Third Party Claim in accordance with the terms of this Agreement, no Indemnitee may settle or compromise any Third Party Claim without the consent of the Indemnifying Party.

(e) No Indemnifying Party shall consent to entry of any judgment or enter into any settlement of the Third Party Claim without the consent of an Indemnitee if the effect thereof is to permit any injunction, declaratory judgment, other order or other nonmonetary relief to be entered, directly or indirectly, against such Indemnitee.

(f) The provisions of Section 3.2 through 3.5 shall not apply to Taxes (which are covered by the Genco Tax Allocation Agreement).

3.6 ADDITIONAL MATTERS. (a) Any claim on account of a Loss that does not result from a Third Party Claim shall be asserted by written notice given by the Indemnitee to the related Indemnifying Party. Such Indemnifying Party shall have a period of 30 days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such 30-day period, such Indemnifying Party shall be deemed to have refused to accept responsibility to make payment. If such Indemnifying Party does not respond within such 30-day period or rejects such claim in whole or in part, such Indemnitee shall be free to pursue such remedies as may be available to such party as contemplated by this Agreement and the Ancillary Agreements.

(b) In the event of payment by or on behalf of any Indemnifying Party to any Indemnitee in connection with any Third Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third Party Claim against any claimant or plaintiff asserting such Third Party Claim or against any other person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense (including allocated costs of in-house counsel and other personnel) of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

(c) In the event of an Action in which the Indemnifying Party is not a named defendant, if either the Indemnified Party or Indemnifying Party shall so request, the parties shall endeavor to substitute the Indemnifying Party for the named defendant, if at all practicable. If such substitution or addition cannot be achieved for any reason or is not requested, the named defendant shall allow the Indemnifying Party to manage the Action as set forth in this Section 3.6 and the Indemnifying Party shall fully indemnify the named defendant against all costs of defending the Action (including court costs, sanctions imposed by a court, attorneys' fees, experts' fees and all other external expenses, and the allocated costs of in-house counsel and other personnel), the costs of any judgment or settlement, and the cost of any interest or penalties relating to any judgment or settlement.

(d) THE PARTIES UNDERSTAND AND AGREE THAT THE INDEMNIFICATION OBLIGATIONS HEREUNDER AND UNDER THE ANCILLARY AGREEMENTS MAY INCLUDE INDEMNIFICATION FOR LOSSES RESULTING FROM, OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, AN INDEMNIFIED PARTY'S OWN NEGLIGENCE OR STRICT LIABILITY.

3.7 REMEDIES CUMULATIVE. The remedies provided in this Article III shall be cumulative and, subject to the provisions of Article VII, shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

3.8 SURVIVAL OF INDEMNITIES. The rights and obligations of each CenterPoint and Genco and their respective Indemnitees under this Article III shall survive the sale or other transfer by any party of any Assets or businesses or the assignment by it of any Liabilities.

3.9 INDEMNIFICATION OF DIRECTORS AND OFFICERS. For purpose of Sections 3.2 through 3.8, inclusive, and notwithstanding anything to the contrary contained herein, Persons who serve on both the Board of Directors of Genco and the Board of Directors of CenterPoint and persons who serve as officers of both Genco and CenterPoint shall be deemed both Genco Indemnitees and CenterPoint Indemnitees.

## ARTICLE IV

## CORPORATE GOVERNANCE AND CERTAIN OTHER MATTERS

4.1 CHARTER, BYLAWS AND BOARD OF DIRECTORS OF GENCO. As of the Genco Distribution Date, (i) the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws of Genco shall be in the forms attached to Schedule 4.1(a) and 4.1(b) hereto, respectively, which shall comply in all material respects with the requirements set forth in Sections 2.3 and 8.2 of the Genco Option Agreement, and (ii) the individuals named in Schedule 4.1(c) shall constitute the Board of Directors of Genco.

4.2 ISSUANCE OF STOCK. In addition to and without limiting the scope of any restrictions arising under Section 3.6 of the Genco Option Agreement, following the Genco Distribution Date, without the prior consent of CenterPoint, Genco shall not issue any stock of Genco or any securities, options, warrants or rights convertible into or exercisable or exchangeable for stock of Genco.

## ARTICLE V

## INTELLECTUAL PROPERTY

5.1 ASSIGNMENT. CenterPoint hereby assigns to Genco all of its right, title and interest in and to the Genco Intellectual Property; the goodwill of CenterPoint symbolized by any trademarks or service marks assigned hereunder; and all rights of action accrued or to accrue under or by virtue of any of the Genco Intellectual Property, including the right to sue and recover for past infringement or misappropriation.

5.2 LICENSE GRANTS

(a) Grants to CenterPoint. Except as provided below in this Section 5.2(a), Genco grants to each Person within the CenterPoint Group a worldwide, perpetual, royalty-free license to use in the CenterPoint Field of Use the Genco Intellectual Property, including the right to sublicense customers or suppliers of CenterPoint or its Subsidiaries to the extent necessary for such customers to use in the CenterPoint Field of Use products or services of CenterPoint or its Subsidiaries and for such suppliers to provide equipment or services to CenterPoint or its Subsidiaries in connection with their operations in the CenterPoint Field of Use. This license specifically excludes any grant to any Person within the CenterPoint Group of any rights to use any trademarks, service marks, trademark/service mark registrations and applications, brand names, trade names, or other names and slogans embodying business or product goodwill (or both) which are a part of the Genco Intellectual Property.

(b) Grants to Genco. Except as provided below in this Section 5.2(b), CenterPoint grants to each Person within the Genco Group a worldwide, perpetual, royalty-free license to use the CenterPoint Intellectual Property, including the right to sublicense customers or suppliers of Genco or its Subsidiaries to the extent necessary for such customers to use the products or services of Genco or its Subsidiaries and for such suppliers to provide equipment or services to Genco or its Subsidiaries in connection with their operations. This license specifically excludes any grant to any Person within the Genco Group of any rights to use any trademarks, service marks, trademark/service mark registrations and applications, brand names, trade names, or other names and slogans embodying business or product goodwill (or both) which are a part of the CenterPoint Intellectual Property.

5.3 COOPERATION AND FURTHER UNDERTAKINGS. CenterPoint agrees that it and its Subsidiaries shall, without additional compensation, execute and deliver further instruments of conveyance, transfer and assignment as requested by Genco, its successors, or assigns; reasonably cooperate and assist in providing information for making and completing regulatory and other filings; and take any and all other actions as Genco, its successors, or assigns may reasonably require to (1) effectively assign, convey and transfer the Genco Intellectual Property and any associated goodwill, and all rights therein to Genco, its successors, or assigns and (2) to protect, enforce and exploit the Genco Intellectual Property. Genco agrees that it will continue to prosecute any patent applications which it is currently prosecuting, but if it determines that any such application should be abandoned, it will inform CenterPoint of its decision and on request will assign to CenterPoint all its rights.

5.4 CENTERPOINT DISCLAIMER OF WARRANTIES. CENTERPOINT AND ITS SUBSIDIARIES DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT, WITH RESPECT TO THE GENCO INTELLECTUAL PROPERTY AND THE CENTERPOINT INTELLECTUAL PROPERTY. CENTERPOINT AND ITS SUBSIDIARIES MAKE NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY, VALIDITY OR ADEQUACY OF THE GENCO INTELLECTUAL PROPERTY OR THE CENTERPOINT INTELLECTUAL PROPERTY FOR ANY PURPOSE OR USE.

5.5 GENCO DISCLAIMER OF WARRANTIES. GENCO AND ITS SUBSIDIARIES DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT, WITH RESPECT TO THE GENCO INTELLECTUAL PROPERTY. GENCO AND ITS SUBSIDIARIES MAKE NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY, VALIDITY OR ADEQUACY OF THE GENCO INTELLECTUAL PROPERTY FOR ANY PURPOSE OR USE.

## ARTICLE VI

## ENVIRONMENTAL MATTERS

6.1 DEFINITIONS. The following definitions apply to this Article VI:

(a) "CenterPoint Real Property" means land and improvements as to which fee title, or (except where fee title thereto has been conveyed to Genco as part of the Genco Assets) any leasehold, easement or other real property interest therein, is owned by CenterPoint or any Affiliate thereof which is located adjacent to or in the vicinity of any land constituting, or any interest in which constitutes, Genco Real Property.

(b) "Environmental Conditions" means any pollution, contamination, degradation, damage or injury caused by, related to, arising from, or in connection with the generation, handling, use, treatment, storage, transportation, disposal, discharge, Release (as that term is defined below), or emission of any "Waste Materials."

(c) "Environmental Law" or "Environmental Laws" means all

laws, rules, regulations, statutes, ordinances, decrees or orders, now, heretofore or hereafter in force, of any Governmental Authority and relating to (i) the control of any potential pollutant or protection of the air, water or land, (ii) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation, and (iii) exposure to hazardous, toxic or other substances alleged to be harmful, and includes without limitation, (1) the terms and conditions of any license, permit, approval, or other authorization by any governmental entity, and (2) judicial, administrative, or other regulatory decrees, judgments, and orders of any governmental entity. The term "Environmental Laws" shall include, but not be limited to the following statutes and the regulations promulgated thereunder: the Clean Air Act, 42 U.S.C. Section 1401 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Resource Conservation Recovery Act ("RCRA"), 42 U.S.C. Section 6901 et seq., the Superfund Amendments and Reauthorization Act, 42 U.S.C. Section 11011 et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Water Pollution Control Act, 33 U.S.C. Section 1251, et seq., the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq., the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 42 U.S.C. Section 9601 et seq., and any state, county, or local regulations similar thereto.

(d) "Environmental Liabilities" shall mean any and all Liabilities, responsibilities, claims, suits, Losses, costs (including remediation, removal, response, abatement, clean-up, investigative, and/or monitoring costs and any other related costs and expenses), other causes of action recognized now or at any later time, damages, settlements, expenses, charges, assessments, liens, penalties, fines, pre-judgment and post-judgment interest, attorney fees and other legal fees (a) pursuant to any agreement, order, notice, requirement, responsibility, or directive (including directives embodied in Environmental Laws), injunction, judgment or similar documents (including settlements), or (b) pursuant to any claim by a governmental entity or other person or entity for personal injury, property damage, damage to natural resources, remediation, or similar costs or expenses incurred or asserted by such entity or person pursuant to common law or statute.

(e) "Genco Real Property" means all land and improvements as to which fee title, or (except where fee title thereto was retained by CenterPoint or any Affiliate thereof) any leasehold, easement or other real property interest therein, has been conveyed to Genco as part of the Genco Assets.

(f) "Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

(g) "Waste Materials" means any (i) toxic or hazardous materials or substances; (ii) solid wastes; (iii) radioactive materials; (iv) petroleum wastes and Releases of petroleum products; (v) Releases of any other substance that is regulated; and (iv) Releases which could be required to be remediated by any Governmental Authority under any applicable Environmental Law.

6.2 ENVIRONMENTAL LIABILITIES. Notwithstanding the general definitions of Genco Liabilities and Genco Excluded Liabilities contained in Article I, Environmental Liabilities related to the Genco Business and Genco Real Property and CenterPoint Business and CenterPoint Real Property shall be allocated between Genco (and thus included in Genco Liabilities) and CenterPoint (and thus included in Genco Excluded Liabilities) as set forth in this Article VI.

6.3 GENCO EXCLUDED LIABILITIES. Genco Excluded Liabilities shall include the following Environmental Liabilities:

(a) those resulting from or arising in connection with operation of the CenterPoint Business, including any such Environmental Liabilities resulting from Releases of Waste Materials to, from, at, on or beneath the Genco Real Property ("CenterPoint Business Environmental Liabilities").

(b) those, other than Genco Business Environmental Liabilities (as defined below), resulting from or arising in connection with Releases of Waste Materials to, from, at, on or beneath the CenterPoint Real Property.

6.4 GENCO LIABILITIES. Genco Liabilities shall include the following Environmental Liabilities:

(a) those resulting from or arising in connection with operation of the Genco Business, including any such Environmental Liabilities resulting from Releases of Waste Materials to, from, at, on or beneath the CenterPoint Real Property ("Genco Business Environmental Liabilities").

(b) those, other than CenterPoint Business Environmental Liabilities, resulting from or arising in connection with Releases of Waste Materials to, from, at, on or beneath the Genco Real Property.

6.5 POST-SEPARATION DATE ENVIRONMENTAL ARRANGEMENTS. Each Party shall cooperate with the other on a reasonable basis with respect to Environmental Conditions as to which such other Party reasonably anticipates liability or the first Party anticipates that such other Party may have liability. Such cooperation shall include sharing relevant information on a timely basis (other than that protected by attorney-client or other non-disclosure privilege according to law). It shall also include, subject to the reasonable needs and requirements of the first Party based on its own operations, reasonable access for investigatory and/or remedial

purposes, and reasonable use of on-site facilities and utilities, all at such other Party's cost insofar as out-of-pocket expenses incurred as a result of such activities are concerned. Further, each Party agrees to act in good faith in undertaking work to investigate or remediate Environmental Conditions that may give rise to a claim for indemnification hereunder with a view to avoiding unnecessary or excessive costs.

## ARTICLE VII

## ARBITRATION; DISPUTE RESOLUTION

7.1 AGREEMENT TO ARBITRATE. Except as otherwise specifically provided in any Ancillary Agreement, the procedures for discussion, negotiation and arbitration set forth in this Article VII shall apply to all disputes, controversies or claims (whether sounding in contract, tort or otherwise) that may arise out of, under or in connection with, or relate to, this Agreement or any Ancillary Agreement, the transactions contemplated hereby or thereby (including all actions taken in furtherance of the transactions contemplated hereby or thereby on or prior to the date hereof), or (for a period of ten years after the date hereof) the commercial or economic relationship of the parties relating hereto or thereto, between or among any member of the CenterPoint Group and the Genco Group. Each party agrees on behalf of itself and each member of its respective Group that the procedures set forth in this Article VII shall be the sole and exclusive remedy in connection with any dispute, controversy or claim relating to any of the foregoing matters and irrevocably waives any right to commence any Action in or before any Governmental Authority, except as expressly provided in Section 7.7 and except to the extent provided under the Federal Arbitration Act in the case of judicial review of arbitration results or awards. Each party on behalf of itself and each member of its respective Group irrevocably waives any right to any trial by jury with respect to any claim, controversy or dispute set forth in this Section 7.1.

7.2 ESCALATION. (a) It is the intent of the parties to use their respective reasonable best efforts to resolve expeditiously and on a mutually acceptable negotiated basis any dispute, controversy or claim between or among them with respect to the matters covered hereby that may arise from time to time. In furtherance of the foregoing, any party involved in a dispute, controversy or claim may deliver a notice (an "Escalation Notice") demanding an in-person meeting involving representatives of the parties at a senior level of management of the parties (or if the parties agree, of the appropriate strategic business unit or division within such entity). A copy of any such Escalation Notice shall be given to the General Counsel or like officer or official of each party involved in the dispute, controversy or claim (which copy shall state that it is an Escalation Notice pursuant to this Agreement). Any agenda, location or procedures for such discussions or negotiations between the parties may be established by the parties from time to time; provided, however, that the parties shall use their reasonable efforts to meet within 30 days of the date of delivery of the Escalation Notice.

(b) The parties may, by mutual consent, retain a mediator to aid the parties in their discussions and negotiations by informally providing advice to parties. Any opinion expressed by the mediator shall be strictly advisory and shall not be binding on the parties, nor shall any opinion expressed by the mediator be admissible in any arbitration proceedings. The mediator may be chosen from a list of mediators previously selected by the parties or by other

agreement of the parties. Costs of the mediation shall be borne equally by the parties involved in the matter, except that each party shall be responsible for its own expenses. Mediation is not a prerequisite to a demand for arbitration under Section 7.3.

7.3 DEMAND FOR ARBITRATION. (a) At any time after the first to occur of (i) the date of the meeting actually held pursuant to the applicable Escalation Notice or (ii) 45 days after the delivery of an Escalation Notice (as applicable, the "Arbitration Demand Date"), any party involved in the dispute, controversy or claim (regardless of whether that party delivered the Escalation Notice) may deliver a notice demanding arbitration of that dispute, controversy or claim (a "Arbitration Demand Notice"). In the event that any party shall deliver an Arbitration Demand Notice to another party, that other party may itself deliver an Arbitration Demand Notice to the first party with respect to any related dispute, controversy or claim with respect to which the Applicable Deadline (as defined below) has not passed without the requirement of delivering an Escalation Notice. No party may assert that the failure to resolve any matter during any discussions or negotiations, the course of conduct during the discussions or negotiations or the failure to agree on a mutually acceptable time, agenda, location or procedures for the meeting, in each case, as contemplated by Section 7.2, is a prerequisite to a demand for arbitration under Section 7.3. In the event that any party delivers an Arbitration Demand Notice with respect to any dispute, controversy or claim that is the subject of any then pending arbitration proceeding or of a previously delivered Arbitration Demand Notice, all such disputes, controversies and claims shall be resolved in the arbitration proceeding for which an Arbitration Demand Notice was first delivered unless the arbitrator in his or her sole discretion determines that it is impracticable or otherwise inadvisable to do so.

(b) Except as may be expressly provided in any Ancillary Agreement, any Arbitration Demand Notice may be given until one year and 45 days after the later of the occurrence of the act or event giving rise to the underlying claim or the date on which such act or event was, or should have been, in the exercise of reasonable due diligence, discovered by the party asserting the claim (as applicable and as it may in a particular case be specifically extended by the parties in writing, the "Applicable Deadline"). Any discussions, negotiations or mediations between the parties pursuant to this Agreement or otherwise will not toll the Applicable Deadline unless expressly agreed in writing by the parties. Each of the parties agrees on behalf of itself and each member of its Group that if an Arbitration Demand Notice with respect to a dispute, controversy or claim is not given prior to the expiration of the Applicable Deadline, as between or among the parties and the members of their Groups, such dispute, controversy or claim will be barred. Subject to Section 7.7(d), upon delivery of an Arbitration Demand Notice pursuant to Section 7.3(a) prior to the Applicable Deadline, the dispute, controversy or claim shall be decided by a sole arbitrator in accordance with the rules set forth in this Article VI.

7.4 ARBITRATORS. (a) Within 15 days after a valid Arbitration Demand Notice is given, the parties involved in the dispute, controversy or claim referred to therein shall attempt to select a sole arbitrator satisfactory to all such parties.

(b) In the event that the parties are not able jointly to select a sole arbitrator within that 15-day period, the parties shall each appoint an arbitrator (who need not be disinterested as to the parties or the matter) within 30 days after delivery of the Arbitration

Demand Notice. If one party appoints an arbitrator within such time period and the other party or parties fail to appoint an arbitrator within such time period, the arbitrator appointed by the one party shall be the sole arbitrator of the matter.

(c) In the event that a sole arbitrator is not selected pursuant to paragraph (a) or (b) above, the two arbitrators will, within 30 days after the appointment of the later of them to be appointed, select an additional arbitrator who shall act as the sole arbitrator of the dispute. After selection of such sole arbitrator, the initial arbitrators shall have no further role with respect to the dispute. In the event that the arbitrators so appointed do not, within 30 days after the appointment of the later of them to be appointed, agree on the selection of the sole arbitrator, any party involved in such dispute may apply to the Senior Judge of the U.S. District Court for the Southern District of Texas to select the sole arbitrator, which selection shall be made by such Person within 30 days after such application. Any arbitrator selected pursuant to this paragraph (c) shall be disinterested with respect to each of the parties and shall be reasonably competent in the applicable subject matter.

(d) The sole arbitrator selected pursuant to paragraph (a), (b) or (c) above will set a time for the hearing of the matter, which will commence no later than 90 days after the date of appointment of the sole arbitrator pursuant to paragraph (a), (b) or (c) above and which will be no longer than 30 days (unless in the judgment of the arbitrator the matter is unusually complex and sophisticated and thereby requires a longer time, in which event the hearing shall be no longer than 90 days). The final decision of the arbitrator will be rendered in writing to the parties not later than 60 days after the last hearing date, unless otherwise agreed by the parties in writing.

(e) The place of any arbitration hereunder will be Houston, Texas, unless otherwise agreed by the parties.

7.5 HEARINGS. Within the time period specified in Section 7.4(d), the matter shall be presented to the arbitrator at a hearing by means of written submissions of memoranda and verified witness statements, filed simultaneously, and responses, if necessary in the judgment of the arbitrator or both the parties. If the arbitrator deems it to be essential to a fair resolution of the dispute, live cross-examination or direct examination may be permitted but is not generally contemplated to be necessary. The arbitrator shall actively manage the arbitration with a view to achieving a just, speedy and cost-effective resolution of the dispute, claim or controversy. The arbitrator may, in his or her discretion, set time and other limits on the presentation of each party's case, its memoranda or other submissions, and refuse to receive any proffered evidence, which the arbitrator, in his or her discretion, finds to be cumulative, unnecessary, irrelevant or of low probative value. Except as otherwise set forth herein, any arbitration hereunder will be conducted in accordance with the procedures of the Center for Public Resources of New York ("CPR"). The decision of the arbitrator will be final and binding on the parties, and judgment thereon may be had and will be enforceable in any court having jurisdiction over the parties. Arbitration awards will bear interest at an annual rate of the Prime Rate plus 2% per annum, or, if lower, the maximum amount permitted by applicable law. To the extent that the provisions of this Agreement and the prevailing rules of the CPR conflict, the provisions of this Agreement shall govern.

7.6 DISCOVERY AND CERTAIN OTHER MATTERS. (a) Any party involved in a dispute subject to this Article VII may request limited document production from the other party or parties of specific and expressly relevant documents, with the reasonable expenses of the producing party incurred in such production paid by the requesting party. The right to documents permitted herein shall be substantially less than document discovery rights prevailing under the Federal Rules of Civil Procedure. Any such discovery shall be conducted expeditiously and shall not cause the hearing provided for in Section 7.5 to be adjourned except upon consent of all parties involved in the applicable dispute or upon an extraordinary showing of cause demonstrating that such adjournment is necessary to permit discovery essential to a party to the proceeding. Depositions, interrogatories or other forms of discovery (other than the document production set forth above) shall not occur except by consent of the parties involved in the applicable dispute. Disputes concerning the scope of document production and enforcement of the document production requests will be determined by written agreement of the parties involved in the applicable dispute or, failing such agreement, will be referred to the arbitrator for resolution. All discovery requests will be subject to the parties' rights to claim any applicable privilege. The arbitrator will adopt procedures to protect the proprietary rights of the parties and to maintain the confidential treatment of the arbitration proceedings (except as may be required by law). Subject to the foregoing, the arbitrator shall have the power to issue subpoenas to compel the production of documents relevant to the dispute, controversy or claim.

(b) The arbitrator shall have full power and authority to determine issues of arbitrability but shall otherwise be limited to interpreting or construing the applicable provisions of this Agreement or any Ancillary Agreement, and will have no authority or power to limit, expand, alter, amend, modify, revoke or suspend any condition or provision of this Agreement or any Ancillary Agreement; it being understood, however, that the arbitrator will have full authority to implement the provisions of this Agreement or any Ancillary Agreement and to fashion appropriate remedies for breaches of this Agreement (including interim or permanent injunctive relief); provided that the arbitrator shall not have (i) any authority in excess of the authority a court having jurisdiction over the parties and the controversy or dispute would have absent these arbitration provisions or (ii) any right or power to award punitive or double or treble damages. It is the intention of the parties that in rendering a decision the arbitrator give effect to the applicable provisions of this Agreement and the Ancillary Agreements and follow applicable law (it being understood and agreed that this sentence shall not give rise to a right of judicial review of the arbitrator's award).

(c) If a party fails or refuses to appear at and participate in an arbitration hearing after due notice, the arbitrator may hear and determine the controversy upon evidence produced by the appearing party.

(d) Arbitration costs will be borne equally by each party involved in the matter, except that each party will be responsible for its own attorney's fees and other costs and expenses (except as set forth in Section 7.6(a)), including the costs of witnesses selected by such party.

7.7 CERTAIN ADDITIONAL MATTERS. (a) Any arbitration award shall be a bare award limited to a holding for or against a party and shall be without findings as to facts, issues or conclusions of law (including with respect to any matters relating to the validity or infringement

of patents or patent applications) and shall be without a statement of the reasoning on which the award rests, but must be in adequate form so that a judgment of a court may be entered thereupon. Judgment upon any arbitration award hereunder may be entered in any court having jurisdiction thereof.

(b) Prior to the time at which an arbitrator is appointed pursuant to Section 7.4, any party may seek one or more temporary restraining orders in a court of competent jurisdiction if necessary in order to preserve and protect the status quo. Neither the request for, or grant or denial of, any such temporary restraining order shall be deemed a waiver of the obligation to arbitrate as set forth herein and the arbitrator may dissolve, continue or modify any such order. Any such temporary restraining order shall remain in effect until the first to occur of the expiration of the order in accordance with its terms or the dissolution thereof by the arbitrator.

(c) Except as required by law, the parties shall hold, and shall cause their respective officers, directors, employees, agents and other representatives to hold, the existence, content and result of mediation or arbitration in confidence in accordance with the provisions of Article VII and except as may be required in order to enforce any award. Each of the parties shall request that any mediator or arbitrator comply with such confidentiality requirement.

(d) In the event that at any time the sole arbitrator shall fail to serve as an arbitrator for any reason, the parties shall select a new arbitrator who shall be disinterested as to the parties and the matter in accordance with the procedures set forth herein for the selection of the initial arbitrator. The extent, if any, to which testimony previously given shall be repeated or as to which the replacement arbitrator elects to rely on the stenographic record (if there is one) of such testimony shall be determined by the replacement arbitrator.

7.8 CONTINUITY OF SERVICE AND PERFORMANCE. Unless otherwise agreed in writing, the parties will continue to provide service and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of this Article VII with respect to all matters not subject to such dispute, controversy or claim.

7.9 LAW GOVERNING ARBITRATION PROCEDURES. The interpretation of the provisions of this Article VII, only insofar as they relate to the agreement to arbitrate and any procedures pursuant thereto, shall be governed by the Federal Arbitration Act and other applicable federal law. In all other respects, the interpretation of this Agreement shall be governed as set forth in Section 7.3.

## ARTICLE VIII

## COVENANTS AND OTHER MATTERS

8.1 OTHER AGREEMENTS. In addition to the specific agreements, documents and instruments annexed to this Agreement, CenterPoint and Genco agree to execute or cause to be executed by the appropriate parties and deliver, as appropriate, such other agreements,

instruments and other documents as may be necessary or desirable in order to effect the purposes of this Agreement and the Ancillary Agreements.

