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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

COMMISSION FILE NUMBER 1-31447

CENTERPOINT ENERGY, INC.

(Exact name of registrant as specified in its charter)

TEXAS	74-0694415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

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

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No

As of November 3, 2003, CenterPoint Energy, Inc. had 306,077,942 shares of common stock outstanding, including 356,476 ESOP shares not deemed outstanding for financial statement purposes and excluding 166 shares held as treasury stock.

CENTERPOINT ENERGY, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2003

TABLE OF CONTENTS

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" in Item 5 of Part II 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED OPERATIONS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
REVENUES	$ 1,916,787	$ 2,250,218	$ 5,792,600	$ 7,241,286
EXPENSES:				
Fuel and cost of gas sold	810,679	1,033,601	2,715,299	3,973,604
Purchased power	34,592	20,259	87,216	55,227
Operation and maintenance	385,484	392,172	1,145,951	1,198,133
Depreciation and amortization	160,136	160,250	459,616	469,794
Taxes other than income taxes	94,565	95,212	311,850	288,747
Total	1,485,456	1,701,494	4,719,932	5,985,505
OPERATING INCOME	431,331	548,724	1,072,668	1,255,781
OTHER INCOME (EXPENSE):				
Gain (loss) on Time Warner investment	(82,189)	(21,207)	(530,000)	43,497
Gain (loss) on indexed debt securities	86,622	17,040	508,578	(38,510)
Interest expense	(170,270)	(236,957)	(427,870)	(676,038)
Distribution on trust preferred securities	(13,898)	--	(41,647)	(27,797)
Other, net	3,134	1,919	17,922	6,707
Total	(176,601)	(239,205)	(473,017)	(692,141)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	254,730	309,519	599,651	563,640
Income Tax Expense	(92,835)	(110,799)	(206,748)	(196,254)
Minority Interest	(8)	(15,686)	(4)	(19,915)
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	161,887	183,034	392,899	347,471
Discontinued Operations:				
Income from Reliant Resources, net of tax	47,708	--	82,157	--
Income (loss) from Other Operations, net of tax	(436)	(1,212)	1,352	(2,077)
Loss on disposal of Reliant Resources	(4,333,652)	--	(4,333,652)	--
Loss on disposal of Other