8.2 AGREEMENT FOR EXCHANGE OF INFORMATION. Each of CenterPoint and Genco agrees to provide, or cause to be provided, to each other as soon as reasonably practicable after written request therefor, any Information in the possession or under the control of such party that the requesting party reasonably needs (i) to comply with reporting, disclosure, filing or other requirements imposed on the requesting party (including under applicable securities laws) by a Governmental Authority having jurisdiction over the requesting party, (ii) for use in any Regulatory Proceeding, judicial proceeding or other proceeding or in order to satisfy audit, accounting, claims, regulatory, litigation or other similar requirements, (iii) to comply with its obligations under this Agreement or any Ancillary Agreement or (iv) in connection with the ongoing businesses of CenterPoint or Genco as it relates to the conduct of such businesses, as the case may be; provided, however, that in the event that any party determines that any such provision of Information could be commercially detrimental, violate any law or agreement, or waive any attorney-client privilege, the parties shall take all reasonable measures to permit the compliance with such obligations in a manner that avoids any such harm or consequence.

(a) After the Genco Distribution Date, (i) each party shall maintain in effect at its own cost and expense adequate systems and controls for its business to the extent necessary to enable the other party to satisfy its reporting, accounting, audit and other obligations, and (ii) each party shall provide, or cause to be provided, to the other party and its Subsidiaries in such form as such requesting party shall request, at no charge to the requesting party, all financial and other data and information as the requesting party determines necessary or advisable in order to prepare its financial statements and reports or filings with any Governmental Authority.

(b) Any Information owned by a party that is provided to a requesting party pursuant to this Section 8.2 shall be deemed to remain the property of the providing party. Unless specifically set forth herein, nothing contained in this Agreement shall be construed as granting or conferring rights of license or otherwise in any such Information.

(c) To facilitate the exchange of Information pursuant to this Section 8.2 and other provisions of this Agreement after the Genco Distribution Date, each party agrees to use its reasonable commercial efforts to retain all Information in its respective possession or control on the Genco Distribution Date substantially in accordance with its policies as in effect on the date hereof. Genco shall not amend its or its Subsidiaries' record retention policies prior to the Genco Distribution Date without the consent of CenterPoint. However, except as set forth in the Genco Tax Allocation Agreement, at any time after the Genco Distribution Date, each party may amend its respective record retention policies at its discretion; provided, however, that if a party desires to effect the amendment within three years after the Genco Distribution Date, the amending party must give 30 days' prior written notice of such change in the policy to the other party to this Agreement. No party will destroy, or permit any of its Subsidiaries to destroy, any Information that existed on the Genco Separation Date (other than Information that is permitted to be destroyed under the current record retention policy of such party) without first using its reasonable commercial efforts to notify the other party of the proposed destruction and giving the other party the opportunity to take possession of such Information prior to such destruction.

(d) No party shall have any liability to any other party in the event that any Information exchanged or provided pursuant to this Section 8.2 is found to be inaccurate, in the absence of willful misconduct by the party providing such Information. No party shall have any liability to any other party if any Information is destroyed or lost after reasonable commercial efforts by such party to comply with the provisions of Section 8.2(c).

(e) The rights and obligations granted under this Section 8.2 are subject to any specific limitations, qualifications or additional provisions on the sharing, exchange or confidential treatment of Information set forth in this Agreement and any Ancillary Agreement.

(f) Each party hereto shall, except in the case of a dispute subject to this Article VIII brought by one party against another party (which shall be governed by the discovery rules that may be applicable under Article VII or otherwise), use its reasonable commercial efforts to make available to each other party, upon written request, the former, current and future directors, officers, employees, other personnel and agents of such party as witnesses and any books, records or other documents within its control or which it otherwise has the ability to make available, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any Regulatory Proceeding, judicial proceeding or other proceeding in which the requesting party may from time to time be involved, regardless of whether such Regulatory Proceeding, judicial proceeding or other proceeding is a matter with respect to which indemnification may be sought hereunder. The requesting party shall bear all costs and expenses in connection therewith.

(g) To the extent Genco or a member of the Genco Group is deemed or determined by the PUCT by final order no longer subject to rehearing by the PUCT to be an "affiliate" or a "competitive affiliate" of CenterPoint, Genco and CenterPoint shall observe any applicable requirements of the Utilities Code, PUCT rules and the CenterPoint code of conduct and shall require their respective personnel and contractor personnel to observe that code of conduct. No member of the CenterPoint Group or the Genco Group shall directly or indirectly make application or request to the PUCT to make such a finding or determination, nor will any member of the CenterPoint Group or the Genco Group directly or indirectly take a position in support of such a finding or determination.

8.3 AUDITORS AND AUDITS; ANNUAL AND QUARTERLY STATEMENTS AND ACCOUNTING. Each party agrees that, for so long as Genco remains a Subsidiary of CenterPoint, and with respect to any financial reporting period during which Genco was a Subsidiary of CenterPoint:

(a) Genco shall not select a different accounting firm than the firm selected by CenterPoint to audit its financial statements to serve as the Genco Auditors for purposes of providing an opinion on its consolidated financial statements without CenterPoint's prior written consent (which shall not be unreasonably withheld).

(b) Genco shall use its reasonable commercial efforts to enable the Genco Auditors to complete their audit such that they will date their opinion on Genco's audited annual financial statements on the same date that CenterPoint's Auditors date their opinion on CenterPoint's audited annual financial statements, and to enable CenterPoint to meet its

timetable for the printing, filing and public dissemination of CenterPoint's annual financial statements. Genco shall use its reasonable commercial efforts to enable the Genco Auditors to complete their quarterly review procedures such that they will provide clearance on Genco's quarterly financial statements on the same date that CenterPoint's Auditors provide clearance on CenterPoint's quarterly financial statements.

(c) Genco shall provide to CenterPoint on a timely basis all Information that CenterPoint reasonably requires to meet its schedule for the preparation, printing, filing, and public dissemination of CenterPoint's annual and quarterly financial statements. Without limiting the generality of the foregoing, Genco will provide all required financial information with respect to Genco and its Subsidiaries to the Genco Auditors in a sufficient and reasonable time and in sufficient detail to permit the Genco Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to CenterPoint's Auditors with respect to Information to be included or contained in CenterPoint's annual and quarterly financial statements. Similarly, CenterPoint shall provide to Genco on a timely basis all Information that Genco reasonably requires to meet its schedule for the preparation, printing, filing, and public dissemination of Genco's annual and quarterly financial statements. Without limiting the generality of the foregoing, CenterPoint will provide all required financial Information with respect to CenterPoint and its Subsidiaries to CenterPoint's Auditors in a sufficient and reasonable time and in sufficient detail to permit CenterPoint's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to the Genco Auditors with respect to Information to be included or contained in Genco's annual and quarterly financial statements.

(d) Genco shall authorize the Genco Auditors to make available to CenterPoint's Auditors both the personnel who performed or are performing the annual audits and quarterly reviews of Genco and work papers related to the annual audits and quarterly reviews of Genco, in all cases within a reasonable time prior to the Genco Auditors' opinion date, so that CenterPoint's Auditors are able to perform the procedures they consider necessary to take responsibility for the work of the Genco Auditors as it relates to CenterPoint's Auditors' report on CenterPoint's financial statements, all within sufficient time to enable CenterPoint to meet its timetable for the printing, filing and public dissemination of CenterPoint's annual and quarterly statements. Similarly, CenterPoint shall authorize CenterPoint's Auditors to make available to the Genco Auditors both the personnel who performed or are performing the annual audits and quarterly reviews of CenterPoint and work papers related to the annual audits and quarterly reviews of CenterPoint, in all cases within a reasonable time prior to CenterPoint's Auditors' opinion date, so that the Genco Auditors are able to perform the procedures they consider necessary to take responsibility for the work of CenterPoint's Auditors as it relates to the Genco Auditors' report on Genco's financial statements, all within sufficient time to enable Genco to meet its timetable for the printing, filing and public dissemination of Genco's annual and quarterly financial statements.

(e) Genco may not change its accounting principles or practices if a change in such accounting principle or practice would be required to be disclosed in Genco's financial statements as filed with the SEC or otherwise publicly disclosed therein without the prior written consent of CenterPoint, except for changes which are required by GAAP and as to which there is no discretion on the part of Genco, as concurred in by Genco Auditors prior to its implementation. Genco shall give CenterPoint as much prior notice as reasonably practical of

any proposed determination of, or any significant changes in, its accounting estimates or, subject as aforesaid, accounting principles from those in effect on the Genco Separation Date. Genco will consult with CenterPoint and, if requested by CenterPoint, Genco will consult with CenterPoint's Auditors with respect thereto. CenterPoint shall give Genco as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or accounting principles from those in effect on the Genco Separation Date.

(f) Nothing in Sections 8.2 and 8.3 shall require Genco to violate any agreement with any third parties regarding the confidentiality of confidential and proprietary information relating to that third party or its business; provided, however, that in the event that Genco is required under Section 8.2 or Section 8.3 to disclose any such information, Genco shall use all commercially reasonable efforts to seek to obtain such third party's consent to the disclosure of such information. Similarly, nothing in Sections 8.2 and 8.3 shall require CenterPoint to violate any agreement with any third parties regarding the confidentiality of confidential and proprietary information relating to that third party or its business; provided, however, that in the event that CenterPoint is required under Section 8.2 or Section 8.3 to disclose any such information, CenterPoint shall use all commercially reasonable efforts to seek to obtain such third party's consent to the disclosure of such information.

8.4 AUDIT RIGHTS. To the extent any member of the CenterPoint Group provides goods or services to any member of the Genco Group or any member of the Genco Group provides goods or services to a member of the CenterPoint Group under this Agreement or under any Ancillary Agreement, the company providing such goods or services (the "Providing Company") shall maintain complete and accurate books and records relating to costs and charges made to the company receiving such goods and services (the "Receiving Company"). Books and accounts shall be maintained in accordance with generally accepted accounting principles, consistently applied, and to the extent such books and records relate to regulated business activities, shall conform to any applicable regulatory code of accounts which the Receiving Company is required to comply with, to the extent such conformity is reasonably feasible. If conformity to a regulatory code of accounts is infeasible, the Providing Company shall maintain its books and records related to the provision of goods and services in such a manner that the Receiving Company may readily reconcile such books and records to the applicable code of accounts. Annually, the Receiving Company shall be entitled to audit the Providing Company's books and records related to the goods and services provided, using its own personnel or personnel from its independent auditing firm. Discrepancies identified as a result of any audit shall be promptly reconciled between the parties in accordance with any provisions of the Ancillary Agreement or, if no such provision is applicable, in accordance with the dispute resolution provisions of this Agreement. Any charge which is not questioned by the Receiving Company within the calendar year after the charge was rendered shall be deemed incontestable.

8.5 PRESERVATION OF LEGAL PRIVILEGES. CenterPoint and Genco recognize that the members of their respective Businesses possess and will possess information and advice that has been previously developed but is legally protected from disclosure under legal privileges, such as the attorney-client privilege or work product exemption and other concepts of legal protection ("Privilege"). Each party recognizes that they shall be jointly entitled to the Privilege with respect to such privileged information and that each shall be entitled to maintain and use for its own benefit all such information and advice, but both parties shall ensure that such information

is maintained so as to protect the Privileges with respect to the other party's interest. To that end neither party will knowingly waive or compromise any Privilege associated with such information and advice without the consent of the other party. In the event that privileged information is required to be disclosed to any arbitrator or mediator in connection with a dispute between the parties, such disclosure shall not be deemed a waiver of Privilege with respect to such information, and any party receiving it in connection with a proceeding shall be informed of its nature and shall be required to safeguard and protect it.

8.6 PAYMENT OF EXPENSES. Except as otherwise provided in this Agreement, the Ancillary Agreements or any other agreement between the parties, all out-of-pocket costs and expenses of the parties hereto incurred in connection with the preparation of this Agreement, the Ancillary Agreements, the registration statement on Form 10 and related information statement and the completion of the Genco Distribution shall be paid by CenterPoint.

8.7 GOVERNMENTAL APPROVALS. The parties acknowledge that certain of the transactions contemplated by this Agreement and the Ancillary Agreements are subject to certain conditions established by applicable government regulations, orders, and approvals ("Existing Authority"). The parties intend to implement this Agreement, the Ancillary Agreements and the transactions contemplated thereby consistent with and to the extent permitted by Existing Authority and to cooperate toward obtaining and maintaining in effect such Governmental Approvals as may be required in order to implement this Agreement and each of the Ancillary Agreements as fully as possible in accordance with their respective terms. To the extent that any of the transactions contemplated by this Agreement or any Ancillary Agreement require any Governmental Approvals, the parties will use their reasonable commercial efforts to obtain any such Governmental Approvals.

8.8 REGULATORY PROCEEDINGS. It is recognized and understood that high levels of cooperation and assistance will be required between members of the CenterPoint Group and the Genco Group in connection with Regulatory Proceedings necessary to implement the Genco Distribution and the Business Separation Plan approved by the PUCT and all matters relating to the Genco Option. During the period from the Genco Separation Date until an order issued by the PUCT in connection with the stranded cost determination regarding the Genco Assets becomes final and nonappealable, the parties agree as follows:

(a) Upon reasonable request, members of the CenterPoint Group and of the Genco Group will provide personnel, information and other assistance to members of the other Business in order to prepare, file and prosecute to completion Regulatory Proceedings which are either (i) required to be filed under the Utilities Code or under the Business Separation Plan or (ii) deemed by the requesting party to be desirable to implement or preserve some aspect of the Separation contemplated herein.

(b) Assistance provided may, without limitation, relate to information that has been transferred to or retained by the assisting party in the separation or which the assisting party is uniquely qualified to provide in connection with Regulatory Proceedings that relate to the Separation and its implementation under the Utilities Code. Assistance may take the form of developing, filing and giving testimony and reports to the PUCT or other regulatory authority.

(c) The appropriate members of the CenterPoint Group or the Genco Group shall timely file with the PUCT or other regulatory authority or court and shall prosecute to completion all Regulatory Proceedings required to implement the Business Separation Plan approved by the PUCT, the Genco Option and the other provisions of this Agreement.

(d) A member of the CenterPoint Group shall make all regulatory filings contemplated above in this Section 8.8 except where a member of the Genco Group is required by the Utilities Code to file separately or join in such filings. A member of the CenterPoint Group will be responsible for the direction and prosecution of all Regulatory Proceedings in which CenterPoint Group filings are made.

(e) Except as provided below, the party supplying assistance shall be reimbursed for costs incurred in providing assistance. For time expended by its personnel, the assisting party shall be reimbursed for actual salary costs, plus payroll burdens and overhead allocations in accordance with its standard procedures for reimbursing other members of its Business. Services provided for information technology or other internal services shall be charged in the same manner they would be charged among the members of the providing company's Business, and out of pocket costs paid to third parties shall be reimbursed at actual cost.

The party requesting assistance shall endeavor to minimize the impacts of such assistance on the other business needs of the assisting party.

8.9 CONTINUANCE OF CENTERPOINT CREDIT SUPPORT; BORROWINGS. Notwithstanding any other provision of this Agreement or the provisions of any Ancillary Agreement to the contrary, the parties hereby agree that CenterPoint and each Subsidiary of CenterPoint shall maintain in full force and effect each guarantee, letter of credit, keepwell or support agreement or other credit support document, instrument or other similar arrangement issued for the benefit of any Person in the Genco Group by or on behalf of CenterPoint or a Subsidiary of CenterPoint (the "Credit Support Arrangements") which is outstanding as of the Genco Distribution Date, until the earlier of (a) such time as such Credit Support Arrangement terminates in accordance with its terms or is otherwise released at the request of Genco or (b) the date Genco ceases to be a Subsidiary of CenterPoint; provided, that Genco shall use commercially reasonable efforts, at the request of CenterPoint, to attempt to release or replace any Credit Support Arrangement for which such replacement or release is reasonably available. All such obligations shall be deemed Genco Liabilities. For so long as CenterPoint or any Subsidiary of CenterPoint remains liable with respect to any such Credit Support Arrangement, (1) Genco shall pay, or cause the Person in the Genco Group for whose benefit the Credit Support Arrangement is provided to pay, the underlying obligation as and when the same shall become due and payable, to the end that neither CenterPoint nor such Subsidiary of CenterPoint shall be required to make any payment under or by reason of its obligation under such Credit Support Arrangement and (2) CenterPoint or such Subsidiary shall retain all rights of reimbursement and subrogation it may have, whether arising by law, by contract or otherwise, with respect to such Credit Support Arrangement and such rights shall be enforceable against Genco as well as the Subsidiary of Genco for whose benefit the Credit Support Arrangement was made. Members of the CenterPoint Group may advance funds to or borrow funds from members of the Genco Group from time to time at

market-based rates; provided, however, that except as provided in the Genco Option Agreement, no member of the CenterPoint Group or the Genco Group shall have any obligation to do so.

To the extent covenants and agreements contained in any loan or credit agreement or other financing document in effect on the date of this Agreement to which any member of the CenterPoint Group is a party requires, or requires such party to cause, any member of the Genco Group to take or refrain from taking any action, or provides for a default or event of default if any member of the Genco Group takes or refrains from taking any action, such member of the Genco Group shall at all times prior to the Genco Distribution Date take or refrain from taking any such action as would result in a breach or violation of, or a default under, such agreement.

8.10 [RESERVED SECTION]. [Reserved.]

8.11 CONFIDENTIALITY.

(a) CenterPoint and Genco shall hold and shall cause the members of the CenterPoint Group and the Genco Group, respectively, to hold, and shall each cause their respective officers, employees, agents, consultants and advisors to hold, in strict confidence and not to disclose or release without the prior written consent of the other party, any and all Confidential Information (as defined herein); provided, that the parties may disclose, or may permit disclosure of, Confidential Information (i) to their respective auditors, attorneys, financial advisors, bankers and other appropriate consultants and advisors who have a need to know such information and are informed of their obligation to hold such information confidential to the same extent as is applicable to the parties hereto and in respect of whose failure to comply with such obligations, CenterPoint or Genco, as the case may be, will be responsible or (ii) to the extent any member of the CenterPoint Group or the Genco Group is compelled to disclose any such Confidential Information by judicial or administrative process or, in the opinion of legal counsel, by other requirements of law. Notwithstanding the foregoing, in the event that any demand or request for disclosure of Confidential Information is made pursuant to clause (ii) above, CenterPoint or Genco, as the case may be, shall promptly notify the other of the existence of such request or demand and shall provide the other a reasonable opportunity to seek an appropriate protective order or other remedy, which both parties will cooperate in seeking to obtain. In the event that such appropriate protective order or other remedy is not obtained, the party whose Confidential Information is required to be disclosed shall or shall cause the other party to furnish, or cause to be furnished, only that portion of the Confidential Information that is legally required to be disclosed. As used in this Section 8.11, "Confidential Information" shall mean all proprietary, technical or operational information, data or material of one party which, prior to or following the Genco Distribution Date, has been disclosed by CenterPoint or members of the CenterPoint Group, on the one hand, or Genco or members of the Genco Group, on the other hand, in written, oral (including by recording), electronic, or visual form to, or otherwise has come into the possession of, the other, including pursuant to the access provisions of Section 8.2 hereof or any other provision of this Agreement (except to the extent that such Information can be shown to have been (a) in the public domain through no fault of such party (or, in the case of CenterPoint, any other member of the CenterPoint Group or, in the case of Genco, any other member of the Genco Group) or (b) later lawfully acquired from other sources by the party (or, in the case of CenterPoint, such member of the CenterPoint Group or, in the case of Genco, such

member of the Genco Group) to which it was furnished; provided, however, in the case of (b) that such sources did not provide such Information in breach of any confidentiality obligations).

(b) Notwithstanding anything to the contrary set forth herein, (i) CenterPoint and the other members of the CenterPoint Group, on the one hand, and Genco and the other members of the Genco Group, on the other hand, shall be deemed to have satisfied their obligations hereunder with respect to Confidential Information if they exercise the same degree of care (but no less than a reasonable degree of care) as they take to preserve confidentiality for their own similar Information and (ii) confidentiality obligations provided for in any agreement between CenterPoint or any other member of the CenterPoint Group, or Genco or any other members of the Genco Group, on the one hand, and any employee of CenterPoint or any other member of the CenterPoint Group, or Genco or any other members of the Genco Group, on the other hand, shall remain in full force and effect. Confidential Information of CenterPoint or any other member of the CenterPoint Group, on the one hand, or Genco or any other member of the Genco Group, on the other hand, in the possession of and used by the other as of the Genco Distribution Date may continue to be used by such Person in possession of the Confidential Information in and only in the operation of the CenterPoint Group or the Genco Group, as the case may be, and may be used only so long as the Confidential Information is maintained in confidence and not disclosed in violation of Section 8.11(a). Such continued right to use may not be transferred to any third party unless the third party purchases all or substantially all of the business and assets in which the relevant Confidential Information is used or employed in one transaction or in a series or related transactions. In the event that such right to use is transferred in accordance with the preceding sentence, the transferring party shall not disclose the source of the relevant Confidential Information.

8.12 CAPACITY AUCTIONS. Genco shall cause Genco LP to auction its capacity in accordance with the terms of Section 10.14 of the Master Separation Agreement.

8.13 NUCLEAR DECOMMISSIONING TRUST AND INVESTMENT. Genco shall comply with the applicable terms of Section 10.13 of the Master Separation Agreement.

## ARTICLE IX

## MISCELLANEOUS

9.1 LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT SPECIFICALLY PROVIDED IN ANY ANCILLARY AGREEMENT, IN NO EVENT SHALL ANY MEMBER OF THE CENTERPOINT GROUP OR THE GENCO GROUP OR THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES BE LIABLE TO ANY OTHER MEMBER OF THE CENTERPOINT GROUP OR THE GENCO GROUP FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED, HOWEVER, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EACH PARTY'S INDEMNIFICATION OBLIGATIONS FOR LIABILITIES TO THIRD PARTIES AS SET FORTH IN THIS AGREEMENT OR ANY ANCILLARY AGREEMENT.

9.2 ENTIRE AGREEMENT. This Agreement, the other Ancillary Agreements and the Exhibits and Schedules referred to or attached hereto and thereto, constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

9.3 GOVERNING LAW. This Agreement shall be governed and construed and enforced in accordance with the laws of the State of Texas as to all matters regardless of the laws that might otherwise govern under the principles of conflicts of laws applicable thereto.

9.4 TERMINATION. This Agreement and all Ancillary Agreements may be terminated at any time prior to the Genco Distribution Date by and in the sole discretion of CenterPoint without the approval of Genco. This Agreement may be terminated at any time after the Genco Distribution Date by mutual consent of CenterPoint and Genco. In the event of termination pursuant to this Section 9.4, neither party shall have any liability of any kind to the other party.

9.5 NOTICES. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

9.6 COUNTERPARTS. This Agreement, including the Schedules and Exhibits hereto and the other documents referred to herein, may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

9.7 BINDING EFFECT; ASSIGNMENT. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may not be assigned by any party hereto without the prior written consent of the other party hereto.

9.8 SEVERABILITY. If any term or other provision of this Agreement or the Schedules or Exhibits attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties

hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent possible.

9.9 FAILURE OR INDULGENCE NOT WAIVER; REMEDIES CUMULATIVE. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair that right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the Schedules or Exhibits attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

9.10 AMENDMENT. No change or amendment will be made to this Agreement except by an instrument in writing signed on behalf of each of the parties to this Agreement.

9.11 AUTHORITY. Each of the parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement and the Ancillary Agreements, (b) the execution, delivery and performance of this Agreement and the Ancillary Agreements by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement and the Ancillary Agreements and (d) this Agreement and the Ancillary Agreements are legal, valid and binding obligations, enforceable against it in accordance with their respective terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

9.12 INTERPRETATION. The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning assigned to that term in this Agreement. When a reference is made in this Agreement to an Article or a Section, Exhibit or Schedule, that reference shall be to an Article or Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

9.13 CONFLICTING AGREEMENTS. In the event of conflict between this Agreement and any Ancillary Agreement or other agreement executed in connection herewith, the provisions of that other agreement shall prevail.

WHEREFORE, the parties have signed this Separation Agreement effective as of the date first set forth above.

CENTERPOINT ENERGY, INC.

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
President and Chief Executive Officer

TEXAS GENCO HOLDINGS, INC.

By: /s/ DAVID G. TEES
---
David G. Tees
President and Chief Executive Officer

SCHEDULE 1.27

Genco Group Subsidiaries

| Name | Form of Entity | Jurisdiction of Formation |
|---|---|---|
| Texas Genco GP, LLC | Limited Liability Company | Texas |
| Texas Genco LP, LLC | Limited Liability Company | Delaware |
| Texas Genco, LP | Limited Partnership | Texas |

SCHEDULE 4.1(a)

Amended and Restated Articles of Incorporation

SCHEDULE 4.1(b)

Amended and Restated Bylaws

SCHEDULE 4.1(c)

Board of Directors of Genco

David M. McClanahan
David G. Tees

EXHIBIT 10(cc)(2)

# TRANSITION SERVICES AGREEMENT

between

CENTERPOINT ENERGY, INC.

and

TEXAS GENCO HOLDINGS, INC.

TRANSITION SERVICES AGREEMENT

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# TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT, entered into effective as of August 31, 2002 (the "Effective Date"), is between CenterPoint Energy, Inc., a Texas corporation ("CenterPoint"), and Texas Genco Holdings, Inc., a Texas corporation ("Genco"). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I hereof or assigned to them in the Genco Separation Agreement (as defined below).

WHEREAS, Genco is an indirect, wholly owned Subsidiary of CenterPoint; and

WHEREAS, the parties have entered into a Separation Agreement of even date herewith (the "Genco Separation Agreement") pursuant to which, among other things, approximately 19% of the shares of Genco common stock owned by CenterPoint will be distributed to the shareholders of CenterPoint (the "Genco Distribution"); and

WHEREAS, the parties agree that it will be necessary and desirable for CenterPoint to provide to Genco the "Services" described herein for a transitional period following the Genco Distribution.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties, intending to be legally bound, agree as follows:

## ARTICLE I
## DEFINITIONS

For the purpose of this Agreement the following terms shall have the following meanings:

1.1 ADDITIONAL SERVICES. "Additional Services" shall have the meaning set forth in subsection 2.1(c).

1.2 ANCILLARY AGREEMENTS. "Ancillary Agreements" has the meaning assigned to that term in the Genco Separation Agreement.

1.3 CENTERPOINT GROUP. "CenterPoint Group" shall mean CenterPoint and its Subsidiaries excluding Genco and other members of the Genco Group.

1.4 CORPORATE CENTER SERVICES. "Corporate Center Services" shall mean the Services described in Exhibit 2.1(a)(i).

1.5 GENCO DISTRIBUTION. "Genco Distribution" has the meaning set forth in the recitals hereto.

1.6 GENCO DISTRIBUTION DATE. "Genco Distribution Date" has the meaning assigned to that term in the Genco Separation Agreement.

1.7 GENCO SEPARATION AGREEMENT. "Genco Separation Agreement" has the meaning set forth in the recitals hereto.

1.8 GENCO GROUP. "Genco Group" shall mean Genco and its Subsidiaries.

1.9 GROUP. "Group" shall mean either of the CenterPoint Group or the Genco Group, as the context requires.

1.10 IMPRACTICABLE. "Impracticable" (and words of similar import) shall have the meaning set forth in Section 2.5(b).

1.11 INFORMATION TECHNOLOGY SERVICES. "Information Technology Services" shall mean the Services described in Exhibit 2.1(a)(ii).

1.12 INITIAL SERVICES. "Initial Services" shall have the meaning set forth in Section 2.1(a).

1.13 LIABILITY. "Liability" has the meaning assigned to that term in the Genco Separation Agreement.

1.14 PROVIDING COMPANY. "Providing Company" shall mean, with respect to any particular Service, CenterPoint, or if a CenterPoint Subsidiary is identified on the applicable Exhibit as the party to provide such Service, such CenterPoint Subsidiary.

1.15 RECEIVING COMPANY. "Receiving Company" shall mean, with respect to any particular Service, Genco or such Genco Subsidiary or Genco Subsidiaries as may be identified on the applicable Exhibit as the party to receive such Service or as Genco may hereafter designate to receive such Service.

1.16 REPRESENTATIVE. "Representative" of any party shall mean a managerial level employee appointed by such party to have the responsibilities and authority set forth in Section 2.9.

1.17 SERVICES. "Services" shall have the meaning set forth in Section 2.1(c).

1.18 SHARED SERVICES. "Shared Services" shall mean the Services described in Exhibit 2.1(a)(iii).

1.19 SUBSIDIARY. "Subsidiary" shall mean, with respect to CenterPoint or Genco, a corporation, partnership, limited partnership, limited liability company or other entity more than 50% of the voting common stock or other interests entitled to vote generally for the election of directors (or comparable governing body) is owned, directly or indirectly, by CenterPoint or Genco, respectively.

1.20 SYSTEM. "System" shall mean the software, hardware, data store or maintenance and support components or portions of such components of a set of information technology assets identified in Exhibit 2.1(a)(ii) hereto.

ARTICLE II
SERVICES

2.1 SERVICES.

(a) INITIAL SERVICES. Except as otherwise provided herein, during the applicable term determined pursuant to Section 2.7 hereof, the following "Initial Services" shall be provided by CenterPoint or other Providing Company with respect to a Service to Genco or other Receiving Company with respect to a Service:

(i) Corporate Center Services;

(ii) Information Technology Services; and

(iii) Shared Services.

(b) FINAL EXHIBITS. The parties have made good faith efforts as of the date hereof to identify each Initial Service and complete the content of each Exhibit pertaining to the Initial Services. To the extent an Exhibit has not been prepared for an Initial Service or an Exhibit is otherwise incomplete as of the date hereof, the parties shall use good faith efforts to prepare or complete Exhibits by the Genco Distribution Date. Any Services reflected on any such additional or amended Exhibit shall be deemed an "Initial Service" as if set forth on such Exhibit as of the date hereof.

(c) ADDITIONAL SERVICES.

(i) From time to time after the Genco Distribution Date, the parties may identify additional services that one party will provide to the other party in accordance with the terms of this Agreement (the "Additional Services" and, together with the Initial Services, the "Services"). The parties shall create an Exhibit for each Additional Service setting forth a description of the Service, the time period during which the Service will be provided, the charge for the Service and any other terms applicable thereto and obtain the approval of each party's Representative. Except as set forth in Section 2.1(c)(ii), the parties may, but shall not be required to, agree on Additional Services during the term of this Agreement.

(ii) Except as set forth in the next sentence, the Providing Company shall be obligated to perform, at charges established pursuant to Section 2.3, any Additional Service that: (A) was provided by the Providing Company immediately prior to the Genco Distribution Date and that the Receiving Company reasonably believes was inadvertently or unintentionally omitted from the list of Initial Services or (B) is essential to effectuate an orderly transition of Genco to an independently managed, public company following the Genco Distribution, unless in either case such performance would significantly disrupt the Providing Company's operations or materially increase the scope of its responsibility under this Agreement. If the Providing Company reasonably believes the performance of Additional Services required under the foregoing clauses (A) or (B) would significantly disrupt its operations or materially increase the scope of its responsibility under this Agreement, the Providing Company and the Receiving

Company shall negotiate in good faith to establish terms under which the Providing Company can provide such Additional Services, but the Providing Company shall not be obligated to provide such Additional Services if, following good faith negotiation, the Providing Company and the Receiving Company are unable to reach agreement on such terms.

(d) SCALED UP OR MODIFIED SERVICES. If Genco requests the level at which any Service is to be provided to be scaled up to a level in excess of the level in effect on the Genco Distribution Date (or, in the case of Corporate Center Services, such levels as may reasonably be expected to result taking into account the status of Genco as a separate public company), or a modification to any Service, Genco shall give CenterPoint such advance notice as it may reasonably require sufficient to enable CenterPoint to make any necessary preparations to perform such Services on the scaled-up or modified basis, and to develop changes in the cost-based rates for those services as described in Section 2.3(d). For purposes of this Section, the level of a Service shall be considered to be "scaled up" if providing the service at the proposed level involves an increase in personnel, equipment or other resources that is not, in the opinion of the Providing Company, de minimis and is not reasonably embraced by the agreed definition and scope of that Service prior to the proposed increase.

2.2 SUBSIDIARIES; SERVICES PERFORMED BY OTHERS. At its option, a Providing Company may cause any Service it is required to provide hereunder to be provided by any other Person that is providing, or may from time to time provide, the same or similar services for the Providing Company. Unless otherwise specified herein or on an Exhibit hereto, the Providing Company shall remain responsible, in accordance with the terms of this Agreement, for performance of any Service it causes to be so provided. A Receiving Company may direct that any Service required to be provided hereunder be provided for the benefit of another member of the Group of which the Receiving Company is a member, but unless specified herein or on an Exhibit hereto, the Receiving Company shall be responsible for the payment of charges and other performance required of the Receiving Company with respect to such Service.

To the extent CenterPoint personnel who traditionally have provided services contemplated by this Agreement are transferred to a similar position with Genco or a member of the Genco Group, such personnel shall continue to provide services to Genco and, until the Genco Distribution Date, will provide such services to CenterPoint to the extent CenterPoint requests. To the extent such transferred personnel provide services to Genco, CenterPoint shall be relieved of its obligations to provide such services to Genco under this Agreement.

If CenterPoint personnel necessary to provide services under this Agreement are transferred to Genco before the Genco Distribution Date and CenterPoint is thereby rendered unable to continue to provide such services as contemplated by this Agreement, CenterPoint shall be excused from its obligations to provide such services, except to the extent either (i) such services can reasonably be provided from personnel remaining with CenterPoint without an increase in costs to CenterPoint that are not subject to reimbursement under this Agreement or (ii) such services are treated as Additional Services.

Services that Genco provides to CenterPoint prior to the Genco Distribution Date shall be treated as though Genco is the Providing Company and CenterPoint is the Receiving

Company under this Agreement. CenterPoint shall compensate Genco for such services in the same manner as Genco compensates CenterPoint for similar services, and the risk allocation to Genco for such services shall be the same as the risk allocation to CenterPoint for the services.

2.3 CHARGES AND PAYMENT.

(a) GENERAL PRINCIPLES RELATING TO CHARGES FOR SERVICES. Subject to the specific terms of this Agreement, the Services will be charged and paid for on the same general basis as has been heretofore in effect, with the intent that such charges shall approximate the fully allocated direct and indirect costs of providing the services, including reimbursement of out-of-pocket third party costs and expenses, but without any element of profit except to the extent routinely included as a component of traditional utility cost of capital. It is the further intent of the parties that the fully allocated direct and indirect costs incurred by CenterPoint and its Subsidiaries in providing Services under this Agreement and similar services to other entities within the CenterPoint Group will be charged for on a basis that allocates such costs charged on a fair, nondiscriminatory basis. The parties shall use good faith efforts to discuss any situation in which the actual charge for a Service is reasonably expected to exceed the estimated charge, if any, set forth on an Exhibit for a particular Service, provided, however, that charges incurred in excess of any such estimate shall not justify stopping the provision of, or payment for, Services under this Agreement.

(i) Special Provisions for Corporate Center Services. In the case of Corporate Center Services, the costs of Services included in Exhibit 2.1(a)(i) will be direct billed on the basis of the fully allocated direct and indirect costs of providing those Services determined under the principles set forth in Section 2.3(a) where practicable. The costs of all other Corporate Center Services will be gathered in a common cost pool with similar services provided to other members of the CenterPoint Group and allocated to Genco and to other members of the CenterPoint Group pursuant to the existing methodology derived from the 1999 corporate cost allocation study conducted for Reliant Energy, Incorporated by DMG Maximus. As is the case under the current methodology, when there is a significant increase or decrease in one or more components of the cost of providing a Service, or when a category of Services is terminated as provided in Section 2.7, an adjustment to the allocation will be made by CenterPoint to reflect such changes. Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a).

(ii) Special Provisions for Information Technology Services. In the case of Information Technology Services, Services will be charged initially based on the rates and usage formulas set forth in Exhibit 2.1(a)(ii) and shall be adjusted from time to time thereafter. The rates and formulas in effect at the Genco Distribution Date will continue in effect until December 31, 2003, unless adjustments prior to that date are required as specified in Section 2.3(b). Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a). Subsequent to December 31, 2003, components of rates attributable to equipment usage will be adjusted to reflect compensation for depreciation and return on capital investment.

In the case of any Services associated with facilitating the transition to an independent information technology infrastructure for Genco (as distinguished from the continuation of services of the nature heretofore provided) the scope and pricing of which has not been defined as of the Genco Distribution Date, the rates therefor will be determined by CenterPoint on the basis of the same cost-based methodology underlying the pricing of other Services provided under this Agreement. CenterPoint and Genco will use their respective commercially reasonable efforts to minimize incremental costs of effecting a transition to an independent information technology infrastructure for Genco.

It is understood that, except as otherwise provided herein or agreed in writing, the cost of buying new hardware or obtaining new software licenses specifically for the benefit of Genco shall be the responsibility of Genco.

It is understood that CenterPoint's commitment to deliver the level of service specified herein (including any Exhibits hereto) is contingent upon adherence by Genco to CenterPoint's process and technology standards as currently in effect and as subsequently modified and communicated to Genco.

It is understood that CenterPoint is responsible for protecting the performance levels and security of existing systems and information technology infrastructure. Accordingly, Genco agrees to review all modifications to any existing system currently running on CenterPoint's infrastructure and to obtain CenterPoint's approval, which shall not be unreasonably withheld, for such modifications. Similarly, Genco will review all new systems to be run on CenterPoint's infrastructure, or which connect with it, and will obtain CenterPoint's approval, which shall not be unreasonably withheld or delayed, before such systems are put in development or production.

It is understood that the rates provided for herein are based on a continuation of CenterPoint's centralized information technology infrastructure and organization. If Genco requests changes to any Services provided that require the segmentation of CenterPoint's information technology infrastructure into multiple or independent units, CenterPoint shall have the right to elect whether or not to provide Services on such changed basis, including the right to establish the economic terms on which it is willing to provide such Services.

(iii) Special Provisions for Shared Services. In the case of Shared Services, the Services will be charged initially based on the rates and usage formulas set forth in the applicable Service Level Agreements covering services referenced in Exhibit 2.1(a)(iii) and shall be adjusted from time to time thereafter, as provided herein. The rates and formulas in effect at the Genco Distribution Date will continue in effect until December 31, 2003, unless adjustments prior to that date are required as specified in Section 2.3(b). Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a).

(b) ECONOMIC REOPENER. If, in the case of any Services, events or circumstances arise which, in the opinion of the Providing Company, render the costs of providing such Services as determined under the principles set forth in Section 2.3(a) materially

different from those being charged under a specific rate or formula then in effect, the specific rate or formulas shall be equitably adjusted to take into account such events or changed circumstances and bring them into line with the general principles set forth in Section 2.3(a). Rates for a Service will also be adjusted on a pro rata basis whenever the cost of providing the Service increases by reason of the necessity to renegotiate a software license or obtain a new license as a result of the change in the relationship between the Providing Company and the entity to whom the Service is provided.

(c) ANNUAL ADJUSTMENTS. Specific rates and formulas for Services provided hereunder shall be subject to adjustment as of January 1 in each year commencing January 1, 2004 to bring the rates and formulas into conformity with the general principles referred to in Section 2.3(a), based on estimated fixed and variable costs and budgeted usage levels for the year commencing on such January 1.

(d) SCALED UP OR MODIFIED SERVICES. If Genco requests the scaling up or modifications of services under Section 2.1(d), CenterPoint shall determine appropriate changes in the charges for such scaled up or modified services in accordance with the general principles set forth in Section 2.3(a) and shall give notice thereof to Genco. CenterPoint shall not be required to incur costs or obligations or otherwise commit time and resources in preparation for providing such Services on the scaled up or modified basis (except to the extent necessary to make such determination of appropriate changes in the charges to be made) unless and until Genco gives CenterPoint notice that it will accept the charges for such services determined by CenterPoint in accordance with this Section 2.3(d). If the scaling up of Services requires the hiring of additional employees by CenterPoint or its Subsidiaries or the procurement of additional equipment or services (other than equipment or services the full cost of which is paid or reimbursed by Genco on a current basis), CenterPoint may include in the charges for the scaled up services provisions for recovery (either as part of the periodic rate or as payments due upon termination of the Services) of (a) employee severance expenses and (b) the cost of equipment and systems that CenterPoint cannot otherwise recover following termination of the Services, in each case to the extent attributable to the scaled-up service levels. In case any scaling up or modification of services requires the incurrence of costs to implement such modification or scaling up (for example, an SAP change or payroll configuration), CenterPoint may charge Genco for such costs on an "up front" basis, in addition to any adjustments in periodic rates occasioned by such scaling up or modification.

(e) CHARGES FOR ADDITIONAL SERVICES. The Receiving Company shall pay the Providing Company the charges, if any, set forth on each Exhibit hereafter created for each of the Additional Services listed therein. Charges, if any, for other Additional Services, including those required by Section 2.1(c)(ii), shall be determined according to methods in use prior to the Genco Distribution Date or such other method as may be mutually agreed that ensures that the Providing Company recovers costs and expenses, but without any profit except to the extent routinely included as a component of traditional utility cost of capital, in accordance with subsection 2.3(a). Notwithstanding the foregoing, however, the agreement of a party to provide or receive any Additional Service that is not required pursuant to Section 2.1(c)(ii) at any given rate or charge shall be at the sole discretion of such party.

(f) PAYMENT TERMS. Charges and collections for Services rendered pursuant to this Agreement shall continue to be made using the SAP functionality in use as of the date of this Agreement unless and until either party elects to discontinue such procedures, in which case the Providing Company shall thereafter bill the Receiving Company monthly for all charges pursuant to this Agreement and the Receiving Company shall pay the Providing Company for all Services within 30 days after receipt of an invoice therefor. Charges shall be supported by reasonable documentation (which may be maintained in electronic form), consistent with past practices. Late payments shall bear interest at the lesser of the prime rate announced by Chase Bank and in effect from time to time plus 2% per annum or the maximum non-usurious rate of interest permitted by applicable law.

(g) PERFORMANCE UNDER ANCILLARY AGREEMENTS. Notwithstanding anything to the contrary contained herein, the Receiving Company shall not be charged under this Agreement for any Services that are specifically required to be performed under the Genco Separation Agreement or any other Ancillary Agreement and any such other Services shall be performed and charged for in accordance with the terms of the Genco Separation Agreement or such other Ancillary Agreement.

(h) ERROR CORRECTION; TRUE-UPS; ACCOUNTING. The Providing Company shall make adjustments to charges as required to reflect the discovery of errors or omissions in charges. The Providing Company and the Receiving Company shall conduct an annual true-up process to adjust charges based on a reconciliation of differences in budgeted usage and costs with actual experience. It is the intent of the parties that such true-up process will be conducted using substantially the same process, procedures and methods of review as have been heretofore in effect. Services under this Agreement and charges therefor shall be subject to the audit rights set forth in Section 8.4 of the Genco Separation Agreement.

2.4 GENERAL OBLIGATIONS; STANDARD OF CARE.

(a) PERFORMANCE METRICS: PROVIDING COMPANY. Subject to Sections 2.3 and 2.5(c), the Providing Company shall maintain sufficient resources to perform its obligations hereunder and shall perform such obligations in a commercially reasonable manner. Specific performance metrics for the Providing Company may be set forth in Exhibits. Where none is set forth, the Providing Company shall provide Services in accordance with the policies, procedures and practices in effect before the date of this Agreement and shall exercise the same care and skill as it exercises in performing similar services for itself.

(b) PERFORMANCE METRICS: RECEIVING COMPANY. Specific performance metrics for the Receiving Company may be set forth in Exhibits. Where none is set forth, the Receiving Company shall, in connection with receiving Services, follow the policies, procedures and practices in effect before the date of this Agreement including providing information and documentation sufficient for the Providing Company to perform the Services as they were performed before the date of this Agreement and making available, as reasonably requested by the Providing Company, sufficient resources and timely decisions, approvals and acceptances in order that the Providing Company may accomplish its obligations hereunder in a timely manner.

(c) TRANSITIONAL NATURE OF SERVICES; CHANGES. The parties acknowledge the transitional nature of the Services and that the Providing Company may make changes from time to time in the manner of performing the Services if the Providing Company is making similar changes in performing similar services for members of its own Group and if the Providing Company furnishes to the Receiving Company substantially the same notice the Providing Company shall provide members of its own Group respecting such changes.

(d) RESPONSIBILITY FOR ERRORS; DELAYS. The Providing Company's sole responsibility to the Receiving Company:

(i) for errors or omissions in Services shall be to furnish correct information and/or adjustment in the Services, at no additional cost or expense to the Receiving Company; provided, the Receiving Company must promptly advise the Providing Company of any such error or omission of which it becomes aware after having used reasonable efforts to detect any such errors or omissions in accordance with the standard of care set forth in subsection 2.4(b); and provided, further, that the responsibility to furnish correct information or an adjustment of services at no additional cost or expense to the Receiving Company shall not be construed to require the Providing Company to make any payment or incur any Liability for which it is not responsible, or with respect to which it is provided indemnity, under Section 2.8; and

(ii) for failure to deliver any Service because of Impracticability shall be to use commercially reasonable efforts, subject to subsection 2.5(b), to make the Services available and/or to resume performing the Services as promptly as reasonably practicable.

(e) GOOD FAITH COOPERATION; CONSENTS. The parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Services. Such cooperation shall include exchanging information, providing electronic access to systems used in connection with Services to the extent the systems in use are designed and configured to permit such access, performing true-ups and adjustments and obtaining all consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations hereunder. The costs of obtaining such consents, licenses, sublicenses or approvals shall be allocated in accordance with Section 2.3. The parties will maintain documentation supporting the information contained in the Exhibits and cooperate with each other in making such information available as needed in the event of a tax audit, whether in the United States or any other country.

(f) ALTERNATIVES. If the Providing Company reasonably believes it is unable to provide any Service because of a failure to obtain necessary consents, licenses, sublicenses or approvals pursuant to subsection 2.4(e) or because of Impracticability, the parties shall cooperate to determine the best alternative approach. Until such alternative approach is found or the problem otherwise resolved to the satisfaction of the parties, the Providing Party shall use commercially reasonable efforts, subject to Section 2.5(b) and Section 2.5(c), to continue providing the Service or, in the case of Systems, to support the function to which the System relates or permit Receiving Party to have access to the System so Receiving Party can support the function itself.

2.5 CERTAIN LIMITATIONS.

(a) SERVICE BOUNDARIES AND SCOPE. Except as provided in an Exhibit for a specific Service, (i) the Providing Company shall be required to provide the Services only at the locations such Services are being provided by the Providing Company for the members of the Genco Group immediately prior to the Genco Distribution Date; and (ii) the Services will be available only for purposes of conducting the business of Genco and its Subsidiaries substantially in the manner it was conducted prior to the Genco Distribution Date.

(b) IMPRACTICABILITY. The Providing Company shall not be required to provide any Service to the extent the performance of such Service becomes "Impracticable" as a result of a cause or causes outside the reasonable control of the Providing Company including unfeasible technological requirements, or to the extent the performance of such Services (i) would require the Providing Company to violate any applicable laws, rules or regulations or (ii) would result in the breach of any software license or other applicable contract in effect on the date of this Agreement.

(c) ADDITIONAL RESOURCES. Except as provided in an Exhibit for a specific Service, in providing the Services, the Providing Company shall not be obligated to (i) maintain the employment of any specific employee; (ii) purchase, lease or license any additional equipment or software; or (iii) pay any costs related to the transfer or conversion of the Receiving Company's data to the Receiving Company or any alternate supplier of Services.

(d) NO SALE, TRANSFER, ASSIGNMENT. No Receiving Company may sell, transfer, assign or otherwise use the Services provided hereunder, in whole or in part, for the benefit of any Person other than a member of the Genco Group.

2.6 CONFIDENTIALITY.

(a) INFORMATION SUBJECT TO OTHER OBLIGATIONS. The Providing Company and the Receiving Company agree that all Information regarding the Services, including, but not limited to, price, costs, methods of operation, and software, and all Information provided by any Receiving Company in connection with the Services, shall be maintained in confidence and shall be subject to Sections 8.2 and 8.11 of the Genco Separation Agreement.

(b) ALL INFORMATION CONFIDENTIAL. The Providing Company's Systems used to perform the Services provided hereunder are confidential and proprietary to the Providing Company or third parties. The Receiving Company shall treat these Systems and all related procedures and documentation as confidential and proprietary to the Providing Company or its third party vendors.

(c) INTERNAL USE; TITLE, COPIES, RETURN. Subject to the applicable provisions of the Genco Separation Agreement governing ownership, use and licensing of Intellectual Property (as defined therein), the Receiving Company agrees that:

(i) all Systems, procedures and related materials provided to the Receiving Company are for the Receiving Company's internal use only and only as related to the Services or any of the underlying Systems used to provide the Services;

(ii) title to all Systems used in performing the Services provided hereunder shall remain in the Providing Company or its third party vendors;

(iii) The Receiving Company shall not copy, modify, reverse engineer, decompile or in any way alter Systems without the Providing Company's express written consent; and

(iv) Upon the termination of any of the Services, the Receiving Company shall return to the Providing Company, as soon as practicable, any equipment or other property of the Providing Company relating to the Services which is owned or leased by it and is or was in the Receiving Company's possession or control.

2.7 TERM; EARLY TERMINATION.

(a) TERM. The term of this Agreement shall commence on the date hereof and shall remain in effect through the earlier of such time as (i) all Services are terminated as provided in this Section or (ii) CenterPoint ceases to own a majority of the voting power represented by the outstanding Genco common stock. This Agreement may be extended by the parties in writing either in whole or with respect to one or more of the Services, provided, however, that such extension shall only apply to the Service for which the Agreement was extended. The parties may agree on an earlier expiration date respecting a specific Service by specifying that date on the Exhibit for that Service. Services shall be provided up to and including the date set forth in the applicable Exhibit, subject to earlier termination as provided herein.

(b) TERMINATION BY GENCO OF SPECIFIC SERVICE CATEGORIES. Genco may terminate this Agreement either with respect to all, or with respect to any one or more, of the Services provided hereunder at any time and from time to time, for any reason or no reason, by giving written notice to the Providing Party as follows:

(i) for Corporate Center Services, except to the extent otherwise provided in Exhibit 2.1(a)(i), a terminated category of Services must include all Services included in one of the nine major service categories specified in Exhibit 2.1(a)(i), and notice of termination thereof must be given at least 30 days in advance of the effective date of the termination.

(ii) for Information Technology Services, a terminated category of Services must include one of the thirteen major service categories specified in Exhibit 2.1(a)(ii), in its entirety, and a notice of termination must be given at least 90 days in advance of the effective date of the termination.

(iii) for Shared Services, a terminated category of Services must include a complete service function specified in Exhibit 2.7(b)(iii) and advance notice of termination for that function must be given no later than the date specified in Exhibit 2.7(b)(iii).

(c) TERMINATION OF LESS THAN ALL SERVICES. In the event of any termination with respect to one or more, but less than all, Services, this Agreement shall continue in full force and effect with respect to any Services not terminated hereby.

(d) USER IDs, PASSWORDS. The parties shall use good faith efforts at the termination or expiration of this Agreement or any specific Exhibit hereto, to ensure that all user IDs and passwords are canceled and, subject to Section 2.6(c), that any data pertaining solely to the other parties are deleted or removed from Systems.

2.8 DISCLAIMER OF WARRANTIES, LIMITATION OF LIABILITY AND INDEMNIFICATION.

(a) DISCLAIMER OF WARRANTIES. EACH PROVIDING COMPANY AND ITS SUBSIDIARIES DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE SERVICES. EACH PROVIDING COMPANY AND ITS SUBSIDIARIES MAKE NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY OR ADEQUACY OF THE SERVICES FOR ANY PURPOSE OR USE.

(b) LIMITATION OF LIABILITY; INDEMNIFICATION OF RECEIVING COMPANY. Each Providing Company and its Subsidiaries shall have no Liability to any Receiving Company with respect to its furnishing any of the Services hereunder except for Liabilities arising out of or resulting from the gross negligence or willful misconduct occurring after the Genco Distribution Date of the Providing Company or any of its Subsidiaries. Each Providing Company will indemnify, defend and hold harmless each Receiving Company in respect of all such Liabilities arising out of or resulting from such gross negligence or willful misconduct. Such indemnification obligation shall be a Liability of the Providing Company for purposes of the Genco Separation Agreement, and the provisions of Article III of the Genco Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL A PROVIDING COMPANY OR ANY OF ITS SUBSIDIARIES HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT THE PROVIDING COMPANY OR ANY OF ITS SUBSIDIARIES WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(c) LIMITATION OF LIABILITY; INDEMNIFICATION OF PROVIDING COMPANY. Each Receiving Company shall indemnify and hold harmless each Providing Company in respect of all Liabilities arising out of or resulting from the Providing Company's furnishing or failing to furnish the Services provided for in this Agreement, other than Liabilities arising out of or resulting from the gross negligence or willful misconduct of the Providing Company. The provisions of this indemnity shall apply only to losses that relate directly to the provision of Services. Such indemnification obligation shall be a Liability of the Receiving Company for purposes of the Genco Separation Agreement and the provisions of Article III of the Genco

Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL A RECEIVING COMPANY OR ANY OF ITS SUBSIDIARIES HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT THE PROVIDING COMPANY OR ANY OF ITS SUBSIDIARIES WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(d) SUBROGATION OF RIGHTS VIS-A-VIS THIRD PARTY CONTRACTORS. In the event any Liability arises from the performance of Services hereunder by a third party contractor, the Receiving Company shall be subrogated to such rights, if any, as the Providing Company may have against such third party contractor with respect to the Services provided by such third party contractor to or on behalf of the Receiving Company. Subrogation under this Section 2.8(d) shall not affect the obligation of the Providing Company to perform Services under this Agreement.

2.9 REPRESENTATIVES. The parties shall each appoint one or more Representatives to facilitate communications and performance under this Agreement. The maximum number of Representatives for each party shall be three, one for each of the three principal categories specified in Section 2.1(a). Each party may treat an act of a Representative of another party as being authorized by such other party without inquiring behind such act or ascertaining whether such Representative had authority to so act. Each party shall have the right at any time and from time to time to replace any of its Representatives by giving notice in writing to the other party setting forth the name of (i) each Representative to be replaced and (ii) the replacement, and certifying that the replacement Representative is authorized to act for the party giving the notice in all matters relating to this Agreement (or matters relating to one or more categories specified in Section 2.1(a)). Each Representative is hereby authorized by the party he or she represents to approve the establishment of new or modifications to existing Exhibits for Initial Services before or after the Genco Distribution Date and the addition of new Exhibits for Additional Services after the Genco Distribution Date.

2.10 EMPLOYEE MATTERS. To the extent Genco has adopted such plans or programs, eligible employees of Genco will continue to participate in CenterPoint's benefit plans and programs after the Genco Distribution Date, in accordance with the terms and conditions of such plans and programs as they may be amended or terminated by CenterPoint at any time, for so long as CenterPoint continues to own 80% or more of the shares of Genco common stock or such earlier date as Genco elects to terminate participation in one or more of such plans or programs.

## ARTICLE III
## MISCELLANEOUS

3.1 TAXES. (a) General. Each Receiving Company shall bear all taxes, duties and other similar charges (and any related interest and penalties), imposed as a result of its receipt of Services under this Agreement, including any tax which a Receiving Company is

required to withhold or deduct from payments to a Providing Company, except any net income tax imposed upon the Providing Company by the country of its incorporation or any governmental entity within its country of incorporation.

(b) Sales Tax Liability and Payment. Notwithstanding Section 3.1(a), each Receiving Company is liable for and will indemnify and hold harmless any Providing Company from all sales, use and similar taxes (plus any penalties, fines or interest thereon) (collectively, "Sales Taxes") assessed, levied or imposed by any governmental or taxing authority on the providing of Services by the Providing Company to the Receiving Company. The Providing Company shall collect from the Receiving Company any Sales Tax that is due on the Service it provides to such Receiving Company and shall pay such Sales Tax so collected to the appropriate governmental or taxing authority.

3.2 LAWS AND GOVERNMENTAL REGULATIONS. The Receiving Company shall be responsible for (i) compliance with all laws and governmental regulations affecting its business and (ii) any use the Receiving Company may make of the Services to assist it in complying with such laws and governmental regulations. The provision of Services shall comply, to the extent applicable, with CenterPoint's Internal Code of Conduct. The Providing Company shall comply with all laws and governmental regulations applicable to the provision of Services.

3.3 RELATIONSHIP OF PARTIES. Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship of independent contractor nor be deemed to vest any rights, interest or claims in any third parties.

3.4 REFERENCES. All reference to Sections, Articles, Exhibits or Schedules contained herein mean Sections, Articles, Exhibits or Schedules of or to this Agreement, as the case may be, unless otherwise stated. When a reference is made in this Agreement to a "party" or "parties", such reference shall be to a party or parties to this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The use of the singular herein shall be deemed to be or include the plural (and vice versa) whenever appropriate. The use of the words "hereof", "herein", "hereunder", and words of similar import shall refer to this entire Agreement, and not to any particular article, section, subsection, clause, paragraph or other subdivision of this Agreement, unless the context clearly indicates otherwise. The word "or" shall not be exclusive; "may not" is prohibitive and not permissive.

3.5 MODIFICATION AND AMENDMENT. Except for modifications to Exhibits, which may be made by Representatives pursuant to Section 2.9 hereof, this Agreement may not be modified or amended, or any provision waived, except in the manner set forth in the Genco Separation Agreement.

3.6 INCONSISTENCY. In the event of any inconsistency between the terms of this Agreement and any of the Exhibits hereto, the terms of this Agreement, other than charges, shall control.

3.7 RESOLUTION OF DISPUTES. If a dispute, claim or controversy results from or arises out of or in connection with this Agreement or the performance of, or failure to perform, the Services, the parties agree to use the procedures set forth in Article VII of the Genco Separation Agreement, in lieu of other available remedies, to resolve the same.

3.8 SUCCESSORS AND ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as contemplated by Section 2.2, no party shall assign this Agreement or any rights herein without the prior written consent of the other party, which may be withheld for any or no reason.

3.9 NOTICES. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's Chief Executive Officer at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

3.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

3.11 SEVERABILITY. Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason, such declaration shall have no effect upon the remaining portions of this Agreement, which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted.

3.12 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

3.13 RIGHTS OF THE PARTIES. Nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity, other than the parties and to the extent provided herein their respective Subsidiaries, any rights or remedies under or by reason of this Agreement or any transaction contemplated thereby.

3.14 RESERVATION OF RIGHTS. The waiver by either party of any of its rights or remedies afforded hereunder or at law is without prejudice and shall not operate to waive any other rights or remedies which that party shall have available to it, nor shall such waiver operate to waive the party's rights to any remedies due to a future breach, whether of a similar or different nature. The failure or delay of a party in exercising any rights granted to it hereunder shall not constitute a waiver of any such right and that party may exercise that right at any time.

Any single or partial exercise of any particular right by a party shall exhaust the same or constitute a waiver of any other right.

3.15 ENTIRE AGREEMENT. All understandings, representations, warranties and agreements, if any, heretofore existing between the parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Transition Services Agreement as of the date first above written.

CENTERPOINT ENERGY, INC.

By: /s/ DAVID M. MCCLANAHAN
---
David M. McClanahan
President and Chief Executive Officer

TEXAS GENCO HOLDINGS, INC.

By: /s/ DAVID G. TEES
---
David G. Tees
President and Chief Executive Officer

CORPORATE CENTER SERVICES

A1. OFFICE OF THE CHIEF ACCOUNTING OFFICER.

The Office of the Chief Accounting Officer includes the general activities and costs to support the Office of the Chief Accounting Officer such as salaries for the Chief Accounting Officer and an Executive Assistant as well as the costs associated with the following corporate centers:

A.1.1. Corporate Risk Control.

The major activities and costs associated with this corporate cost center include:

- Establish and monitor risk policies and limits.
- Ensure the adequacy of SBU's infrastructures to comply with established risk control policies, procedures and limits.
- Ensure reasonableness of valuation methodologies, assumptions and models.
- Provide support and oversight for the development of capital projects and other major commitments.
- Provide consulting on risk-related activities as needed.
- Support Board of Directors Audit Committee

A.1.2. Financial Accounting.

Major activities and costs associated with this corporate center include:

- Preparation of internal and external financial reports.
- Financial analysis of the results of operations.
- External audit fees.
- Consulting fees relating to financial accounting issues.
- SEC compliance reporting.
- Accounting support of financing activities.
- Accounting support for various strategic planning initiatives.
- Financial projections and quarterly performance reviews.
- Accounting support on business unit capital projects, acquisitions, etc.
- Support Board of Directors Audit Committee

A.1.3. Federal Tax.

Major activities and costs associated with this corporate center include:

- Federal tax planning.
- Preparation of estimates of federal taxes.
- Calculation of current and deferred federal tax expense.
- Current taxes payable and deferred tax liability.
- Preparation of federal income tax returns.
- Coordination and response to Internal Revenue Service inquiries and audits.
- Preparation and maintenance of international tax data for accrual and dividend planning purposes.
- Maintenance of tax systems.
- Monitoring proposed tax legislation.
- Litigation support for federal tax issues.
- Due diligence reviews of tax implications of proposed acquisitions.
- Consulting fees related to federal tax issues and strategic planning.

A.1.4. State and Local Tax.

Major activities and costs associated with this corporate center include:

- Preparation of sales and use tax returns.
- Preparation of state income and franchise tax returns.
- Preparation of estimates and payment of state income taxes.
- Calculation of state current and deferred tax expense, current taxes payable, and deferred tax liabilities.
- State tax planning.
- Coordination and response to state and local tax inquiries and audits.
- Costs of consulting fees related to sales, use, and state tax issues, and strategic planning.
- Preparation of SFAS 109 accruals.
- Performance of due diligence reviews for proposed acquisitions and state income tax estimates for proposed acquisitions.
- Monitoring of proposed tax legislation and preparing appropriate response.
- Litigation support for state and local tax issues.

A.1.5. Property Tax.

Major activities and costs associated with this corporate center include:

- Payment and review of property taxes and preparation of returns.

- Negotiation of property taxes.

- Costs of consulting fees related to property and tax issues and strategic planning.

A.1.6. Internal Audit.

The major activities and costs associated with this corporate center include:

- Internal process and financial reviews of business units and business units' functions.

- Internal process reviews of corporate functions.

- Assist in the external audit.

- Review of benefit payments, travel expenses, etc.

- Operational audits.

- Assist in due diligence reviews of projects, acquisitions, etc.

- Participate and supplement corporate risk functions.

- Support Board of Directors Audit Committee.

A2. CORPORATE FINANCE.

Corporate Finance includes the general activities and costs such as salaries of the Vice President Corporate Finance, Treasurer and executive assistants, and consulting costs related to financings and insurance. This area also includes the costs and activities associated with the following corporate cost centers:

A.2.1. Financial Services.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the financial services function.

- Debt compliance monitoring.

- Payment of financing obligations (including interest) and related fees, trust fees, etc.

- Review of pension plan portfolio and make funding payments to the pension trust. (Trust Administration)

- Trust administration for nuclear decommissioning trust.

A.2.2. Cash Management.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support cash management including department salaries, secretarial services, and supplies.

- Payment of financing obligations (including interest) and related fees.

- Daily cash management.

- Monitoring bank accounts.

- Execution of wire transfers.

- Forecasting cash needs.

- Managing banking relations in order to resolve problems and to minimize transaction costs.

A.2.3. Corporate Insurance.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the insurance benefits group including salaries for department employees.

- Internal evaluation of insurance risks and needs.

- Consulting costs related to insurance evaluations.

A.2.4. Investor Services.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the investor services department including salaries and supplies.

- Payment of dividends to shareholders.

- Coordination of dividend reinvestment plan.

- Mailing of annual reports

- Shareholder recordkeeping.

- Coordination of shareholder meetings.

A.2.5. Corporate Finance.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the corporate finance function.

- Evaluation and implementation of optimal capital structures, optimal sources of capital, and the attraction of capital.

- Support for investment activities.

- Establishment of and preservation of the liquidity.

- Establishment and maintenance of relations with the rating agencies, banks, and the fixed income, mezzanine and private equity communities.

- Preparation of periodic rating agency presentations.

A3. INVESTOR RELATIONS.

Major costs and activities associated with this corporate cost center include:

- General activities and costs to support the investor relations department including salaries of department employees, secretarial services, travel, and meeting costs.

- Communication with the investment community (institutional investors and shareholders) about earnings and business strategies.

- Plan and prepare analyst presentations.

- Meetings with security analysts and rating agencies.

- Prepare financial analysis to support discussions with security analysts and rating agencies.

- Prepare print publications (reports/fact sheets) sent to third parties including investors, analysts, shareholders and rating agencies.

- Speechwriting for financial presentations/meetings.

A4. CORPORATE PLANNING

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support strategic planning for corporate and business units such as salaries of strategic planning department employees, secretarial services, consulting costs, etc.

- Assistance to business units in the development of strategies, goals, and measures.

- Economic and financial analysis of business unit and corporate strategies.

- Development and analysis of five year strategic forecasts of business units.

- Outside consulting costs related to the evaluation of strategic plans of business units and corporate.

A5. OFFICE OF THE GENERAL COUNSEL.

The Office of the General Counsel (Legal Department) is responsible for managing the legal affairs. The major activities and costs that are associated with this corporate cost center include:

- General legal activities and costs to support the corporate office and all business units including salaries of in-house attorneys, other legal professionals, legal assistants, outside counsel fees, travel costs, duplication costs, etc.

- Corporate and securities law.

- Employment law.

- Regulatory law.

- Contract law.

- Patent law.

- Litigation.

- Work related to and evaluation of legal claims.

- Outside counsel to assist in the above activities.

A6. CORPORATE COMMUNICATIONS.

This corporate center includes those activities and costs necessary to support the administration and management of corporate communications. Services include external communications and event sponsorship with customers, media, financial audiences, and the community at large. The following corporate cost centers are also a part of corporate communications:

A.6.1. Internal Relations.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the internal relations department including department salaries, secretarial service, publications, printing costs, etc.

- Internal communication assistance to other business units.

- Internal employee communications.

- Communication of corporate and business unit visions to the employees.

- Employee awards.

- Development and maintenance of intranet sites.

A.6.2. External Relations.

- This corporate center includes the following major functions and the associated costs to support them including salaries of management, other professional and secretarial assistance, outside services for production of print, video and Internet communications materials, outside production costs for events and consulting fees.

A.6.2.1. Public Relations, Corporate & Financial Communications

- External communication of financial, strategic and general corporate information as well as communications to announce and launch new business ventures. Audiences include national, financial, trade and local news media, stockholders, customers, trade associations and the general public.

- Production of annual and quarterly reports to shareholders, executive speeches, corporate brochures and videos and corporate information on Internet sites.

- Communications support for unregulated business units, including:

  - Response to media inquiries

  - Pro-active media relations

  - Project communications

  - Event coordination

  - Selection and supervision of outside public relations firms retained for specific projects

  - Screening, selection and speechwriting services for speaking engagements

A.6.2.2. Corporate Branding & Promotions

- Development and management of the corporate names, logotypes and brand identity standards.

- Sponsorships and event marketing activities to create strong external awareness of CenterPoint and the unregulated business units.

- Implementation and management of promotional opportunities created for CenterPoint and the unregulated business units through sponsorships.

- Management of special events for other corporate centers such as Corporate Community Relations and the unregulated business units.

A7. GOVERNMENT AFFAIRS.

The major activities and costs associated with this center are the salaries of executives, professionals and executive assistants as well as consultant and advisor and other costs directly related to legislative advocacy. This corporate center also includes a number of other cost centers that are described below:

A.7.1. Texas State Relations.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the Texas state governmental relations department including salaries of department employees, secretarial services, state legislative advocacy costs, legislative consulting and advisor costs, and travel costs, etc.

- Lobbying activities related to industry issues, environmental issues, taxes, nuclear waste, tort reform, ethics, etc.

- Housing accommodations in Austin, Texas.

A.7.2. Limestone and Cedar Bayou Conference Centers.

- The major activities and costs associated with this corporate cost center are to support the operation and maintenance of the Cedar Bayou Conference Center including salaries of permanent staff and site-related costs.

A.7.3. Federal Relations.

The major costs and activities associated with this corporate cost center include:

- General activities and costs to support the federal governmental relations department including salaries of department employees, secretarial services, federal legislative advocacy costs, federal legislative consulting and advisor costs, and travel costs, etc.

- Lobbying activities related to industry issues, PUHCA, environmental issues, taxes, transportation, etc.

A.7.4. Third Party Initiatives.

The major costs and activities associated with this corporate cost center include:

- General activities and costs to support legislative initiatives including salaries of department employees, secretarial services, legislative advocacy costs, legislative consulting and advisor costs, and travel costs, etc.

- Preparation of ethics filings (state, local, and federal).

- Communication with Third Party Groups to minimize adverse legislation.

- Communication with employees encouraging participation of employees in legislative activities.

A.7.5. Corporate Community Relations.

The major costs and activities associated with this corporate cost center include:

- Local and regional charitable contributions and donations.

- Coordination of corporate contributions and memberships.

- Communication and establishment of relationship with community.

A.7.6. Local Government Relations.

The major costs and activities associated with this corporate cost center include:

- General activities and costs to support the Texas local governmental relations department including salaries of department employees, secretarial services, local legislative advocacy costs, legislative consulting and advisor costs, etc.

- Lobbying activities related to industry issues, environmental issues, taxes, franchise taxes, operational ordinances, etc., with local regulators.

A.7.7. State Affairs.

The major activities and costs associated with this corporate cost center include:

- General activities and costs to support the State Affairs (primarily for states other than Texas) governmental relations department including salaries of department employees, secretarial services, state legislative advocacy costs, legislative consulting and advisor costs, and travel costs, etc. Outside consulting costs are direct billed to the appropriate SBU.

- Lobbying activities related to acquiring, siting, licensing, operating and maintaining power plants along with deregulation, environmental issues, taxes, etc.

A8. CORPORATE HUMAN RESOURCES

A.8.1. Compensation Design and Delivery

Major activities and costs associated with this corporate center include:

- Provide consultation and counseling on compensation issues.

- Provide data input, execution and retrieval for compensation activities including planning, promotions, adjustments, recognition, etc.

- Design and deliver base compensation, variable compensation, long-term incentives, and recognition/retention programs.

A.8.2. Benefits Design and Delivery

Major activities and costs associated with this corporate center include:

- Design and deliver pension, savings, medical insurance, life insurance, and other related health and welfare programs.

- Design and deliver annual enrollment process and other benefit plan models.

- Focal point for providing salary survey and market information for compensation planning.

- Lead and manage benefits call center relationship process to insure client satisfaction with benefit delivery process.

- Perform due diligence of all acquisitions and divestitures related to benefit plans.

- Deliver benefit programs, processes, and governance plans for implementation within business/functional units.

A.8.3. Recruiting, Staffing and Selection

Major activities and costs associated with this corporate center include:

- Design, develop and implement internal and external hiring process including college campus, local markets, and global experienced candidate selection.

- Develop interview and selection process.

- Manage contingent workforce contracts and relationships.

- Manage labor and union relationships.

- Manage separation process and policy including outplacement service providers.

- Develop and administer relocation process both on a domestic and an international basis.

- Provide for effective SAP interface and implementation of technology support and resources to provide reporting, data management, and user-friendly applications for client use.

- Focal point for corporate diversity process and affirmative action plans.

- Design and manage new hire orientation and related employee processing activities in conjunction with business/functional units, including pre-employment screening processes and testing activity.

- Manage and administer unemployment and worker compensation claims.

A.8.4. Organization Effectiveness and Learning

Major activities and costs associated with this corporate center include:

- Design and/or select learning resources to support client needs and build competencies.

- Deliver tools and services to clients to facilitate organizational assessment, benchmarking, problem solving, process re-engineering, breakthrough thinking, change management, and succession planning.

- Manage external provider relationships for delivery of training and other learning/assessment resources.

- Manage and schedule internal learning facilities and resources including training rooms, conference sites, materials, and distance learning processes.

- Tool development and implementation process for delivery of Individual Performance Improvement Process.

A9. REGULATORY

Major activities and costs associated with this corporate center include:

- Identifying, analyzing and communicating key issues related to the public, local, state and federal regulators.

- Preparation of filings.

- Participation in hearings.

- Communication to internal and external stakeholders.

- Regulatory planning and policy.

# INFORMATION TECHNOLOGY SERVICES

SERVICE 1: DATA CIRCUIT MANAGEMENT

- Circuit Connection and Internal Distribution
- Capacity Monitoring
- Circuit Consolidation Services
- Carrier Management and Administration (Life Cycle Management)
- Access to CenterPoint Private Communication Network
- Software/Hardware Maintenance for Data Network Components
- Vendor and Contract Management
- Problem Identification & Resolution

SERVICE 2: DESKTOP DATA DEVICE SERVICES

- Desktop Connectivity
- WAN Access & Transport
- Information Security
- Nerve Center Monitoring
- Vendor Contract Management
- Problem Identification & Resolution

SERVICE 3: SOLUTIONS DELIVERY (PROGRAMMING)

SAP PRODUCTION SUPPORT

- SAP Applications/Development
- Modifications/Enhancements
- Deployment/Training
- Functional Teams
- Problem Identification & Resolution.

SERVICE 4: MAINFRAME OPERATIONS

PART 1: CPU UTILIZATION & MAINFRAME DATA STORAGE

- Monitoring by IT Nerve Center
- Disaster Recovery Services for non-SAP mainframe applications
- Migration and automated scheduling of corporate applications
- Planning, design, acquisition, installation of hardware and software upgrades
- Performance tuning
- Capacity planning and analysis (CPU, DASD, tape)
- Microfiche processing
- Online report viewing and archival
- White paper print (mainframe application reports)
- Distribution of mainframe reports to LAN printers
- Enterprise Change Management
- SAP infrastructure support
- Problem Identification & Resolution

PART 2: DEDICATED SERVER SUPPORT (NON-SHARED HARDWARE)

- Monitoring by IT Nerve Center
- Problem identification and resolution
- Backup and Recovery
- Migration and automated scheduling of corporate applications
- Planning, design, acquisition, installation of hardware and software upgrades
- Performance tuning
- Capacity planning and analysis
- Enterprise Change Management

- Vendor and Contract Management

- Problem Identification & Resolution

PART 3: BILL PRINT

- OCE High-speed mainframe printers

- Staffing, equipment maintenance, usage, supplies, etc. to support bill print

- Planning, design, acquisition, installation of hardware and software upgrades

- Disaster Recovery Services (successful test in April 2000)

- Problem Identification & Resolution

SERVICE 5: TELECOMMUNICATIONS

PART 1: TELEPHONE BASIC LINE

- Operation and maintenance of the telephone switch network

- Telephone Lines, Fax Machine Lines, and Modem Lines

- Video/Audio Teleconference Services

- Voice Mail and Voice Processing Services

- Caller ID Services

- 411 Information / 911 Emergency Services

- Security

- Call Feature Options

- Problem Identification & Resolution

PART 2: CALL CENTER BASIC LINE

- Operation and Maintenance of the Phone System and New Applications

- Private Network Connectivity

- Agent Consoles and Headsets

- Detailed Real-Time / Historical Call Traffic Management Reports

- Security

- Problem Identification & Resolution

PART 3: VOICE SERVICES MOVES/ADDS/CHANGES

- Consultation and technician time to add, move, or reconfigure voice assets

- Voice desktop telephone lines, modem lines, fax machine lines

- Miscellaneous cables and connectors

PART 4: RADIO SERVICES

- Radio frequency coordination

- Maintenance of Federal Communication Commission licensing

- Federal Aviation Administration regulatory compliance for radio towers

- Utility Telecommunication Counsel activities

- Local, state, and national regulatory activities

# SHARED SERVICES

## FACILITIES MANAGEMENT.

Facilities Project Management.

- Scope development
- Cost and schedule estimation
- Design and engineering contract documents
- Construction management services
- Employee relocation
- Furniture acquisition and relocation
- Cost tracking and reporting services

Building Operations.

- Janitorial services
- Utility services
- Building repairs and maintenance
- Employee relocations and moves
- General operating requirements

Real Estate.

- Facilities Management coordinates the sale of surplus properties, the acquisition of properties and lease negotiations

## FINANCIAL SERVICES.

Payroll Services.

- Issue regular payroll checks
- Issue special payroll checks
- Issue cash advances
- Process employee per diem expense reimbursements
- Process travel reimbursements
- Process educational assistance payments
- Process relocation allowances
- Comply with union agreements
- Prepare and file payroll related tax returns
- Issue employee W-2 forms and certain non-employee 1099s
- Maintain payroll records
- Provide litigation and audit support
- Comply with all payroll related reporting requirements

- Provide requested client support

Remittance Processing Services

- Receive and initiate bank deposits for customer payments

- Prepare incoming mail for processing

- Capture data image and perform data entry of payment information

- Initiate transmission of data to the host mainframe for customer payment update

- Provide support for all electronic payments

- Perform image archiving of stubs and checks

- Process returned checks

- Provide customer/vendor interaction and resolution of payments

- Return correspondence sent in with customer payments to central point at each business unit

- Perform timely reconciliation of general ledger accounts

- Collect and return to business unit the generated forms soliciting customer participation in special programs (i.e. Bank Drafts Balanced Billing, Good Neighbor, etc) which customer returns with payment

Check Disbursement Services.

- Printing of checks on standard check stock

- Inserting checks into a standard envelope

- Providing separate check inserts for up to two preapproved standard inserts

- Sorting checks for distribution and delivery to mail room

- Maintenance of check printing control log

- Processing and posting of returned checks

- Investigation of fraudulent checks

- Processing exception items to the bank positive pay file

Corporate Bank Reconciliation.

- Timely reconciliation of General Ledger cash accounts to bank account balances

State Escheat Reporting.

- State escheat reporting including notification letters and required reporting. Maintenance of third party software and database required for escheat reporting

Corporate Travel Services.

Professional business travel and off site meeting services, including:

- Air, hotel and car reservations

- Performs other travel support such as visa and passport services

- Offers various alternatives for communicating travel requests (telephone, fax, e-mail and self booking tools)

- Provides training / tips and support in making travel arrangements

- Provides professional meeting planner to assist in arrangements including facilities, audio-visual equipment, catering, meeting logistics & contract negotiations

Business Consulting.

Financial Services provides business consulting services on request at hourly billing rates. Services can include client satisfaction program assistance, focus group facilitation, and new business services.

OFFICE SUPPORT SERVICES.

Mail Services.

- Routing and delivery of interoffice mail, U.S. mail, certified mail and overnight mail (FedEx, UPS, Airborne)

- Mail metering; maintenance of PO boxes and postal permits

- Consulting on Company and U. S. Postal Service processes and requirements

- Daily pick-up and delivery for CenterPoint locations

Graphics

- Original graphic design and production services for brochures, newsletters, monthly publications, posters, invitations, calendars, quarterly reports, annual reports, and icons/logos

- Original illustrations or photography as needed to support design projects

- Original design and production of signage and banners

- Original Web page design and production

- Trade show display and promotional pieces

- Project research and strategy planning

- Consulting and project coordination

- Research and maintenance of image library to support design projects

Office Supplies.

Product evaluations; participation in product procurement; maintenance of standard (stock) supply lists; product delivery for standard and non-standard supplies; and vendor liaison activities.

Forms

- Forms analysis

- Business unit consulting and support for forms preparation/forms needs Forms design for new and revised forms

- Maintenance of forms inventory levels, production and distribution

- Participation in negotiation and maintenance of vendor contracts

- Forms delivery via vendor to site, desktop delivery or LAN distribution

- Maintenance of PowerForms software including strategic direction, training, and business unit support

Insert Operations

- Insert and mail customer bills and other high volume mailings using high speed inserting equipment

- Order and stock customer bill envelopes and other envelopes as requested by clients

- Obtain/maintain lowest applicable postage rate for mailings

- Maintain U.S. Postal Service postage payment account

- Meet all U.S. Postal Service preparation requirements for high volume mailers

- Maintain documentation required to support high volume mailings for Postal discount

- Provide consultation on Company and U.S. Postal Service requirements for mailings

Document Center.

- High speed duplicating

- Network publishing

- Mainframe and variable print with postal discount capability

- Color copying

- Engineering maps reproduction

- Full bindery/finishing

- Consulting and support on document preparation and printing requirements.

- Brochures

- Newsletters

- Monthly publication

- - Forms

- - Envelopes

- - Marketing and promotional pieces

- - Invitations

- Business cards

- Letterheads

- Calendars

- Annual reports

Convenience Copiers

- Arrange acquisition and maintain low-volume capacity copiers in various locations for the convenience of business units (client pays directly for copier)

- Administer copier contract and ensure contract compliance

- Perform needs analysis for business unit equipment and consulting on relocations, removals, upgrades or downgrades, and new products

- Provide ongoing product evaluations

- Communicate status of equipment acquisitions, removal, etc.

- Maintain accurate equipment inventory and volume records

Records Management

- Provide storage options for clients files through contract with third party provider

- Coordinate Retrieval of boxes / files for client review

- Develop and maintain a retention schedule that meets operational and legal requirements

- Provide notification when files reach scheduled destruction date and acquires appropriate documentation to destroy records

- Provide training and business unit support to evaluate file storage options

PROCUREMENT.

Purchasing

- Establish and maintain vendor agreements

- Provide IT procurement support - software and license

- Manage the vendor base and measures vendor performance

Logistics

- Coordinate waste disposal with third party vendor, including disposal of hazardous wastes and PCBs (clients direct billed by vendor for third party services)

- Provide material handling and transportation services to position hazardous waste for shipment to disposal facilities

- Manage disposal contractor services

- Coordinate collection and classification of trash and waste for appropriate disposal through third party contract (clients direct billed by vendor for third party services)

- Schedule pick up of trash containers and process documents for payment

- Prepare trash disposal manifests as necessary

Accounts Payable Automated Feed.

- Oversee automated feeds of payment requests for goods and services in the Accounts Payable system and provide reconciliation

- Correct automated entry rejects

Accounts Payable Automated ERS/EDI.

- Oversee automated entry of invoices into the Accounts Payable system via purchase order evaluated receipt settlement and electronic data interchange

Accounts Payable Manual Invoice Processing.

- Process invoices manually into the Accounts Payable system

- Perform account code validation

- Validate and identify material codes

- Confirm to Purchase Order

- Prepare correcting journal entries for Accounts Payable transactions

- Image records and supporting documentation via FileNet for all non-automated invoices to support records retention and retrieval

Accounts Payable Manual Invoice Processing without imaging.

- Process invoices manually into the Accounts Payable system

- Perform account code validation

- Validate and identify material codes

- Confirm to Purchase Order

- Prepare correcting journal entries for Accounts Payable transactions

Accounts Payable Ancillary.

- Vendor file maintenance

- Check processing activities

- State escheat process

- Returned check process

- Bank stop-payment activities

- Control report monitoring and correction

- Interactive Voice Response system maintenance

- Form 1099 tax reporting

- General ledger account reconciliation

- FileNet imaging system maintenance

- Production of on-demand standard Accounts Payable reports

- Monitoring procurement card exception reports

- Reconciliation of procurement card activity

- Coordination of year-end invoice accrual process

- Requested Accounts Payable workshops and training

Accounts Payable Ancillary without imaging.

- Vendor file maintenance

- Check processing activities

- State escheat process

- Returned check process

- Bank stop payment activities

- Control report monitoring and correction

- Interactive Voice Response system maintenance

- Form 1099 tax reporting

- General ledger account reconciliation

- Production of on-demand standard Accounts Payable reports

- Monitoring procurement card exception reports

- Reconciliation of procurement card activity

- Coordination of year-end invoice accrual process

- Requested Accounts Payable workshops and training

Accounts Payable Emergency Checks.

- Process invoices manually into the Accounts Payable system

- Perform account code validation

- Validate and identify material codes

- Perform vendor file maintenance (as required)

- Image records and supporting documentation via FileNet to support records retention and retrieval

- Oversee manual check generation and distribution

Inventory Accounting.

- Reconcile inventory accounts within the Accounts Payable system.

- Assist in audit of inventory controls and inventory levels

Supplier Diversity

- Manage the GSA Subcontracting Plan and the Five-Year Plan Procurement Initiatives

- Monitor MWBE procurement processes and procedures and associated results

- Respond to Federal, State, and Local reports/filings/issues/concerns/requests

- Plan and implement internal/external training, workshops, networking, and recognition events

- Implement, evaluate, and monitor Second-Tier expectations and requirements

- Participate in MWBE outreach and development activities

- Coordinate internal Advisory Council

- Assist clients with bids requiring MWBE participation/Update and enhance MWBE database

- Liaison to political, business, and community organizations and councils with strong interest in supplier diversity

- Publicize and communicate supplier diversity emphasis & awareness internally/externally

CORPORATE SECURITY

- Provide services necessary to plan and implement physical security measures for the protection of Reliant Energy personnel and assets

- Manage work requirements for contracted security personnel including contracted guard services and off-duty police officers

- Plan, coordinate installation and monitor electronic security systems

- Develop and maintain security policies and site security procedures, including periodic assessments for compliance and functionality

- Provide security support for employees traveling or residing outside the U.S.

- Perform confidential investigative services

- Provide pre-employment verification

ADMINISTRATIVE SUPPORT.

Business Services.

- Shared Services budgeting and planning functions

- Creation, maintenance and reporting for the client satisfaction programs

- Coordination and compilation of benchmarking/outsourcing studies

- Special projects/reports

EXHIBIT 2.7(b)(iii)

SHARED SERVICES
TERMINATION NOTIFICATION PERIODS

SHARED SERVICES

| TYPE OF SERVICE | TERMINATION PERIOD |
|---|---|
| FACILITIES MANAGEMENT | |
| 1. Facilities Project Management | Same as building lease |
| 2. Building Operations | Same as building lease |
| 3. Real Estate | 60 days or end of third party broker agreement |
| FINANCIAL ADMINISTRATION | |
| 1. Payroll | 120 days |
| 2. Remittance Processing | 120 days |
| 3. Check Disbursement | 120 days |
| 4. Corporate Bank Reconciliation | 60 days |
| 5. Travel | 90 days |
| OFFICE SUPPORT SERVICES | |
| 1. Office Mail Services | Same as building lease |
| 2. Insert Operations | 120 days |
| 3. Graphics | 60 days |
| 4. Office Supplies | 60 days |
| 5. Forms | 60 days |
| 6. Document Center | 60 days |
| 7. Convenience Copiers | 60 days |
| 8. Appliance Sales | 60 days |
| 9. Records Management | 120 days |
| PROCUREMENT | |
| 1. Purchasing | 90 days |
| 2. Logistics | 90 days |
| 3. Accounts Payable Automated | 120 days |
| 4. Accounts Payable Manual | 120 days |
| 5. Investment Recovery | 90 days |
| 6. Waste Disposal | 90 days |
| 7. Rubber Goods | 90 days |
| 8. Trash Disposal | 90 days |
| CORPORATE SECURITY | |
| 1. Security Services | 90 days (or same as building lease) |
| ADMINISTRATIVE SUPPORT | |
| 1. Support Charges | function of other services |

Note: Current estimate of lease expiration at Reliant Energy Plaza is December 2004.

EXHIBIT 10(cc)(3)

# TAX ALLOCATION AGREEMENT

BY AND AMONG

CENTERPOINT ENERGY, INC.

AND ITS AFFILIATED COMPANIES

AND

TEXAS GENCO HOLDINGS, INC.

AND ITS AFFILIATED COMPANIES

# TAX ALLOCATION AGREEMENT

THIS TAX ALLOCATION AGREEMENT (this "Agreement"), entered into effective as of August 31, 2002, by and among CenterPoint Energy, Inc., a Texas corporation ("CP"), each CP Affiliated Company, Texas Genco Holdings, Inc., a Texas corporation ("Texas Genco"), and each Texas Genco Affiliated Company is entered into in connection with the Distribution (as defined below).

## RECITALS

WHEREAS, CP is the common parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code"), which currently files a consolidated federal income tax return, and which, together with other affiliated corporations, is party to the Tax Sharing Agreement (as defined below);

WHEREAS, as set forth in the Master Separation Agreement, dated December 31, 2000, and subject to the terms and conditions thereof, Reliant Energy, Incorporated, the predecessor to CP, transferred all of its Texas electric generating assets to a limited partnership subsidiary of Texas Genco, and the limited partnership subsidiary of Texas Genco assumed all of the liabilities associated with such electric generating assets; and

WHEREAS, in accordance with the Texas statute that mandates the deregulation of the Texas electric business and in order to establish the "stranded costs" attributable to the electric power generation facilities owned by Texas Genco and pursuant to that certain Separation Agreement between CenterPoint Energy, Inc. and Texas Genco Holdings, Inc., dated as of August 31, 2002, CP will distribute approximately 19% of its shares of Texas Genco common stock, on a pro rata basis, to the holders of the common stock of CP (the "Distribution");

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

## SECTION 1. DEFINITIONS

1.1 In General. As used in this Agreement, the following capitalized terms shall have the following meanings:

"Affiliated Company" means, for income tax purposes, any entity in which a common parent holds 80% or more of the voting power and value of such corporation.

"Audit" includes any audit, assessment of Taxes, other examination by any Tax Authority, proceeding, or appeal of such a proceeding relating to Taxes, whether administrative or judicial, including proceedings relating to competent authority determinations.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consolidated Group" means a group of one or more corporations connected through stock ownership with a common parent in which the common parent owns at least 80% of the total voting power and value of such corporation and that files a Consolidated Return.

"Consolidated Return" means any Tax Return with respect to Federal Income Taxes filed on a consolidated basis.

"Consolidated Return Regulations" shall mean the Treasury Regulations promulgated under Chapter 6 of Subtitle A of the Code, including, as applicable, any predecessors or successors thereto.

"Consolidated State Tax" means any Tax incurred by a Legal Entity that is not a Federal Income Tax and that is filed on a combined, unitary, or consolidated basis.

"Consolidated State Tax Return" means a Tax Return filed with respect to a Consolidated State Tax liability.

"CP" has the meaning set forth in the Recitals to this Agreement.

"CP Consolidated State Tax" means a Consolidated State Tax for a particular Tax period for which CP or a member of the CP Group has the legal obligation to file a Tax Return with respect to such Consolidated State Tax.

"CP Consolidated State Tax Return" means a Tax Return filed with respect to a CP Consolidated State Tax.

"CP Group" means CP, any CP Affiliated Company or other entity of which CP is the common parent corporation or other entity which may be, or may become a member of such group from time to time.

"CP Consolidated Group" means with respect to a particular Tax period a Consolidated Group in which CP is the common parent for all or a portion of such Tax period.

"DIT" shall mean any "deferred intercompany transaction" or "intercompany transaction" within the meaning of the Treasury Regulations (or predecessors thereto).

"Distribution" has the meaning set forth in the Recitals to this Agreement.

"Distribution Date" means the date on which the Distribution is effective.

"Federal Income Tax" means any Tax imposed under Subtitle A of the Code (including the Taxes imposed by Sections 11, 55, and 1201(a) of the Code), and any interest, additions to Tax or penalties applicable or related thereto, and any other income-based U.S. federal Tax which is hereinafter imposed upon corporations.

"Filing Party" has the meaning set forth in Section 2.3 of this Agreement.

"Final Determination" means with respect to any issue (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final and not subject to further appeal, (ii) a closing agreement (whether or not entered into under Section 7121 of the Code) or any other binding settlement agreement (whether or not with the Service) entered into in connection with or in contemplation of an administrative or judicial proceeding, or (iii) the completion of the highest level of administrative proceedings if a judicial contest is not or is no longer available.

"Income Taxes" means (1) any tax based upon, measured by, or calculated with respect to (A) net income or profits (including any capital gains tax, minimum tax and any tax on items of Tax preference, but not including sales, use, real or personal property, gross or net receipts, transfer or similar taxes) or (B) multiple bases if one or more of the bases upon which such tax may be based, measured by, or calculated with respect to, is described in clause (A) above, or (2) any U.S., state or local franchise tax.

"Indemnifying Party" means a person who has an obligation to indemnify another person under Section 5.2.

"Indemnitee" means a person who is owed an indemnification obligation by another person under Section 5.2.

"Joint Return" shall mean any Tax Return that includes at least two Legal Entities, of which one Legal Entity is a member of the Texas Genco Group and the other Legal Entity is a member of the CP Group.

"Legal Entity" shall mean a corporation, partnership, limited liability company or other legal entity under the corporation, partnership, limited liability company or other organizational laws of a state or other jurisdiction.

"Non-Filing Party" has the meaning set forth in Section 2.3 of this Agreement.

"Redetermination" shall mean any redetermination as the result of an Audit by the Service (or the relevant state, local or foreign governmental authority), a claim for refund, an amended Tax Return or otherwise and that is resolved by a Final Determination.

"Separate Tax" means any Tax incurred by a Legal Entity that is not a Federal Income Tax and that is filed on a separate company basis.

"Separate Return" means any Tax Return filed with respect to a Separate Tax liability.

"Service" means the Internal Revenue Service.

"Tax" includes any charges, fees, levies, imposts, duties, or other assessments of a similar nature, including income, alternative or add-on minimum, gross receipts, profits, lease, service, service use, wage, wage withholding, employment, workers compensation, business occupation, occupation, premiums, environmental, estimated, excise, employment, sales, use, transfer, license, payroll, franchise, severance, stamp, occupation, windfall profits, withholding, social security, unemployment, disability, ad valorem, estimated, highway use, commercial rent, capital stock, paid up capital, recording, registration, property, real property gains, value added, business license, custom duties, or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Tax Authority including any interest, additions to tax, or penalties applicable or related thereto.

"Tax Authority" means any governmental authority or any subdivision, agency, commission or authority thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the Service).

"Tax Benefit" means a reduction in the Tax liability of a taxpayer (or of the affiliated group of which it is a member) for any taxable period. Except as otherwise provided in this Agreement, a Tax Benefit shall be deemed to have been realized or received from a Tax Item in a taxable period only if and to the extent that the Tax liability of the taxpayer (or of the affiliated group of which it is a member) for such period, after taking into account the effect of the Tax Item on the Tax liability of such taxpayer in the current period and all prior periods, is less than it would have been if such Tax liability were determined without regard to such Tax Item.

"Tax Detriment" means an increase in the Tax liability of a taxpayer (or of the affiliated group of which it is a member) for any taxable period. Except as otherwise provided in this Agreement, a Tax Detriment shall be deemed to have been realized or received from a Tax Item in a taxable period only if and to the extent that the Tax liability of the taxpayer (or of the affiliated group of which it is a member) for such period, after taking into account the effect of the Tax Item on the Tax liability of such taxpayer in the current period and all prior periods, is more than it would have been if such Tax liability were determined without regard to such Tax Item.

"Tax Item" means any item of income, gain, loss, deduction or credit, or other attribute that may have the effect of increasing or decreasing any Tax.

"Tax Sharing Agreement" means the Tax Sharing Agreement, dated August 6, 1997, entered into by and among Houston Industries, Incorporated (predecessor to CP), NorAm Energy Corp., and Houston Industries Energy, Inc.

"Tax Return" means any return, report, certificate, form or similar statement or document (including, any related or supporting information or schedule attached thereto and any information return, amended Tax return, claim for refund or declaration of estimated Tax) required to be supplied to, or filed with, a Tax Authority in connection with the determination,

assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

"Texas Genco" has the meaning set forth in the Recitals to this Agreement.

"Texas Genco Group" means Texas Genco and any Texas Genco Affiliated Company of which Texas Genco would be the common parent corporation if Texas Genco were not a member of the CP Group.

"Treasury Regulations" means the final, temporary and proposed income Tax regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.2 Construction Principles. As used in this Agreement, the singular shall be deemed to include the plural and vice versa, and the captions and section headings are inserted for convenience of reference only and are not intended to have any significance for the interpretation of, or construction of, the provisions of this Agreement. IT IS INTENDED THAT THIS AGREEMENT SHALL COMPLY WITH THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, RULE 45(c), TO THE EXTENT RELEVANT, AND ALL AMBIGUITIES SHALL BE INTERPRETED AND RESOLVED ACCORDINGLY.

SECTION 2. PREPARATION AND FILING OF TAX RETURNS.

2.1 In General. CP shall timely file or cause to be filed all Tax Returns that are filed on a consolidated, combined or unitary basis and shall include Texas Genco and the Texas Genco Affiliates as members of the CP Group with respect to the Tax Items of Texas Genco and the Texas Genco Affiliates. If Texas Genco is required to file a Separate Return, CP shall timely file or cause to be filed all such Separate Returns.

2.2 Information and Cooperation.

(a) CP and Texas Genco shall provide each other all documents and information, and make available employees and officers of CP and Texas Genco, as reasonably requested by the other party, on a mutually convenient basis during normal business hours, to aid the other party in preparing any Tax Return described in Section 2.1 of this Agreement or to contest any Audit of any such Tax Return.

(b) In the case of any Tax Return described in Section 2.1 of this Agreement, CP will provide Texas Genco with a copy of that portion of each such Tax Return to the extent it relates to Texas Genco or any Texas Genco Affiliated Company, together with all related tax accounting work papers, not later than five (5) days after the receipt of a written request therefor.

2.3 Manner of Filing Tax Returns. Except as otherwise provided in this Section 2.3 of this Agreement, the party that is required to file a return under Section 2.1 of this Agreement (the "Filing Party") shall have the exclusive right to determine (1) the manner in which such Tax Return shall be prepared and filed, including the elections, methods of accounting, positions, conventions and principles of taxation to be used and the manner in which

any Tax Item shall be reported, (2) whether any extensions may be requested, (3) the elections that will be made in such Tax Return, (4) whether any amended Tax Returns shall be filed, (5) whether any claims for refund shall be made, (6) whether any refunds shall be paid by way of refund or credited against any liability for the related Tax, and (7) whether to retain outside specialists to prepare such Tax Return, whom to retain for such purpose and the scope of any such retainer. (The party who is not the Filing Party is referred to herein as the "Non-Filing Party".)

2.4 Agent. Texas Genco hereby irrevocably designates, and agrees to cause each Texas Genco Affiliated Company to so designate, CP as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as CP, in its sole discretion, may deem appropriate in any and all matters (including Audits) relating to any Consolidated Return and any other Tax Return described in Section 2.1 of this Agreement.

SECTION 3. TAX SHARING AND PAYMENTS.

3.1 In General.

(a) Sharing Agreement. Except to the extent specifically modified or supplemented herein, the Tax Sharing Agreement shall continue in full force and effect. The provisions of the Tax Sharing Agreement shall fix the rights and obligations of the parties as to the matters covered thereby.

(b) Federal Income Tax Payments. With respect to CP Consolidated Group federal income Taxes, no later than five (5) days prior to the due date (including extensions) of any consolidated federal income Tax Return of the CP Consolidated Group:

(i) Texas Genco shall pay to CP no later than five (5) days prior to the due date (including extensions) of such Tax Return, the excess, if any, of (A) the sum of (I) the aggregate amount of any Tax that would not have been incurred by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group and (II) the aggregate amount of any Tax refund, credit or other Tax Benefit that would have been realized or received with respect to such Tax Return (or any other Tax Return that has been or could have been filed) by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group over (B) the aggregate amount previously paid by Texas Genco pursuant to this clause (i); and

(ii) CP shall pay to Texas Genco no later than five (5) days prior to the due date (including extensions of such Tax Return) the excess, if any, of (A) the sum of (I) the aggregate amount of any Tax that would have been incurred by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group and (II) the aggregate amount of any Tax refund, credit or other Tax Benefit realized or received with

respect to such Tax Return that would not have been realized or received by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group over (B) the aggregate amount previously paid by CP pursuant to this clause (ii).

(c) Consolidated, Combined, Unitary or Joint Return State Tax Payments. With respect to consolidated, combined, unitary or other Joint Return Taxes, other than consolidated federal income Taxes, no later than five (5) days prior to the due date (including extensions) of any Joint Return of the CP Consolidated Group:

(i) Texas Genco shall pay to CP the excess, if any, of (A) the sum of (I) the aggregate amount of any Tax that would not have been incurred by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group and (II) the aggregate amount of any Tax refund, credit or other Tax Benefit that would have been realized or received with respect to such Tax Return (or any other Tax Return that has been or could have been filed) by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group over (B) the aggregate amount previously paid by Texas Genco pursuant to this clause (i); and

(ii) CP shall pay Texas Genco the excess, if any, of (A) the sum of (I) the aggregate amount of any Tax that would have been incurred by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group and (II) the aggregate amount of any Tax refund, credit or other Tax Benefit realized or received with respect to such Tax Return that would not have been realized or received by the CP Consolidated Group but for the inclusion of any Legal Entity that is a member of the Texas Genco Group in the CP Consolidated Group over (B) the aggregate amount previously paid by CP pursuant to this clause (ii).

(d) DITS. The Consolidated Return Regulations and the consolidated federal income Tax Returns filed by the CP Consolidated Group pursuant to this Agreement or the Tax Sharing Agreement, respectively, shall determine the timing of the recognition of Tax Items with respect to DITS and the determination of whether the CP Consolidated Group or the Texas Genco Group (and which member thereof) shall bear the Tax Benefit or burden of such Tax Items, and each group shall be responsible for the Tax Items recognized by its respective members with respect to any DITS.

(e) Estimated Federal Tax Payments.

(i) In the case of any Federal Income Taxes for the CP Consolidated Group, Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) shall provide to CP no later than 8 days prior to the due date for each payment of an installment of estimated Federal Income Taxes (as determined

under Section 6655 of the Code or successor provision then in effect) of the CP Consolidated Group ("Estimated Federal Installment Payment") such information pertaining to Texas Genco or an Affiliated Company of Texas Genco as is necessary for CP to compute the amount of such Estimated Federal Installment Payment.

(ii) On or before the due date of such Estimated Federal Installment Payment, CP shall inform Texas Genco of either (A) the amount ("Texas Genco Estimated Federal Installment Payment") that Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) must pay CP with respect to such Estimated Federal Installment Payment, or (B) the amount ("Texas Genco Estimated Federal Installment Refund") CP must pay Texas Genco with respect to such Estimated Federal Installment Payment. CP shall compute the amount of each Texas Genco Estimated Federal Installment Payment or the Texas Genco Estimated Federal Installment Refund, as the case may be, so as to equal the portion of the Estimated Federal Installment Payment that is allocable to Texas Genco and the Affiliated Companies of Texas Genco taking into account previous Texas Genco Estimated Federal Installment Payments and Texas Genco Estimated Federal Installment Refunds that have been made for the same period. CP shall calculate the portion of each Estimated Federal Installment Payment of the Texas Genco Group that is allocable to Texas Genco and the Affiliated Companies of Texas Genco by (C) computing the sum of the estimated Federal Income Tax payments that Texas Genco and each Affiliated Company of Texas Genco would have been required to pay if each of Texas Genco and each Affiliated Company of Texas Genco had filed a Federal Income Tax Return on a separate company basis for such estimated Federal Income Tax period and (D) taking into account adjustments, if any, that are applicable on a Consolidated Return basis to the CP Consolidated Group Consolidated Return for such period. Texas Genco shall pay CP the Texas Genco Estimated Federal Installment Payment within 24 hours after the due date of the Estimated Federal Installment Payment to which it relates, and CP shall pay Texas Genco the Texas Genco Estimated Federal Installment Refund within 24 hours after the due date of the Estimated Federal Installment Payment to which it relates.

(iii) If (A) the portion of the actual Federal Income Tax Liability of the CP Consolidated Group that is allocable, as determined by CP in accordance with the Tax Sharing Agreement and consistent with the past practices utilized by the CP Tax Department in completing previous CP Consolidated Group Consolidated Returns, to Texas Genco and the Affiliated Companies of Texas Genco exceeds (B)(I) the sum of the Texas Genco Estimated Federal Installment Payments for such period less (II) the sum of the Texas Genco Estimated Federal Installment Refunds for such period, then CP shall inform Texas Genco of the amount of such excess on or before the due date of the CP Consolidated Group Consolidated Return for such period. Texas Genco (on behalf of itself and each Affiliated

Company of Texas Genco) shall pay the amount of such excess to CP within 24 hours after the due date of the CP Consolidated Group Consolidated Return.

(iv) If (A) (I) the sum of the Texas Genco Estimated Federal Installment Payments for a period less (II) the sum of the Texas Genco Estimated Federal Installment Refunds for such period exceeds (B) the portion of the actual Federal Income Tax Liability of the CP Consolidated Group for such period that is allocable, as determined by CP in accordance with the Tax Sharing Agreement and consistent with past practices utilized by the CP Tax Department in implementing previous CP Consolidated Group Returns, to Texas Genco and the Affiliated Companies of Texas Genco, then CP shall pay the amount of such excess to Texas Genco within 24 hours after the due date of the CP Consolidated Group Consolidated Return for such period.

(v) CP shall calculate the portion of the actual Federal Income Tax Liability of the CP Consolidated Group that is allocable to Texas Genco and the Affiliated Companies of Texas Genco for Sections 3.1(e)(iii) and (iv) consistent with the principles set forth in the penultimate sentence of Section 3.1(e)(ii).

(f) Estimated Payments of CP Consolidated State Taxes and Texas Genco Separate State Taxes.

(i) In the case of any CP Consolidated State Tax for any period that includes a member of the Texas Genco Group or in the case of any Separate Tax of the Texas Genco Group, Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) shall provide to CP no later than 8 days prior to the due date for each payment of an installment of CP Consolidated State Tax ("Estimated Consolidated State Installment Payment") or Separate Tax of Texas Genco ("Estimated Separate State Installment Payment") such information pertaining to Texas Genco or an Affiliated Company of Texas Genco as is necessary for CP to compute the amount of such Estimated Consolidated State Installment Payment or such Estimated Separate State Installment Payment.

(ii) On or before the due date of such Estimated Consolidated State Installment Payment, CP shall inform Texas Genco of either (A) the amount ("Texas Genco Estimated Consolidated State Installment Payment") that Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) must pay CP with respect to such Estimated Consolidated State Installment Payment, or (B) the amount ("Texas Genco Consolidated Estimated State Installment Refund") CP must pay Texas Genco with respect to such Estimated Consolidated State Installment Payment. CP shall compute the amount of each Texas Genco Estimated Consolidated State Installment Payment or Texas Genco Estimated Consolidated State Installment Refund, as the case may be, so as to equal the portion of the Estimated Consolidated State Installment Payment that is allocable to Texas Genco and the Affiliated Companies of Texas Genco taking into account

previous Texas Genco Estimated Consolidated State Installment Payments and Texas Genco Estimated Consolidated State Installment Refunds that have been made for the same period. CP shall calculate the portion of each Estimated Consolidated State Installment Payment that is allocable to Texas Genco and the Affiliated Companies of Texas Genco by (C) computing the sum of the estimated CP Consolidated State Tax payments that Texas Genco and each Affiliated Company of Texas Genco would have been required to pay if each of Texas Genco and each Affiliated Company of Texas Genco had filed a CP Consolidated State Tax Return on a separate company basis for such estimated CP Consolidated State Tax period and (D) taking into account adjustments, if any, that are applicable on a Consolidated State Tax basis to the CP Consolidated State Tax Return for such period. Texas Genco shall pay CP the Texas Genco Estimated Consolidated State Installment Payment within 24 hours after the due date of the Estimated Consolidated State Installment Payment to which it relates, and CP shall pay Texas Genco the Texas Genco Estimated Consolidated State Installment Refund within 24 hours after the due date of the Estimated Consolidated State Installment Payment to which it relates to the extent that CP has cash available from tax installment payments from other members of the CP Consolidated Group and shall pay Texas Genco the balance, if any, of the Texas Genco Estimated Consolidated State Installment Refund within 5 business days after the date that CP receives the refund from the taxing authority.

(iii) On or before the due date of each Estimated Separate State Installment Payment, CP shall inform Texas Genco of either (A) the amount ("Texas Genco Estimated Separate State Installment Payment") that Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) must pay CP with respect to such Estimated Separate State Installment Payment, or (B) the amount ("Texas Genco Estimated Separate State Installment Refund") CP must pay Texas Genco with respect to such Estimated Separate State Installment Payment. CP shall compute the amount of each Texas Genco Estimated Separate State Installment Payment or Texas Genco Estimated Separate State Installment Refund, as the case may be, so as to equal the Estimated Separate State Installment Payment of Texas Genco and the Affiliated Companies of Texas Genco taking into account previous Texas Genco Estimated Separate State Installment Payments and Texas Genco Estimated Separate State Installment Refunds that have been made for the same period. Texas Genco shall pay CP the Texas Genco Estimated Separate State Installment Payment within 24 hours after the due date of the Estimated Separate State Installment Payment to which it relates, and CP shall pay Texas Genco the Texas Genco Estimated Separate State Installment Refund within 5 business days after the date that CP receives the refund from the taxing authority.

(iv) If (A) the portion of the actual CP Consolidated State Tax Liability for a period that is allocable, as determined by CP in accordance with the Tax Sharing Agreement and determined as if each of Texas Genco and each Affiliated

Company of Texas Genco had filed a CP Consolidated State Tax Return on a separate company basis for such estimated CP Consolidated State Tax period, to Texas Genco and the Affiliated Companies of Texas Genco exceeds (B)(I) the sum of the Texas Genco Estimated Consolidated State Installment Payments for such period less (II) the sum of the Texas Genco Estimated Consolidated State Installment Refunds for such period, then Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) shall pay the amount of such excess to CP within 24 hours after the due date of the CP Consolidated State Tax Return for such period.

(v) If (A) (I) the sum of the Texas Genco Estimated Consolidated State Installment Payments for a period less (II) the sum of the Texas Genco Estimated Consolidated State Installment Refunds for such period exceeds (B) the portion of the actual CP Consolidated State Tax Liability for such period that is allocable, as determined by CP in accordance with the Tax Sharing Agreement and if each of Texas Genco and each Affiliated Company of Texas Genco had filed a CP Consolidated State Tax Return on a separate company basis for such estimated CP Consolidated State Tax period, to Texas Genco and the Affiliated Companies of Texas Genco, then CP shall pay the amount of such excess to Texas Genco within 24 hours after the due date of the CP Consolidated State Tax Return for such period to the extent that CP has cash available from tax installment payments from other members of the CP Consolidated Group and shall pay Texas Genco the balance, if any, of the Texas Genco Estimated Consolidated State Installment Refund within 5 business days after the date that CP receives the refund from the taxing authority.

(vi) If (A) the sum of the Separate Tax of Texas Genco for a period exceeds (B)(I) the sum of the Texas Genco Estimated Separate State Installment Payments for such period less (II) the sum of the Texas Genco Estimated Separate State Installment Refunds for such period, then Texas Genco (on behalf of itself and each Affiliated Company of Texas Genco) shall pay the amount of such excess to CP within 24 hours after the due date of the CP Consolidated State Tax Return for such period.

(vii) If (A) (I) the sum of the Texas Genco Estimated Separate State Installment Payments for a period less (II) the sum of the Texas Genco Estimated Separate State Installment Refunds for such period exceeds (B) the sum of the Separate Tax of Texas Genco for such period, then CP shall pay the amount of such excess to Texas Genco within 5 business days after the date that CP receives the refund from the taxing authority.

(g) State Allocation Rules. For purposes of CP's determination under Section 3.1(c) and Section 3.1(f) of the portion of the actual CP Consolidated State Tax liability that is allocable to Texas Genco and the Affiliated Companies of Texas Genco, CP shall allocate the amount by which the net aggregate CP Consolidated State Tax liability for a particular period

is increased or decreased because a Legal Entity included in the CP Consolidated State Tax Return created a nexus in a jurisdiction resulting in the imposition of a CP Consolidated State Tax by such jurisdiction that would not otherwise had been imposed but for such nexus either (A) completely to Texas Genco and the Affiliated Companies of Texas Genco if such Legal Entity is a member of the Texas Genco Group or (B) completely to the members of the CP Group if the Legal Entity is not a member of the Texas Genco Group.

3.2 Payments. CP shall pay (or cause to be paid) to the Service all Federal Income Taxes, if any, of the CP Consolidated Group that are attributable to Texas Genco and shall pay (or cause to be paid) to the appropriate Tax Authorities all Consolidated State Tax, if any, and all Separate Taxes, if any, that relate to the Texas Genco Group.

SECTION 4. ALLOCATION OF CERTAIN TAX ITEMS.

4.1 Net Operating Losses. Net operating loss carryovers, current losses and other Tax attributes available to the CP Consolidated Group may be used by any member of the CP Consolidated Group without compensation to other members of the Consolidated Group generating such attributes.

4.2 Adjustments.

(a) In the event of any Redetermination of any Joint Return for any taxable period, the amounts required to be paid pursuant to Section 3 or 4 of this Agreement shall be recomputed for such taxable period to take into account such Redetermination, and payments pursuant to Section 3 or 4 of this Agreement hereof shall be appropriately adjusted. Each party shall pay each other party an amount equal to the difference between the payment or payments previously made between the parties in respect of such redetermined Tax Return and the amount that would have been paid pursuant to this Agreement in respect of such redetermined Tax Return if such redetermined Tax Return had been filed on the basis of the Redetermination, plus interest at the statutory rate and applicable penalties.

(b) Any refund of Taxes received will be allocated in a manner consistent with the existing Tax Sharing Agreement in effect for such period and Section 3.1 of this Agreement.

SECTION 5. INDEMNIFICATION AND CONTEST PROVISIONS.

5.1 General Indemnification.

(a) CP and each CP Affiliated Company shall jointly and severally indemnify Texas Genco, each Texas Genco Affiliated Company, and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which CP or any CP Affiliated Company is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from the failure of CP, any CP Affiliated Company, or any director, officer or employee to make any payment required to be made under this Agreement.

(b) Texas Genco and each Texas Genco Affiliated Company shall jointly and severally indemnify CP, each CP Affiliated Company, and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which Texas Genco or any Texas Genco Affiliated Company is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from the failure of Texas Genco, any Texas Genco Affiliated Company, or any director, officer or employee to make any payment required to be made under this Agreement.

5.2 Payments.

(a) In General. Except as otherwise provided under this Agreement, to the extent that the Indemnifying Party has an indemnification or payment obligation to the Indemnitee pursuant to this Agreement, the Indemnitee shall provide the Indemnifying Party with its calculation of the amount of such indemnification payment. Such calculation shall provide sufficient detail to permit the Indemnifying Party to reasonably understand the calculations. All indemnification payments shall be made to the Indemnitee or to the appropriate Tax Authority as specified by the Indemnitee within the time prescribed for payment in this Agreement, or if no period is prescribed, within thirty (30) days after delivery by the Indemnitee to the Indemnifying Party of written notice of a payment or if such liability is contested pursuant to Section 6.3 of this Agreement, within thirty (30) days of the incurrence of such an amount based on a Final Determination, together with a computation of the amounts due.

(b) Electronic Payments. Any payment required under this Agreement shall be made by electronic funds transfer of immediately available funds.

5.3 Prompt Performance. All actions required to be taken by any party under this Agreement shall be performed within the time prescribed for performance in this Agreement, or if no period is prescribed, such actions shall be performed promptly.

5.4 Interest. Payments pursuant to this Agreement that are not made within the period prescribed in this Section 5.4 shall bear interest for the period from and including the date immediately following the last date of the period through and including the date of payment at a per annum rate equal to the prime rate as published in The Wall Street Journal on the date of determination, plus two percent (2%). Such interest will be payable at the same time as the

payment to which it relates and shall be calculated on the basis of a year of 365 days and the actual number of days for which due.

5.5 Tax Records. The parties to this Agreement hereby agree to retain and provide on proper demand by any Taxing Authority (subject to any applicable privileges) the books, records, documentation and other information relating to any Tax Return until the later of (a) the expiration of the applicable statute of limitations (giving effect to any extension, waiver or mitigation thereof) and (b) in the event any claim is made under this Agreement for which such information is relevant, until a Final Determination with respect to such claim.

SECTION 6. AUDITS AND CONTEST RIGHTS.

6.1 In General.

(a) The members of the Texas Genco Group shall cooperate and provide reasonable access to books, records and other information needed in connection with Audits, administrative proceedings, litigation and other similar matters related to periods in which such member of the Texas Genco Group was a member of the CP Consolidated Group.

(b) Except as otherwise provided in this Agreement, the respective Filing Party shall have the right to control, contest, and represent the interests of CP, any CP Affiliated Company, Texas Genco or any Texas Genco Affiliated Company in any Audit relating to any Tax Return that the Filing Party is responsible for filing under Section 2.1 of this Agreement and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Audit. The Filing Party's rights shall extend to any matter pertaining to the management and control of an Audit, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item.

6.2 Notice. If, after the date of this Agreement, CP (or any CP Affiliated Company) or Texas Genco (or any Texas Genco Affiliated Company) receives written notice of, or relating to, an Audit from a Tax Authority that asserts, proposes or recommends a deficiency, claim or adjustment that, if sustained, could result in Taxes for which the other party is responsible under this Agreement, then the party receiving such notice shall provide a copy of such notice to such other party within ten (10) days of receipt thereof.

6.3 Contests.

(a) If any Tax Authority asserts, proposes or recommends a deficiency, claim or adjustment that, if sustained, could result in Taxes for which the Non-Filing Party is responsible under this Agreement, then upon request by the Non-Filing Party, the Filing Party shall contest, or continue to contest, any deficiency, claim or adjustment and the Filing Party shall keep the Non-Filing Party informed in a timely manner reasonably in advance of all actions taken or proposed to be taken by the Filing Party in connection with such deficiency, claim or adjustment.

(b) In the case of an Audit with respect to any Tax Item, the Filing Party shall:

(1) in the case of any material correspondence or filing submitted to the Tax Authority or any judicial authority that relates to the merits of such deficiency, claim or adjustment (i) reasonably in advance of such submission, but subject to applicable time constraints imposed by such Tax Authority or judicial authority, provide the Non-Filing Party with a draft copy of the portion of such correspondence or filing that relates to such deficiency, claim or adjustment, (ii) incorporate, subject to applicable time constraints imposed by such Tax Authority or judicial authority, the Non-Filing Party's comments and changes on such draft copy of such correspondence or filing, and (iii) provide the Non-Filing Party with a final copy of the portion of such correspondence or filing that relates to such deficiency, claim or adjustment;

(2) provide the Non-Filing Party with notice reasonably in advance of, and the Non-Filing Party shall have the right to attend, any meetings with the Tax Authority (including meetings with examiners) or hearings or proceedings before any judicial authority to the extent they relate to such deficiency, claim or adjustment; and

(3) at the Filing Party's reasonable request (or upon the Filing Party's consent to a request by the Non-Filing Party, which consent shall not be unreasonably withheld), the Non-Filing Party shall assume responsibility for (i) contesting and presenting the merits with respect to any deficiency, claim or adjustment that, if sustained, would result in Taxes for which the Non-Filing Party is responsible under this Agreement, or (ii) resolving, settling or agreeing to any such deficiency, claim or adjustment. Any such request (or consent) by the Filing Party shall be subject to the Non-Filing Party's continued compliance with the conditions of Section 6.4 of this Agreement and to such other conditions as the Filing Party and Non-Filing Party reasonably agree.

6.4 Limitations.

(a) In General. The Filing Party shall have no obligation to contest, or to continue to contest, any deficiency, claim or adjustment in accordance with Section 6.3, and the Non-Filing Party shall have no right to control or participate under Section 6.3 of this Agreement unless:

(1) within thirty (30) days of a reasonable request by the Filing Party, the Non-Filing Party shall deliver to the Filing Party a written opinion of a nationally recognized tax attorney, to the effect that the Non-Filing Party's position with respect to such deficiency, claim or adjustment is supported by a reasonable basis (within the meaning of Treasury Regulations Section 1.6662-3(b)(3));

(2) the Non-Filing Party shall have agreed to be bound by a Final Determination of such deficiency, claim or adjustment;

(3) the Non-Filing Party shall have agreed to pay, and shall be currently paying, all reasonable out of pocket costs and expenses incurred by the Filing Party to contest such deficiency, claim or assessment including reasonable outside attorneys', accountants' and investigatory fees and disbursements;

(4) the Non-Filing Party shall have advanced to the Filing Party, on an interest-free basis (and with no additional net after-tax cost to the Filing Party), the amount of Tax in controversy (but not in excess of the lesser of (A) the amount of Tax for which the Non-Filing Party could be liable under this Agreement or (B) the amounts actually expended by the Filing Party for this item) to the extent necessary for the contest to proceed in the forum selected by the Filing Party;

(5) the Non-Filing Party shall have provided to the Filing Party all documents and information, and shall have made available employees and officers of the Non-Filing Party, as may be necessary, useful or reasonably required by the Filing Party in contesting such deficiency, claim or adjustment; and

(6) the contest of such deficiency, claim or adjustment shall involve no material danger of the sale, forfeiture or loss of, or the creation of any lien on, any asset of the Filing Party (except if the Non-Filing Party shall have adequately bonded such lien or otherwise made provision to protect the interests of the Filing Party in a manner reasonably satisfactory to the Filing Party).

(b) Settlement. Notwithstanding Section 6.4(a), the Filing Party may resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with any Audit of any Tax Return that it is responsible for filing under Section 2.1 of this Agreement if the Filing Party has provided the Non-Filing Party with a reasonable opportunity to review a copy of that portion of the settlement or compromise proposal which relates to the claim for which the Filing Party is seeking indemnification hereunder; provided, that if (a) the Filing Party fails to provide the Non-Filing Party such a reasonable opportunity to review such portion of such proposal, or (b) after such reasonable opportunity to review such proposal the Non-Filing Party in writing reasonably withholds its consent to all or part of such settlement or compromise proposal, then, unless the Filing Party was not required to continue the applicable contest under the terms of Section 6.4(a), the Non-Filing Party shall not be obligated to indemnify the Filing Party hereunder to the extent of the amount attributable to the loss to which such settlement or compromise relates as to which the Non-Filing Party has reasonably withheld its consent, or with respect to any other loss for which a successful contest is foreclosed because of such settlement or compromise as to which the Non-Filing Party has reasonably withheld its consent. If the Filing Party effects a settlement or compromise of such contest, notwithstanding that the Non-Filing Party has reasonably withheld its consent thereto, the Filing

Party shall repay to the Non-Filing Party such amounts that the Non-Filing Party advanced pursuant to clause (a)(4) of this Section 6.4 hereof as relate to such claim, to the extent that the Non-Filing Party has reasonably withheld its consent to the settlement or compromise thereof (together with interest at the prime rate as published in the Wall Street Journal on any such amount paid by the Non-Filing Party from the date paid by Lessee to the date repaid by the Filing Party).

(c) Waiver. Notwithstanding any other provision of this Section 6.4, the Filing Party may resolve, settle, or agree to any deficiency, claim or adjustment for any taxable period if the Filing Party waives it right to indemnity with respect to such Tax Item. In such event, the Filing Party shall promptly reimburse the Non-Filing Party for all amounts previously advanced by the Non-Filing Party to the Filing Party in connection with such deficiency, claim or adjustment under Section 6.4(a)(4) of this Agreement. In addition, the Filing Party shall reimburse the Non-Filing Party for any Tax Detriment that directly results from the settlement of such deficiency, claim or adjustment. No waiver by the Filing Party under this Section 6.4(c) with respect to any deficiency, claim or adjustment relating to any single Tax Item, position, issue or transaction or relating to any single Tax for any one taxable period shall operate as a waiver with respect to any other deficiency, claim or adjustment.

6.5 Failure to Notify, Etc. The failure of the Filing Party promptly to notify the Non-Filing Party of any matter relating to a particular Tax for a taxable period or to take any action specified in Section 6.3 of this Agreement shall not relieve the Non-Filing Party of any liability and/or obligation which it may have to the Filing Party under this Agreement with respect to such Tax for such taxable period except to the extent that the Non-Filing Party's rights hereunder are materially prejudiced by such failure and in no event shall such failure relieve the Non-Filing Party of any other liability and/or obligation which it may have to the Filing Party.

6.6 Remedies. Except as otherwise provided in this Agreement, the parties hereby agree that the sole and exclusive remedy for a breach by the Filing Party of the Filing Party's obligations to the Non-Filing Party with respect to a deficiency, claim or adjustment relating to the redetermination of a Tax Item of the Non-Filing Party for a taxable period shall first be a reduction in the amount that would otherwise be payable by the Non-Filing Party for such taxable period and then an increase in amount that would otherwise be payable by the Filing Party for such taxable period, in either case because of the breach. The parties further agree that no claim against the Filing Party and no defense to the Non-Filing Party's liabilities to the Filing Party under this Agreement shall arise from the resolution by the Filing Party of any deficiency, claim or adjustment relating to the redetermination of any Tax Item of the Filing Party.

SECTION 7. MISCELLANEOUS.

7.1 Effectiveness. This Agreement shall become effective upon execution by the parties hereto.

7.2 Notices. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed

to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

7.3 Changes in Law.

(a) Any reference to a provision of the Code or a law of another jurisdiction shall include a reference to any applicable successor provision or law.

(b) If, due to any change in applicable law or regulations or their interpretation by any court of law or other governing body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

7.4 Confidentiality. For a period of three years, commencing on the date of this Agreement, each party shall hold and cause its directors, officers, employees, advisors and consultants to hold in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of law, all information (other than any such information relating solely to the business or affairs of such party) concerning the other parties hereto furnished it by such other party or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (a) in the public domain through no fault of such party or (b) later lawfully acquired from other sources not under a duty of confidentiality by the party to which it was furnished), and each party shall not release or disclose such information to any other person, except its directors, officers, employees, auditors, attorneys, financial advisors, bankers and other consultants who shall be advised of and agree to be bound by the provisions of this Section 7.4. Each party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied by the other party if it exercises the same care as it takes to preserve confidentiality for its own similar information.

7.5 Successors. This Agreement shall be binding on and inure to the benefit and detriment of any successor, by merger, acquisition of assets or otherwise, to any of the parties hereto, to the same extent as if such successor had been an original party.

7.6 Affiliated Companies. CP shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by CP or any CP Affiliated Company. Texas Genco shall cause to be performed, and

hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Texas Genco Affiliated Company.

7.7 Authorization, Etc. Each of the parties hereto hereby represents and warrants that it has the power and authority to execute, deliver and perform this Agreement, that this Agreement has been duly authorized by all necessary corporate action on the part of such party, that this Agreement constitutes a legal, valid and binding obligation of each such party and that the execution, delivery and performance of this Agreement by such party does not contravene or conflict with any provision of law or of its charter or bylaws or any agreement, instrument or order binding on such party.

7.8 Entire Agreement. This Agreement contains the entire agreement among the parties hereto with respect to the subject matter hereof.

7.9 Governing Law; Jurisdiction. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas as to all matters regardless of the law that might otherwise govern under the principles of conflicts of law applicable thereto.

7.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

7.11 Severability. If any term, provision, covenant, or restriction of this Agreement is held by a court of competent jurisdiction (or an arbitrator or arbitration panel) to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants, and restrictions set forth herein shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants, and restrictions without including any of such which may be hereafter declared invalid, void, or unenforceable. In the event that any such term, provision, covenant or restriction is held to be invalid, void or unenforceable, the parties hereto shall use their best efforts to find and employ an alternate means to achieve the same or substantially the same result as that contemplated by such terms, provisions, covenant, or restriction.

7.12 No Third Party Beneficiaries. This Agreement is solely for the benefit of CP, the CP Affiliated Companies, Texas Genco and the Texas Genco Affiliated Companies. This Agreement should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other rights in excess of those existing without this Agreement.

7.13 Waivers, Etc. No failure or delay on the part of the parties in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement nor consent to any

departure by the parties therefrom shall in any event be effective unless the same shall be in writing.

7.14 Setoff. All payments to be made by any party under this Agreement may be netted against payments due to such party under this Agreement, but otherwise shall be made without setoff, counterclaim or withholding, all of which are hereby expressly waived.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by a duly authorized officer as of the date first above written.

CENTERPOINT ENERGY, INC.
On behalf of Itself and Its Affiliated Companies

By: /s/ DAVID M. MCCLANAHAN
---
Name: David M. McClanahan
Title: President and Chief Executive Officer

TEXAS GENCO HOLDINGS, INC.
On behalf of Itself and Its Affiliated Companies

By: /s/ DAVID G. TEES
---
Name: David G. Tees
Title: President and Chief Executive Officer

# ARKLA, INC. AND SUBSIDIARIES
# NON-QUALIFIED EXECUTIVE
# DISABILITY INCOME PLAN

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ARKLA. INC. AND SUBSIDIARIES
NON-QUALIFIED EXECUTIVE
DISABILITY INCOME PLAN

Purpose

This Executive Disability Income Plan is intended to provide specific benefits for those key employees of Arkla, Inc. and its subsidiaries whose efforts have an important bearing upon the success of the business of the Company, and thereby to provide an additional incentive for such key employees to promote the success of the business of the Company and to aid the Company in retaining the services of its competent executives.

I. Definitions

1.1 Definitions. The following words and phrases shall have the meanings stated below unless a different meaning is plainly required by the context:

(a) The term "Base Annual Salary" shall mean a Participant's base annual salary in effect at the time of his death, disability or retirement, excluding particularly, however, any bonuses, deferred compensation paid, stock options, stock appreciation rights, pension, thrift plan or employee stock ownership plan contributions or benefits, or any other fringe benefit generally afforded executive employees of the Employer. The term "Base Annual Salary" shall include however any and all amounts of compensation which would have been paid to the Participant during the applicable calendar year except for the agreement between the Employer and the Participant to defer such amount until a subsequent year or years. The term "Base Annual Salary" of a Participant shall in no event, however, be less than the larger of the Base Annual Salary of a Participant in effect on (i) the date of execution of his Individual Plan Agreement, or (ii) December 31st of

the year preceding the date of the sale of all or substantially all of the assets of the Company, or the date of the merger, consolidation or liquidation of the Company, or the date on which any single individual or other legal entity becomes the owner of more than five (5%) percent of the outstanding shares of the common stock of the Company, as the case may be.

(b) The term "Chief Executive Officer" shall mean the individual so elected and appointed as Chief Executive Officer of the Company by its Board of Directors or, if there is no such appointed Chief Executive Officer, the term shall refer to the Chairman of the Board of the Company.

(c) The term "Committee" shall mean the Administrative Committee appointed by the Chief Executive Officer which shall manage and administer the Plan.

(d) The term "Company" shall mean Arkla, Inc. and its successor or successors

(e) The term "Disability" and "Disabled" shall mean the inability of a Participant to perform, as a result of bodily injury or disease, the important duties pertaining to his regular position with the Company.

(f) The term "Employee" shall mean any person who is in the regular full time employment of the Company or one of its subsidiaries as determined by the personnel rules and practices of the Employer; the term does not, however, include persons who are retained as consultants or other independent contractors for the Company or one of its subsidiaries.

(g) The term "Employer" shall mean the Company and any subsidiary of the Company having one or more Employees who have been designated as eligible to participate in the Plan or are later so designated.

(h) The term "Individual Disability Income Agreement" shall mean the written agreement which is entered into by and between the Company and a Participant substantially in the form of that attached hereto as Exhibit A.

(i) The term "Participant" shall mean an Employee who was designated by the Board of Directors of the Company upon adoption of this Plan as eligible to become a Participant or is thereafter selected by the Chief Executive Officer, who elects to participate in the Plan by signing an Individual Disability Income Agreement to that effect, and who otherwise complies with the provisions of this Plan to become a Participant. The term shall include any former Employee who was a Participant as of the date of his Disability.

(j) The term "Plan" shall mean the Arkla, Inc. and Subsidiaries Executive Disability Income Plan as set forth in this document and as it may hereafter be amended from time to time.

(k) The term "Service" shall mean that period of an Employee's employment with the Employer or with any predecessor business of the Employer beginning on the Employee's last date of hire and ending on the date of his Disability provided, however, such period shall not include any periods of time during which the Employee was previously Disabled or was on an Authorized Leave of Absence. An Employee may work simultaneously for more than one Employer, but the total period of his Service shall not be increased by reason of such simultaneous employment.

(l) The term "Termination of Disability" shall mean the cessation of the previously incurred condition of Disability to the extent that a Participant is again capable of performing all or a substantial part of the duties pertaining to his regular position with the Company.

## II. Eligibility and Participation

2.1 Eligibility. Upon adoption of this Plan the Board of Directors of the Company shall specify each executive who shall be eligible to become a Participant; thereafter the Chief Executive Officer shall have the sole discretion to determine the Employees who are eligible to become Participants in accordance with the purpose of the Plan.

2.2 Participation. As a condition of participation, each Participant so selected shall complete, execute and return to the Committee an Individual Disability Income Agreement substantially in the form attached hereto as Exhibit A and shall comply with such further conditions as may be established from time to time by, and in the sole discretion of, the Committee.

2.3 Obligations of Employee. The Employer may require as a condition of becoming or continuing as a Participant, including as a condition of continuing to receive the benefits provided by this Plan, that an Employee furnish such information and do such acts as the Employer may reasonably request or require, including but not limited to, furnishing the physical examination reports of any previous employer, furnishing all pertinent financial information regarding the Participant's compensation, taking such additional physical examinations as may be requested, and doing any other act which may reasonably be requested by the Employer. If a Participant does not complete any of the foregoing requirements within a reasonable period of time as determined by the Committee, the Employer shall have no further obligation to the

Participant under the Plan except as to any benefits previously distributed on account of his Disability.

2.4 Loss of Benefits. If an indictment or bill of information is filed in any court of the United States or of any state, charging a Participant with the commission of any felony while in the active Service of the Employer, his participation in the Plan shall be immediately suspended and no benefits shall be distributed pending final resolution of the felony charge or charges against him. If the indictment or bill of information is subsequently dismissed or, after a trial he is acquitted on all charges, the Participant shall be entitled to any benefits accrued during such period of suspension, if any. If, after all legal appeals have been exhausted, the Participant stands convicted of such felony, all benefits otherwise accruing to him under the Plan shall be canceled as if he had never been a Participant in the Plan.

III. Benefits Payable on Disability

Payment of Benefits. Provided the Plan and the Individual Disability Income Agreement with a particular Participant have remained in full force and effect, on the first day of the month coincident with or next following the date six months following the date on which a Participant became Disabled, the Employer will pay or cause to be paid to such Participant an amount equal to one-twelfth (1/12) of such Participant's Base Annual Salary in effect on the date of his Disability. Such similar amount shall be paid to the Participant on the first day of each succeeding month until his Termination of Disability occurs or he attains age sixty-five (65), whichever first occurs.

## IV. Employer Liability

4.1 Non-Contributory. No Participant shall be required, or permitted, to contribute to the cost of the benefits afforded by this Plan and all amounts payable to a Participant shall be paid exclusively from the general assets of the Employer.

4.2 Claims Against Company. No person entitled to any payment shall have any claim, right, security or other interest in any asset of the Employer or the Company. The Company's liability for the payment of benefits shall be evidenced only by this Plan and each Individual Disability Income Agreement entered into between the Company and a Participant.

## V. Plan Is Not Contract of Employment

Neither the Plan nor the Individual Disability Income Agreements, either singularly or collectively, obligates the Employer to continue the employment of any Participant or limits the right of the Employer at any time and for any reason to terminate a Participant's employment. Termination of a Participant's employment with the Employer for any reason, whether by action of the Employer, or by the Participant voluntarily prior to eligibility to receive any benefits pursuant to the Plan, shall immediately terminate the Participant's participation in the Plan and all obligations of either Party to the other. In no event shall the Plan or the Individual Disability Income Agreements, either singularly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Employer and a Participant.

## VI. Amendment or Termination of Plan And Termination of Individual Disability Income Agreements

6.1 Amendment or Termination of Plan. The Company reserves the right to amend or terminate this Plan at any time; such termination shall not, however, have any effect upon any Participant who was disabled at the time of such termination.

6.2 Termination of Individual Disability Income Agreements. To the extent permitted by law, the Company reserves the right to terminate the Individual Disability Income Agreement of any Participant; such termination shall not, however, have any effect upon any Participant who was Disabled at the time of such termination.

6.3 Procedures for Amendment or Termination. The right to amend the Plan or terminate any Individual Disability Income Agreement shall be exercised for the Company by the Committee, provided, however, any amendment which would increase the benefits hereunder shall only be effective upon approval of the Board of Directors of the Company. The right to terminate the Plan shall be at the sole discretion of the Board of Directors of' the Company. No action to amend or terminate the Plan or terminate any Individual Disability Income Agreement shall be taken except upon written notice to each Participant to be affected thereby not less than thirty (30) days prior to such action.

6.4 Amendment or Termination After Entitlement. No action shall be taken to amend or terminate the Plan or any Individual Disability Income Agreement with respect to a Participant after the inception of the Disability of a Participant.

## VII. Other Benefits and Agreements

The benefits provided for a Participant under this Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the

Employer and the Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided. Benefits under this Plan shall not be considered compensation for the purpose of computing contributions or benefits under any plan maintained by the Employer which is qualified under Section 401(a) and 501(a), Internal Revenue Code of 1954, as amended.

## VIII. Restrictions on Alienation of Benefits

No right or benefit under the Plan or an Individual Disability Income Agreement shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or exchange, and any attempt to anticipate, alienate, sell, assign, pledge, encumber or exchange the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contract, liabilities, or torts of the person entitled to such benefit.

## IX. Administration of the Plan

9.1 Administration by Committee. The general administration of this Plan, as well as construction and interpretation thereof, shall be vested in the Committee, the members of which shall be designated and appointed from time to time by, and shall serve at the pleasure of, the Chief Executive Officer of the Company. The Committee shall consist of four members. three of whom shall be voting members and the fourth a non-voting secretary. Two of the voting members shall be officers of the Company and the third shall be the manager of the Employee Benefits Section of the Company. Any member of the Committee may resign by notice in writing filed with the Secretary of the Committee. Vacancies shall be filled promptly by the Chief Executive Officer of the Company. Each person appointed a member of the Committee shall signify acceptance by filing a written acceptance with the Secretary of the Committee. The Chief Executive Officer shall designate one of the members of the Committee as Chairman.

9.2 Committee Procedures. The Secretary shall keep minutes of the proceedings of the Committee and all data, records and documents relating to the administration of the Plan by the Committee. The Committee may appoint from its number such subcommittees with such powers as the Committee shall determine and may authorize one or more members of the Committee or any agent to execute or deliver any instrument or make any payment on behalf of the Committee. All resolutions or other actions taken by the Committee shall be by the vote of a majority of those voting members present at a meeting at which a majority of the voting members are present, or in writing by all the members in office at the time if they act without a meeting.

9.3 Administrative Rules and Procedures. Subject to the Plan, the Committee shall from time to time establish rules, forms and procedures for the administration of the Plan. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and to decide any and all matters arising thereunder or in connection with the administration of the Plan. Such decisions, actions and records of the Committee, subject to the review of the Chief Executive Officer, shall be conclusive and binding upon the Employer and all persons having or claiming to have any right or interest in or under the Plan.

9.4 Reliance on Professionals. The members of the Committee and the officers and directors of the Employer shall be entitled to rely on all certificates, reports and opinions made by any duly appointed professional, including accountants, physicians and legal counsel, which legal counsel may be counsel for the Employer.

9.5 Indemnification of Members of Committee. No member of the Committee shall be liable for any act or omission of any other member of the Committee, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Company

shall indemnify and save harmless each member of the Committee against any and all expenses and liabilities arising out of his or her membership on the Committee, excepting only expenses and liabilities arising out of his or her own willful misconduct. Expenses against which a member of the Committee shall be indemnified hereunder shall include, without limitation, the amount of any settlement or judgment, costs, counsel fees and related charges reasonably incurred in connection with a claim asserted or a proceeding brought or settlement thereof. The foregoing right of indemnification shall be in addition to any other rights to which any such member may be entitled as a matter of law or otherwise.

9.6 Information Furnished by Employer. To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee on all matters relating to the compensation of all Participants and their Disability, and such other pertinent facts as the Committee may require.

9.7 Committee to Determine and Order Distribution of Benefits. In addition to the powers hereinabove specified, the Committee shall have the power to compute and certify under the Plan the amount and kind of benefits from time to time distributable to the Participants and to authorize all disbursements for such purposes.

## X. Disputed Claims Procedure

10.1 General Provisions. The claims procedure under this Plan shall allow a Participant a reasonable opportunity to appeal a denied claim and to obtain a full and fair review of that decision from the Committee.

10.2 Notice of Claim Denial. The Committee shall provide a written notice to every Participant who is denied a claim for benefits under this Plan. The notice shall set forth the following information:

(a) The specific reasons for the denial;

(b) The specific reference to pertinent Plan provisions on which the denial is based;

(c) A description of any additional material or information necessary for the Participant to perfect the claim and an explanation of why such material or information is necessary; and

(d) Appropriate information and explanation of the claims procedure under this Plan to permit the Participant to submit his claim for review. All such information shall be set forth in the notice in a manner reasonably calculated to be understood by the Participant.

10.3 Appeal Right. The Participant whose claim has been denied shall have the following rights under this appeal procedure:

(a) To request a review upon written application to the Committee;

(b) To review pertinent documents with regard to the Plan;

(c) To submit issues and comments in writing;

(d) To request an extension of time to make a written submission of issues and comments; and

(e) To request that a hearing be held to consider the appeal.

10.4 Written Request for Review. The Participant shall exercise his right of appeal by submitting a written request for a review of the denied claim to the Committee. This written request for review must be submitted to the Committee within sixty (60) days after receipt by the Participant of the written notice of denial.

10.5 Hearing at Discretion of Committee. The decision to hold a hearing to consider the Participant's appeal of the denied claim shall be within the sole discretion of the Committee, whether or not the Participant requests such a hearing.

10.6 Extensions of Time. If an extension of time is necessary in order to hold a hearing, the Committee shall give the Participant written notice of the extension of time and of the hearing. This notice shall be given prior to any extension. The written notice of extension shall indicate that an extension of time will occur in order to hold a hearing on the appeal. The notice shall also specify the place, date, and time of that hearing and give the Participant the opportunity to participate in the hearing. It may also include any other information the Committee believes may be important or useful to the Participant in connection with the appeal.

10.7 Time for Decision on Review. The decision on the review of the denied claim shall promptly be made by the Committee and must be made:

(a) Within sixty (60) days after the receipt of the request for review if no hearing is held; or

(b) Within one hundred twenty (120) days after the receipt of the request for review, if an extension of time is necessary in order to hold a hearing.

10.8 Decision on Request for Review. The Committee's decision on review shall be made in writing and provided to the Participant within the specified time periods in Section 10.7. This written decision on review shall contain the following information:

(a) The decision;

(b) The reasons for the decision; and

(c) Specific references to provisions of the Plan or the Individual Disability Income Agreement on which the decision is based.

All of this information shall be written in a manner reasonably calculated to be understood by the Participant.

## XI. Miscellaneous

11.1 Notices. Any notice which shall or may be given under the Plan or the Individual Disability Income Agreements shall be in writing and shall be mailed by United States mail, postage prepaid. If notice is to be given to the Employer, such notice shall be addressed to the Employer at:

Arkla, Inc.
Post Office Box 21734
Shreveport, Louisiana 71151

marked for the attention of the Manager, Employee Benefits Section; or, if notice to a Participant, addressed to the address shown on such Participant's Individual Disability Income Agreement. Any party may change the address to which notices shall be mailed from time to time by giving written notice of such new address.

11.2 Binding Agreement. Subject to the provisions of Section VI of the Plan and Paragraphs 2 and 3 of the Individual Disability Income Agreements, the Plan shall be binding upon the Employer and its respective successors or assigns, including but not limited to a corporation which may acquire all or substantially all of the Company assets and business or with or into which the Company may be consolidated or merged, and upon a Participant, his assigns, heirs, executors and administrators.

11.3 Use of Pronouns. Masculine pronouns wherever used shall include feminine pronouns and the singular shall include the plural.

11.4 Governing Law. This Plan shall be governed by the laws of the State of Louisiana.

IN WITNESS WHEREOF, Arkla, Inc. has caused this instrument to be executed by its duly authorized officers on this 16th day of September, 1983, effective as of August 1, 1983.

ATTEST:

/s/ B. D. KLINE
B. D. Kline
Secretary

ARKLA, INC.

By /s/ E. SHEFFIELD NELSON
E. Sheffield Nelson
President, Chairman of the Board
and Chief Executive Officer

ARKLA, INC. AND SUBSIDIARIES
EXECUTIVE DISABILITY INCOME AGREEMENT

THIS EXECUTIVE DISABILITY INCOME AGREEMENT ("the Individual Disability Income Agreement") made effective as of July 1, 1984, by and between Arkla, Inc. ("the Company"), a Delaware corporation with executive offices at 525 Milam Street, Shreveport, Louisiana 71101 and Tholbert Milton Honea, Jr. ("Employee"), Vice President, Corporate Development, Arkla, Inc., whose mailing address is c/o Arkla, Inc., Post Office Box 21734, Shreveport, Louisiana 71151;

WHEREAS, the Board of Directors has approved and adopted an Executive Disability Income Plan ("the Plan") for those key employees of the Company whose efforts have an important bearing upon the success of the Company; and

WHEREAS, the Board of Directors did, on July 1, 1984, designate Employee as eligible to participate in the Plan;

WITNESSETH:

For and in consideration of the premises, and the mutual promises and agreements herein contained, the Company and Employee hereby agree as follows:

(1) All of the terms and provisions of the Arkla, Inc. and Subsidiaries Executive Disability Income Plan, a copy of which is attached hereto, are hereby incorporated in this Individual Disability Income Agreement as if set forth in full herein.

(2) Employee acknowledges and understands that the Plan may be terminated at any time, in the sole discretion of the Company. If the Plan termination is prior to the date on which he became Disabled as that term is defined in the Plan, such termination shall be without any obligation of any nature whatsoever to the Employee.

(3) Employee further acknowledges and understands that this Individual Disability Income Agreement may be terminated at any time for any reason by the Committee. If such termination is prior to the date on which he became Disabled, the termination of this Individual Disability Income Agreement shall be without any obligation of any nature whatsoever to the Employee. If such termination is after the Employee has become Disabled, then the rights of the Employee under this Individual Disability Agreement shall not be affected whatsoever.

IN WITNESS WHEREOF, Arkla, Inc. and Employee have caused this instrument to be executed in duplicate original counterparts on this 15th day of July, 1984, effective as of July 1, 1984.

ATTEST:

/s/ B. D. KLINE
- ----------
B. D. Kline
Secretary

ARKLA, INC.

By /s/ E. SHEFFIELD NELSON
---
E. Sheffield Nelson
Chairman of the Board
and Chief Executive Officer

/s/ THOLBERT MILTON HONEA, JR.
---
Tholbert Milton Honea, Jr.
Employee

EXHIBIT 10(gg)

# ARKLA, INC. AND SUBSIDIARIES

# NON-QUALIFIED UNFUNDED EXECUTIVE

# SUPPLEMENTAL INCOME RETIREMENT PLAN

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SUPPLEMENTAL INCOME RETIREMENT PLAN

PURPOSE

This Executive Supplemental Income Retirement Plan is intended to provide specific benefits for those key employees of Arkla, Inc. and its subsidiaries whose efforts have an important bearing upon the success of the business of the Company, and thereby to provide an additional incentive for such key employees to promote the success of the business of the Company and to aid the Company in retaining the services of its competent executives.

I. Definitions

1.1 Definitions. The following words and phrases shall have the meanings stated below unless a different meaning is plainly required by the context:

(a) The term "Authorized Leave of Absence" shall mean absence from the active employment of the Employer by reason of an approved absence because of accident, illness, voluntary military service, the demands of urgent personal affairs or for the purpose of improving professional competence or standing, holding public office or engaging in civic affairs.

(b) The term "Base Annual Salary" shall mean a Participant's base annual salary in effect at the time of his death, disability or retirement, excluding particularly, however, any bonuses, deferred compensation paid, stock options, stock appreciation rights, pension, thrift plan or employee stock ownership plan contributions or benefits, or any other fringe benefit generally afforded executive employees of the Employer. The term "Base Annual Salary" shall include however any and all amounts of compensation which would have been paid to the Participant during the applicable calendar year except for the agreement between the Employer

and the Participant to defer such amount until a subsequent year or years. The term "Base Annual Salary" of a Participant shall in no event, however, be less than the larger of the Base Annual Salary of a Participant in effect on (ii) the date of execution of his Individual Plan Agreement, or (ii) December 31st of the year preceding the date of the sale of all or substantially all of the assets of the Company, or the date of the merger, consolidation or liquidation of the Company, or the date on which any single individual or other legal entity becomes the owner of more than five (5%) percent of the outstanding shares of the common stock of the Company, as the case may be.

(c) The term "Beneficiary" shall mean the person or persons, designated by a Participant, or the estate of a Participant, to receive any benefits under this Plan upon the death of a Participant and may be an individual, estate, trust, partnership, corporation or other legal entity.

(d) The term "Chief Executive Officer" shall mean the individual so elected and appointed as Chief Executive Officer of the Company by its Board of Directors or, if there is no such appointed Chief Executive Officer, the term shall refer to the Chairman of the Board of the Company.

(e) The term "Committee" shall mean the Administrative Committee appointed by the Chief Executive Officer which shall manage and administer the Plan.

(f) The term "Company" shall mean Arkla, Inc. and its successor or successors

(g) The term "Death Benefit" shall mean the benefits payable under the provisions of this Plan to the Beneficiary of a Participant who dies prior to Retirement or Termination of Employment, which benefits shall be in addition to any other benefits due the

Beneficiaries of a deceased Participant by virtue of such Participant's employment with the Employer.

(h) The term "Disability" and "Disabled" shall mean the inability of a Participant to perform, as a result of bodily injury or disease, the important duties pertaining to his regular position with the Company.

(i) The term "Early Retirement Date" shall mean the first day of the month coincident with or next following the date on which the Participant attains age fifty-five (55).

(j) The term "Employee" shall mean any person who is in the regular full time employment of the Company or one of its subsidiaries as determined by the personnel rules and practices of the Employer; the term does not, however, include persons who are retained as consultants or other independent contractors for the Company or one of its subsidiaries.

(k) The term "Employer" shall mean the Company and any subsidiary of the Company having one or more Employees who have been designated as eligible to participate in the Plan or are later so designated.

(l) The term "Individual Plan Agreement" shall mean the written agreement which is entered into by and between the Company and a Participant substantially in the form of that attached hereto as Exhibit A.

(m) The term "Long-Term Debt Obligations" shall mean those unconditional obligations of the Company or any subsidiary which have a maturity date of one year or more from December 31 of the year for which the classification of such debt is made.

(n) The term "Normal Retirement Date" shall mean the first day of the month coincident with or next following the date on which the Participant attains age sixty-five (65).

(o) The term "Participant" shall mean an Employee who was designated by the Board of Directors of the Company upon adoption of this Plan as eligible to become a Participant or is thereafter selected by the Chief Executive Officer, who elects to participate in the Plan by signing an Individual Plan Agreement to that effect, and who otherwise complies with the provisions of this Plan to become a Participant. The term shall include any former Employee who was a Participant as of the date of his Retirement, Termination of Employment or Disability until all distributions of his Account balance are made.

(p) The term "Plan" shall mean the Arkla, Inc. and Subsidiaries Executive Supplemental Income Retirement Plan as set forth in this document and as it may hereafter be amended from time to time.

(q) The terms "Retirement" and "Retire" shall mean the discontinuance of the employment relationship between the Employer and a Participant, for reasons other than his Disability, after the Participant has attained a minimum of ten (10) years of Service and after the attainment of fifty-five (55) years of age.

(r) The term "Service" shall mean that period of an Employee's employment with the Employer or with any predecessor business of the Employer beginning on the Employee's last date of hire and ending on thc date of his Retirement or Termination of Employment, provided, however, such period shall not include any periods of time during which the Employee was Disabled or was on an Authorized Leave of Absence. An Employee may work simultaneously for more than one Employer, but the total period of his Service shall not be increased by reason of such simultaneous employment.

(s) The term "Supplemental Retirement Benefit" shall mean the benefits payable on Retirement to a Participant under the provisions of this Plan, which benefits shall be

in addition to any other benefits due the Participant by virtue of his employment with the Employer.

(t) The term "Supplemental Termination Benefit" shall mean the benefits payable on Termination of Employment to a Participant under the provisions of this Plan, which benefits shall be in addition to any other benefits due the Participant by virtue of his employment with the Employer.

(u) The term "Termination of Employment" shall mean discontinuance of the employment relationship between the Employer and a Participant, for reasons other than his Disability, after the Participant has attained a minimum ten (10) years of Service and prior to the Participant's Early Retirement Date.

## II. Eligibility and Participation

2.1 Eligibility. Upon adoption of this Plan the Board of Directors of the Company shall specify each executive who shall be eligible to become a Participant; thereafter the Chief Executive Officer shall have the sole discretion to determine the Employees who are eligible to become Participants in accordance with the purpose of the Plan.

2.2 Participation. As a condition of participation, each Participant so selected shall complete, execute and return to the Committee an Individual Plan Agreement substantially in the form attached hereto is Exhibit A and shall comply with such further conditions as may be established from time to time by, and in the sole discretion of, the Committee.

2.3 Obligations of Employee. The Employer may require as a condition of becoming or continuing as a Participant that an Employee furnish such information as the Employer may require, including but not limited to the physical examination reports of any previous employer, taking such additional physical examinations as may be requested, and doing any other act which

may reasonably be requested by the Employer. If a Participant does not complete any of the foregoing requirements within a reasonable period of time, as determined by the Committee, the Employer shall have no further obligation to Participant under the Plan except as to any benefits to which such Participant became entitled prior to receipt of notification from the Committee.

2.4 Loss of Benefits. If an indictment or bill of information is filed in any court of the United States or of any state, charging a Participant with the commission of any felony while in the active Service of the Employer, his participation in the Plan shall be immediately suspended and no benefits shall be distributed pending final resolution of the felony charge or charges against him. If the indictment or bill of information is subsequently dismissed or, after a trial he is acquitted on all charges, the Participant shall be entitled to any benefits accrued prior to or during his suspension, if any. If, after all legal appeals have been exhausted, the Participant stands convicted of such felony, all benefits otherwise accruing to him under the Plan shall be canceled as if he had never been a Participant in the Plan.

## III. Benefits Payable on Retirement or Termination of Employment

3.1 Payment of Benefits. Provided the Plan and the Individual Plan Agreement with a particular Participant have remained in full force and effect, the Employer will pay or cause to be paid to such Participant upon his Retirement or Termination of Employment a Supplemental Retirement Benefit or a Supplemental Termination Benefit, as the case may be, as specified hereinafter and on the dates, in the amounts and in the manner determined pursuant to this Plan.

3.2 Normal Retirement. A Participant who Retires on or after his Normal Retirement Date shall be entitled to a Supplemental Retirement Benefit which is equal in amount to five (5) times his Base Annual Salary. A Participant who becomes Disabled prior to his Normal Retirement Date shall, upon attaining his Normal Retirement Date, be entitled to a Supplemental

Retirement Benefit which is equal in amount to five (5) times his Base Annual Salary as in effect on the date of his Disability.

3.3 Early Retirement. A Participant who Retires on or after his Early Retirement Date but before his Normal Retirement Date shall be entitled to a Supplemental Retirement Benefit which is equal in amount to five (5) times his Base Annual Salary multiplied by the percentage determined in the following sentence. If the Participant retires on his Early Retirement Date, then the percentage specified in the preceding sentence shall be eighty (80%) percent and, for each full year in which such Participant remains an Employee beyond his Early Retirement Date, such percentage shall be increased by two (2%) percent (i.e. 82% at age 56, 84% at age 57, 86% at age 58, etc.).

3.4 Termination of Employment. A Participant who shall incur a Termination of Employment prior to his Early Retirement Date shall be entitled to a Supplemental Termination Benefit which is equal in amount to eighty (80%) percent of five (5) times his Base Annual Salary.

3.5 Continuation of Benefits on Death. If a Participant dies after his Retirement or Termination of Employment, but prior to the commencement of distributions from his Account, then the distributions from the Account shall not commence on the date specified by the Participant in Paragraph 2 of his Individual Plan Agreement, but rather, distributions shall commence on the first day of a month not more than six months following the date of such Participant's death and shall continue on each anniversary thereof for the total number of distributions specified by the Participant in Paragraph 3 of his Individual Plan Agreement. The Beneficiary of a Participant who dies after his Retirement or Termination of Employment, but before the entire balance of his Account has been distributed, shall assume the place of the

Participant as to the remaining distributions to be made and the benefits payable hereunder shall continue until the entire balance of the Participant's Account has been distributed.

## IV. Death Benefit

4.1 Payment of Death Benefits. Provided the Plan and the Individual Plan Agreement with a deceased Participant shall have remained in full in force and effect, the Employer will pay, or cause to be paid, to such Participant's Beneficiary, a benefit in the amount determined under Section 4.2 or 4.3, as the case may be. The amount of such benefit shall be distributed to the Beneficiary beginning on the first day of a month not more than six months following the date of such Participant's death and shall continue on each anniversary thereof for a total of fifteen (15) annual distributions. The amount of each such distribution shall be determined pursuant to Section 6.3.

4.2 Death Prior to Retirement. The Beneficiary of a Participant who dies prior to his Retirement or Termination of Employment shall be entitled to a Death Benefit which is equal in amount to five (5) times such Participant's Base Annual Salary.

4.3 Death Following Participant's Termination for Disability. The Beneficiary of a Participant who dies following the discontinuance of the employment relationship between the Employer and that Participant as a result of his Disability, shall be entitled to a Death Benefit determined as follows:

(a) If such Participant had ten (10) or more years of Service prior to his Disability, the Death Benefit shall be in an amount equal to five (5) times his Base Annual Salary in effect as of the inception of his Disability.

(b) If such Participant had less than ten (10) years of Service prior to his Disability, the Death Benefit shall be in an amount equal to five (5) times his Base Annual Salary

in effect as of the inception of his Disability multiplied by ten (10%) percent for each full year of Service credited to the Participant.

4.4 Denial of Death Benefits. The Beneficiaries of a Participant who dies after his Retirement or Termination of Employment shall not be entitled to any benefits under this Section, but shall only be entitled to those benefits, if any, payable under Section 3.5 above.

V. Participant's Supplemental Retirement or Termination Benefits Account

5.1 Establishment of Account. Upon the Retirement, Termination of Employment or death of a Participant, the Employer shall establish an Account for such Participant, or his Beneficiary. The Account shall be solely a record keeping account and shall be used solely for the purpose of determining the amount which will ultimately be due to the Participant or his Beneficiary; no funds shall ever be segregated for such Account. The Account shall be credited with an amount equal to the amount of the Supplemental Retirement Benefit determined pursuant to Section 3.2 or 3.3, or the amount of the Supplemental Termination Benefit determined pursuant to Section 3.4, or the amount of the Death Benefit determined pursuant to Section 4.2 or 4.3, as the case may be. The Account shall be credited with such amount as of the date of Retirement, Termination of Employment, or death of the Participant, or his Normal Retirement Date if Disabled, as the case may be.

5.2 Ownership and Control of Amounts Credited to the Account. The Employer shall exercise sole and exclusive control over the Account; all sums credited thereto and any assets represented by such credits, shall at all times remain the unrestricted property of the Employer, subject to the claims of its general creditors, and shall at all times be available for the Employer's use for whatever purpose it desires. There shall never be any segregation of any assets for any Account whatsoever.

5.3 Increase to Account. On the first day of the quarter next following the establishment of an Account, and on each January 1, April 1, July 1 and October 1 thereafter, the Account balance shall be increased by the amount determined hereunder, such that the Account balance is compounded on a quarterly basis at the applicable rate. Prior to the date an which a distribution of any portion of the Account commences to a Participant or his Beneficiary, the Employer shall credit the Participant's Account with an amount determined by multiplying the balance of the Account by one-fourth (1/4) of the weighted average rate of interest applicable to the Company's Long-Term Debt Obligations outstanding as of December 31 of the year preceding the year for which the Account is to be credited, taking into consideration the interval of time since the Account was established or since the last increase was made to the Account pursuant to this paragraph. On and after the date on which a distribution to a Participant has commenced or the date of the Participant's death, the Employer shall credit the Participant's Account with an amount similarly determined under the preceding sentence, except that the full weighted average rate of interest applicable to the Company's Long-Term Debt Obligations shall be used rather than one-fourth (1/4) of such rate.

5.4 Charges Against Account. The Employer shall charge the Account with all amounts actually distributed to the Participant or his Beneficiary pursuant to Section VI of this Plan.

## VI. Distributions From The Account

6.1 General Provisions. The Employer, and solely the Employer, shall make an annual distribution to the Participant or his Beneficiary, on the dates specified in Section 4.1 if the distribution results from the Participant's death or as elected by the Participant in his Individual Plan Agreement; however, the initial date for such distribution shall be no earlier than

the Participant's Early Retirement Date in the event his benefit is payable on account of his Early Retirement or Termination of Employment, or, in the event his benefit is payable on account of his Normal Retirement, no earlier than the Participant's Normal Retirement Date.

6.2 Amount Distributable. On each distribution date, the amount to be distributed shall be determined so as to provide substantially uniform annual distributions over the period specified by the Participant in his Individual Plan Agreement, or the fifteen (15) year period specified in Section 4.1 if the distributions result from the Participant's death, based upon the assumption that the weighted average rate of interest applicable to the Company's Long-Term Debt Obligations for the year preceding a distribution will be the same rate for the remainder of the period of distribution. Specifically, the amount of each annual distribution shall be determined by multiplying the balance of the Account as of the distribution date by the "Annuity Factor" as specified below:

where,

w = The Company's weighted average rate of interest applicable to the Company's Long-Term Debt Obligation as of December 31 of the year preceding the distribution date;

i = $[(1 + w/4)^4 - 1]$; which is "w" adjusted to reflect such rate of interest compounded on a quarterly basis; and

n = The number of annual distributions remaining to be made to the Participant or his Beneficiary, including the payment due as of such distribution date.

6.3 Prepayment. The Company shall have no right to prepay any amount due hereunder and a Participant shall have the right to refuse to accept any such prepayment tendered.

## VII. Designated Beneficiary

7.1 Designation of Beneficiary. A Participant shall designate his or her Beneficiary and Alternate Beneficiaries by completing Paragraphs 4 and 5 of the Individual Plan Agreement. If more than one Beneficiary is named, the shares or proportion of each shall be indicated.

7.2 Change of Beneficiary. A Participant shall have the right to unilaterally change the Beneficiary designated by him by submitting to the Committee in writing a change of beneficiary request in the form prescribed by the Committee. No change of beneficiary shall be effective until acknowledged in writing by the Employer.

7.3 Payment to Beneficiary. If the Employer has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, it shall have the right to withhold such payments until the matter is finally adjudicated. Any distribution made by the Employer in accordance with this Plan in good faith shall fully discharge the Employer from all further obligations with respect to such Participant or his Beneficiaries.

## VIII. Employer Liability

8.1 Non-Contributory. No Participant shall be required, or permitted, to contribute to the cost of the benefits afforded by this Plan and all amounts payable to a Participant or his Beneficiary shall be paid exclusively from the general assets of the Employer.

8.2 Claims Against Company. No person entitled to any payment shall have any claim, right, security or other interest in any asset of the Employer or the Company. The Company's liability for the payment of benefits shall be evidenced only by this Plan and each Individual Plan Agreement entered into between the Company and a Participant.

## IX. Plan Is Not Contract of Employment

Neither the Plan nor the Individual Plan Agreements, either singularly or collectively, obligates the Employer to continue the employment of any Participant or limits the right of the Employer at any time and for any reason to terminate a Participant's employment. In no event shall the Plan or the Individual Plan Agreements, either singularly or collectively, by their terms or implications constitute an employment contract of any nature whatsoever between the Employer and a Participant.

## X. Modification of Individual Plan Agreements

10.1 Change of Distribution Commencement Date. Before distributions have commenced, and not later than six months prior to the date initially designated in Paragraph 2 of the Participant's Individual Plan Agreement as the date for inception of distributions, a Participant may amend Paragraph 2 and Paragraph 3 of his Individual Plan Agreement one time, and one time only, either with regard to the date of initial distribution date (Paragraph 2) or the duration of distributions (Paragraph 3).

10.2 Change of Distribution Upon Hardship. Following the inception of distributions, a Participant or Beneficiary of a Participant who has initially elected more than ten (10) annual installments in Paragraph 3 of his Individual Plan Agreement may, for reasons of financial hardship and with the consent of the Committee, modify Paragraph 3 of his Individual Plan Agreement regarding the duration of distributions one time, and one time only, provided however, that the number of annual distributions, including all distributions previously made, shall not be less than ten (10). For this purpose, financial hardship is defined as inability to meet ongoing current obligations or the arising of a binding legal obligation not budgeted for in customary and usual personal financial planning.

## XI. Amendment or Termination of Plan And Termination of Individual Plan Agreements

11.1 Amendment or Termination of Plan. The Company, by action of its Board of Directors, reserves the right to amend or terminate this Plan at any time. The termination of the Plan, pursuant to this section, shall be deemed to constitute the Termination of each Individual Plan Agreement pursuant to Section 11.2, with the rights afforded to the Participants and their Beneficiaries determined thereunder.

11.2 Termination of Individual Plan Agreements. To the extent permitted by law, the Company reserves the right to terminate the Individual Plan Agreement of any Participant. If such Termination is after the Employee has attained ten (10) years of Service or has become Disabled, then for purposes of the Plan the Employee shall be deemed to have incurred a Termination of Employment if he is less than fifty-five (55) years of age upon such termination, or to have Retired if he is fifty-five (55) years of age or older on such date, with such Termination of Employment or Retirement being deemed to have occurred on the date of termination of his Individual Plan Agreement.

11.3 Procedures for Amendment or Termination. The right to amend the Plan or terminate any Individual Plan Agreement shall be exercised for the Company by the Committee, provided, however, any amendment which would increase the benefits hereunder shall only be effective upon approval of the Board of Directors of the Company. The right to terminate the Plan shall be at the sole discretion of the Board of Directors of the Company. No action to amend or terminate the Plan or terminate any Individual Plan Agreement shall be taken except upon written notice to each Participant to be affected thereby not less than thirty (30) days prior to such action.

11.4 Amendment or Termination After Entitlement. No action shall be taken to amend or terminate the Plan or any Individual Plan Agreement with respect to a Participant or Participant's Beneficiary after entitlement to any benefits pursuant to Section III or Section IV of this Plan has occurred.

## XII. Other Benefits and Agreements

The benefits provided for a Participant and Participant's Beneficiary under this Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Employer and the Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided. Benefits under this Plan shall not be considered compensation for the purpose of computing contributions or benefits under any plan maintained by the Employer which is qualified under Section 401(a) and 501(a), Internal Revenue Code of 1954, as amended.

## XIII. Restrictions on Alienation of Benefits

No right or benefit under the Plan or an Individual Plan Agreement shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or exchange, and any attempt to anticipate, alienate, sell, assign, pledge, encumber or exchange the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contract, liabilities, or torts of the person entitled to such benefit.

## XIV. Administration of the Plan

14.1 Administration by Committee. The general administration of this Plan, as well as construction and interpretation thereof, shall be vested in the Committee, the members of which shall be designated and appointed from time to time by, and shall serve at the pleasure of, the Chief Executive Officer of the Company. The Committee shall consist of four members, three of

whom shall be voting members and the fourth a non-voting secretary. Two of the voting members shall be officers of the Company and the third shall be the manager of the Employee Benefits Section of the Company. Any member of the Committee may resign by notice in writing filed with the Secretary of the Committee. Vacancies shall be filled promptly by the Chief Executive Officer of the Company. Each person appointed a member of the Committee shall signify acceptance by filing a written acceptance with the Secretary of the Committee. The Chief Executive Officer shall designate one of the members of the Committee as Chairman.

14.2 Committee Procedures. The Secretary shall keep minutes of the proceedings of the Committee and all data, records and documents relating to the administration of the Plan by the Committee. The Committee may appoint from its number such subcommittees with such powers as the Committee shall determine and may authorize one or more members of the Committee or any agent to execute or deliver any instrument or make any payment on behalf of the Committee. All resolutions or other actions taken by the Committee shall be by the vote of a majority of those voting members present at a meeting at which a majority of the voting members are present, or in writing by all the members in office at the time if they act without a meeting.

14.3 Administrative Rules and Procedures. Subject to the Plan, the Committee shall from time to time establish rules, forms and procedures for the administration of the Plan. Except its otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and to decide any and all matters arising thereunder or in connection with the administration of the Plan. Such decisions, actions and records of the Committee, subject to the review of the Chief Executive Officer, shall be conclusive and binding upon the Employer and all persons having or claiming to have any right or interest in or under the Plan.

14.4 Reliance on Professionals. The members of the Committee and the officers and directors of the Employer shall be entitled to rely on all certificates and reports made by any duly appointed accountants and on all opinions given by any duly appointed legal counsel. Such legal counsel may be counsel for the Employer.

14.5 Indemnification of Members of Committee. No member of the Committee shall be liable for any act or omission of any other member of the Committee, nor for any act or omission on his or her own part, excepting his or her own willful misconduct. The Company shall indemnify and save harmless each member of the Committee against any and all expenses and liabilities arising out of his or her membership on the Committee, excepting only expenses and liabilities arising out of his or her own willful misconduct. Expenses against which a member of the Committee shall be indemnified hereunder shall include, without limitation, the amount of any settlement or judgment, costs, counsel fees and related charges reasonably incurred in connection with a claim asserted or a proceeding brought or settlement thereof. The foregoing right of indemnification shall be in addition to any other rights to which any such member may be entitled as a matter of law or otherwise.

14.6 Information furnished by Employer. To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee on all matters relating to the compensation of all Participants, their retirement, death or other cause for termination of employment, and such other pertinent facts as the Committee may require.

14.7 Committee to Determine and Order Distribution of Benefits. In addition to the powers hereinabove specified, the Committee shall have the power to compute and certify under the Plan the amount and kind of benefits from time to time distributable to the Participants and their Beneficiaries and to authorize all disbursements for such purposes.

## XV. Disputed Claims Procedure

15.1 General Provisions. The claims procedure under this Plan shall allow a Participant or Beneficiary a reasonable opportunity to appeal a denied claim and to obtain a full and fair review of that decision from the Committee.

15.2 Notice of Claim Denial. The Committee shall provide a written notice to every Participant or Beneficiary who is denied a claim for benefits under this Plan. The notice shall set forth the following information:

(a) The specific reasons for the denial;

(b) The specific reference to pertinent Plan provisions on which the denial is based;

(c) A description of any additional material or information necessary for the Participant or Beneficiary to perfect the claim and an explanation of why such material or information is necessary; and

(d) Appropriate information and explanation of the claims procedure under this Plan to permit the Participant or Beneficiary to submit his claim for review.

All such information shall be set forth in the notice in a manner reasonably calculated to be understood by the Participant or Beneficiary.

15.3 Appeal Rights. The Participant or Beneficiary whose claim has been denied shall have the following rights under this appeal procedure:

(a) To request a review upon written application to the Committee;

(b) To review pertinent documents with regard to the Plan;

(c) To submit issues and comments in writing;

(d) To request an extension of time to make a written submission of issues and comments; and

(e) To request that a hearing be held to consider the appeal.

15.4 Written Request for Review. The Participant or Beneficiary shall exercise his right of appeal by submitting a written request for a review of the denied claim to the Committee. This written request for review must be submitted to the Committee within sixty (60) days after receipt by the Participant or Beneficiary of the written notice of denial.

15.5 Hearing at Discretion of Committee. The decision to hold a hearing to consider the Participant's or Beneficiary's appeal of the denied claim shall be within the sole discretion of the Committee, whether or not the Participant or Beneficiary requests such a hearing.

15.6 Extensions of Time. If an extension of time is necessary in order to hold a hearing, the Committee shall give the Participant or Beneficiary written notice of the extension of time and of the hearing. This notice shall be given prior to any extension. The written notice of extension shall indicate that an extension of time will occur in order to hold a hearing on the appeal. The notice shall also specify the place, date, and time of that hearing and give the Participant or Beneficiary the opportunity to participate in the hearing. It may also include any other information the Committee believes may be important or useful to the Participant or Beneficiary in connection with the appeal.

15.7 Time for Decision on Review. The decision on the review of the denied claim shall promptly be made by the Committee and must be made:

(a) Within sixty (60) days after the receipt of the request for review if no hearing is held; or

(b) Within one hundred twenty (120) days after the receipt of the request for review, if an extension of time is necessary in order to hold a hearing.

15.8 Decision on Request for Review. The Committee's decision on review shall be made in writing and provided to the Participant or Beneficiary within the specified time periods in Section 15.7. This written decision on review shall contain the following information:

(a) The decision;

(b) The reasons for the decision; and

(c) Specific references to provisions of the Plan or the Individual Plan Agreement on which the decision is based.

All of this information shall be written in a manner reasonably calculated to be understood by the Participant or Beneficiary.

## XVI. Miscellaneous

16.1 Notices. Any notice which shall or may be given under the Plan or the Individual Plan Agreements shall be in writing and shall be mailed by United States mail, postage prepaid. If notice is to be given to the Employer, such notice shall be addressed to the Employer at:

Arkla, Inc.
Post Office Box 21734
Shreveport, Louisiana 71151

marked for the attention of the Manager, Employee Benefits Section; or, if notice to a Participant, addressed to the address shown on such Participant's Individual Plan Agreement. Any party may change the address to which notices shall be mailed from time to time by giving written notice of such new address.

16.2 Binding Agreement. Subject to the provisions of Section XI of the Plan and Paragraphs 5 and 6 of the Individual Plan Agreements, the Plan shall be binding upon the Employer and its respective successors or assigns, including but not limited to a corporation which may acquire all or substantially all of the Company assets and business or with or into

which the Company may be consolidated or merged, and upon a Participant, his Beneficiary, assigns, heirs, executors and administrators.

16.3 Use of Pronouns. Masculine pronouns wherever used shall include feminine pronouns and the singular shall include the plural.

16.4 Governing Law. This Plan shall be governed by the laws of the State of Louisiana.

IN WITNESS WHEREOF, Arkla, Inc. has caused this instrument to be executed by its duly authorized officers on this 16th day of September, 1983, effective as of August 1, 1983.

ATTEST: ARKLA, INC.

/s/ B. D. KLINE By /s/ E. SHEFFIELD NELSON

B. D. Kline
Secretary

E. Sheffield Nelson
President, Chairman of the Board
and Chief Executive Officer

EXHIBIT 10(hh)(1)

ARKLA, INC.

DEFERRED COMPENSATION PLAN FOR DIRECTORS

Arkla, Inc. (herein "Arkla" or "the Company"), a Delaware corporation, hereby establishes the following Arkla, Inc. Deferred Compensation Plan for Directors (the "Plan").

1. Purpose. Each member of the Board of Directors of Arkla, or of any successor company, and of Advisory Board(s) of divisions of the Company (herein collectively referred to as "Director"), is entitled to receive compensation for services rendered as a member of such Board of Directors or Advisory Board (the "Boards"), and for attendance at the meetings of the Boards and the meetings of certain committees thereof of which the Director is a member. It is the purpose of this Plan to provide an alternate method of compensation for Directors in order to enhance the ability of the Company to retain and to attract persons of experience, ability, industry, loyalty and inventiveness to serve on their respective Boards.

2. Adoption of Plan. Arkla hereby adopts this Plan in the establishment thereof. The Executive Compensation Committee of the Board of Directors of the Company ("the Committee") shall administer the plan, and to the extent necessary, make all determinations thereunder.

3. Participation. Any Director of Arkla or Advisory Director of any of its divisions who is entitled to receive compensation as a Director, may elect to have all or any part of the compensation otherwise payable to such Director deferred ("Deferred Compensation") and paid at the time and in the manner prescribed in Paragraph 5 below. Such election shall be made by notice in writing delivered to the Secretary of the Company substantially in the form attached hereto as Exhibit A and shall be applicable only with respect to compensation for services rendered subsequent to the date of delivery of such written notice. The election shall operate as a

deferral only with respect to compensation directly related to a participating Director's membership on one or more of the Boards and attendance at meetings of such Board(s) or Committee(s) thereof, and shall have no application with respect to compensation earned in any other capacity. The election may be revoked or modified as to subsequent periods of service by filing with the Secretary a new election to be effective with respect to compensation otherwise payable for services rendered on or after the first day of the month following the month in which such election is delivered, or such later date as is specified herein.

4. Deferred Compensation Account.

(a) Establishment of Account. The Company shall establish a Deferred Compensation Account for each participating Director which shall be credited with an amount equal to the amount of the Deferred Compensation as of the date on which such Deferred Compensation would have been paid to each such participating Director if such amount had not been deferred.

(b) Ownership and Control of Amounts Credited to Deferred Compensation Account. The Company shall exercise sole control over each Deferred Compensation Account established and maintained for each participating Director. All sums credited thereto and any assets represented by such credits shall at all times remain the unrestricted property of the Company, subject to the claims of its general creditors, and shall at all times be available for use by the Company for whatever purpose it desires.

(c) Increase to Account. The Company shall credit each Deferred Compensation Account established and maintained for each participating Director with an amount determined by multiplying the account balance by the greater of:

(i) the prime commercial lending rate of interest established from time to time by Morgan Guaranty Trust Company of New York;

(ii) the weighted-average rate of interest applicable to the Company's consolidated long-term debt obligations outstanding as of December 31 of the year preceding that for which the Account is to be credited (long-term debt obligations are defined for purposes of this agreement as those obligations with a maturity date of one year or more from December 31 of the year for which the determination is made); or

(iii) seven percent.

The amounts determined pursuant to this paragraph shall be calculated on a daily basis and shall be accumulated (but not credited to the account) for each quarter and then, at the end of each quarter, the account shall be credited with the amount so accumulated for the quarter.

(d) Charges Against Account. The Company shall charge each Deferred Compensation Account established and maintained for each participating Director with the amount actually distributed from such account to the participating Director or his or her Beneficiaries pursuant to Paragraphs 5 or 6 of this Agreement.

5. Payment of Benefits.

(a) Deferred Payments to Participating Director. At the time of a Director's initial election to participate in the Plan, and each time a new deferral election is made, the Director shall also make an election with respect to the distribution of amounts deferred under such election plus the amounts accumulated in the account. A participating Director may elect to receive the amounts subject to each separate election in one payment or in a series of installments, payable quarterly, semi-annually or annually, as the Director shall elect over a period not to exceed 10 years. The first installment (or the single payment if the Director has so

elected) shall be paid on the date such participating Director shall have designated in the applicable election form. Subsequent installments shall be paid on the first day of each succeeding period specified in the election until the entire amount credited to the participating Director's Deferred Compensation Account pursuant to such election shall have been paid. Amounts held pending distribution pursuant to this Paragraph 5 shall continue to be credited with increases thereto pursuant to the provisions of Paragraph 4(c).

(b) Effect of Participating Director Ceasing to be Director. Any Deferred Compensation attributable to services rendered prior to the date a participating Director ceases to be a Director shall continue to be deferred, and shall be distributed in accordance with the election made by such Director. Amounts held pending distribution pursuant to such election shall continue to be credited with increases there to pursuant to the provisions of Paragraph 4(c).

(c) Nature and Source of Payments. The amounts credited by the Company to the Deferred Compensation Accounts pursuant to Paragraph 4 hereof are compensation for services, and the benefits provided under the Plan with respect to such amounts shall constitute a liability of the Company to the participating Directors in accordance with the terms hereof. Such payments shall be made from the general funds of the Company. No special or separate fund need be established, nor other segregation of assets made, to assure the payment of such benefits, and no participating Director shall have any interest in any particular asset of the Company by virtue of the existence of a credit balance in any of such participating Director's Deferred Compensation Account(s).

6. Early Distributions with a Five Percent (5%) Penalty. If a participating Director establishes to the satisfaction of the Committee the existence of an emergency condition in his personal financial affairs, the Committee may, in its discretion, authorize the payment to such

participating Director of an amount not to exceed the balance of the Deferred Compensation Account, provided that such participating Director shall forfeit and have deducted therefrom an amount equal to five percent (5%) of the payment authorized. A participating Director shall have no right to any such early distribution, and the Committee shall have the sole power and discretion to authorize or refuse any such early distribution as it may from time to time see fit. Nor shall any exercise by the Committee of such discretion to authorize such early distribution from time to time constitute a waiver of the right to refuse such early distribution at some later time, or otherwise be construed as providing any participating Director with the right to demand any such early distribution.

7. Non-Alienation of Benefits. No benefit which shall be payable under this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to so alienate or encumber any such benefit shall be void. No such benefit shall be subject to any debt, contract, liability, engagement, or tort of the person who shall be entitled to such benefit, nor shall it be subject to attachment or legal process.

8. Amendment or Termination of the Plan. The Board of Directors of Arkla, Inc. may terminate the Plan at any time and may amend or modify the terms of the Plan at any time and from time to time; provided, however, that the amendment or termination of the Plan shall in no way affect the rights of participating Directors or their designated beneficiaries or estates to the receipt of payments or benefits to the extent of the aggregate amount credited to the Deferred Compensation Account of each participating Director at the time of such amendment or termination plus amounts credited thereafter to such account pursuant to Subparagraph (c) of Paragraph 4 hereof.

IN WITNESS WHEREOF, the Company has adopted these presents as evidenced by the signatures affixed hereto of its duly authorized officers, in a number of copies, all of which shall constitute one and the same instrument, this 10th day of November, 1988.

ARKLA, INC.

By: /s/ THOMAS F. MCLARTY, III
---
Thomas F. McLarty, III
Chairman of the Board & Chief
Executive Officer

ATTEST:

/s/ B. D. KLINE
- ---
B. D. Kline, Secretary

NORAM ENERGY CORP.
DEFERRED COMPENSATION PLAN FOR DIRECTORS

First Amendment

Arkla, Inc., a Delaware corporation (now known as NorAm Energy Corp. and hereinafter referred to as "NorAm" or the "Company"), adopted the Arkla, Inc. Deferred Compensation Plan for Directors, effective November 10, 1988, now known as the NorAm Deferred Compensation Plan for Directors (the "Plan"), to provide for the deferral of compensation of members of its Board of Directors and members of Advisory Boards of Directors of divisions of the Company and reserved the right to amend the Plan under Paragraph 8 thereof. On August 6, 1997, as a result of the merger by and among NorAm, Houston Industries Incorporated ("HI"), Houston Lighting & Power Company ("HL&P"), and HI Merger Inc., NorAm. was merged into HI Merger Inc. and became a wholly owned subsidiary of Houston Industries Incorporated ("Houston"), the corporation formed by the merger of HI and HL&P. As a result of the merger, Houston assumes sponsorship of the Plan, effective August 6, 1997. Accordingly, NorAm does hereby amend the Plan, effective August 6, 1997, as follows:

1. The name of the Plan is hereby changed from the "Arkla, Inc. Deferred Compensation Plan for Directors" to the "NorAm Energy Corp. Deferred Compensation Plan for Directors."

2. The first paragraph of the Plan is hereby amended in its entirety to read as follows:

> "NorAm Energy Corp. and any successor thereto (hereinafter referred to as the 'Company'), maintains the following plan. The Company, formerly known as Arkla, Inc., established the Arkla, Inc. Deferred Compensation Plan for Directors, which has been subsequently renamed the NorAm Energy Corp. Deferred Compensation Plan for Directors (the 'Plan'). The Plan is effective as of November 10, 1988, and all deferrals hereunder shall cease effective as of August 6, 1997. In all other respects, the Plan shall continue until the liability for all amounts credited to the participating Directors'

Deferred Compensation Accounts hereunder has been discharged, at which time the Plan shall automatically terminate."

3. Paragraph 3 of the Plan is hereby amended by the addition of the following sentence, which will appear at the end of such Paragraph:

"Notwithstanding the foregoing, deferrals under the terms of this Plan will cease effective as of August 6, 1997, the effective date of the merger by and among Houston Industries Incorporated, Houston Lighting & Power Company, HI Merger, Inc. and NorAm Energy Corp."

4. Section 8 of the Plan is hereby amended in its entirety to read as follows:

"8. Amendment or Termination of the Plan. The Board of Directors of Houston Industries Incorporated may terminate the Plan at any time and may amend or modify the terms of the Plan at any time and from time to time; provided, however, that the amendment or termination of this Plan shall in no way affect the rights of participating Directors or their designated beneficiaries or estates to the receipt of payments of benefits, to the extent of the aggregate amount credited to the Deferred Compensation Account of each participating Director at the time of such amendment or termination plus amounts credited thereafter to such account pursuant to Subparagraph (c) of Paragraph 4 hereof."

IN WITNESS WHEREOF, NorAm Energy Corp. and Houston Industries Incorporated have caused these presents to be executed by their duly authorized 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, this 10th day of March, 1998, but effective as of August 6, 1997.

NORAM ENERGY CORP.

By /s/ R. S. LETBETTER
---
Name: R. S. Letbetter
Title: President and Chief Operating Officer

ATTEST:

/s/ RUFUS S. SCOTT
- ---

HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN
---
Name: Lee W. Hogan
Title: Executive Vice President

ATTEST:

/s/ RUFUS S. SCOTT
- ---

EXHIBIT 12

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS)

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| Income (loss) from continuing operations..... | $ (164,752) | $ 1,642,855 | $ 222,042 | $ 446,925 | $ 386,283 |
| Income taxes for continuing operations..... | (48,011) | 890,371 | 234,196 | 228,252 | 208,026 |
| Capitalized interest..... | (12,148) | (14,675) | (10,803) | (9,125) | (11,620) |
| | (224,911) | 2,518,551 | 445,435 | 666,052 | 582,689 |
| Fixed charges, as defined: | | | | | |
| Interest..... | 538,763 | 489,098 | 509,974 | 551,534 | 682,700 |
| Capitalized interest..... | 12,148 | 14,675 | 10,803 | 9,125 | 11,620 |
| Distribution on trust preferred securities | 29,201 | 51,220 | 54,358 | 55,598 | 55,545 |
| Preference security dividend requirements of subsidiary..... | 503 | 599 | 797 | 1,296 | -- |
| Interest component of rentals charged to operating expense..... | 10,964 | 15,681 | 15,244 | 15,118 | 14,281 |
| Total fixed charges..... | 591,579 | 571,273 | 591,176 | 632,671 | 764,146 |
| Earnings, as defined..... | $ 366,668 | $ 3,089,824 | $ 1,036,611 | $ 1,298,723 | $1,346,835 |
| Ratio of earnings to fixed charges..... | -- | 5.41 | 1.75 | 2.05 | 1.76 |

In 1998 earnings were inadequate to cover fixed charges by approximately $225 million. This deficiency results from the $1.2 billion non-cash, unrealized loss recorded for the ACES. Excluding the effect of the non-cash, unrealized loss, the ratio of earnings from continuing operations to fixed charges would have been 3.30.

Exhibit 21

Significant Subsidiaries of Centerpoint Energy, Inc.

The following subsidiaries are deemed "significant subsidiaries" of CenterPoint Energy, Inc. pursuant to Item 601(b)(21) of Regulation S-K:

- Utility Holdings, LLC, a Delaware limited liability company and a direct wholly owned subsidiary of CenterPoint Energy, Inc.
- CenterPoint Energy Investment Management, Inc., a Delaware corporation and an indirect 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 limited liability company 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.
- Texas Genco LP, LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenterPoint Energy, Inc.
- Texas Genco, LP, a Texas limited partnership and an indirect wholly owned subsidiary of CenterPoint Energy, Inc.

(1) Pursuant to Item 601(b)(21) of Regulation S-K, the 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, 2002.

(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.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in CenterPoint Energy, Inc.'s (i) Registration No. 333-101202 on Form S-8; (ii) Post-Effective-Amendment No.1 to Registration Statement Nos. 333-33301, 333-33303, 333-58433, 333-81119 and 333-68290 on Form S-3; (iii) Post-Effective Amendment No. 1 to Registration Statement Nos. 333-32413, 333-49333, 333-38188, 333-60260 and 333-98271 on Form S-8; and; (iv) Post-Effective Amendment No. 5 to Registration Statement No. 333-11329 on Form S-8 of our report dated February 28, 2003 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the distribution of Reliant Resources, Inc. and the change in method of accounting for goodwill and certain intangible assets) appearing in this Annual Report on Form 10-K of CenterPoint Energy, Inc. for the year ended December 31, 2002.

DELOITTE & TOUCHE LLP

Houston, Texas
March 7, 2003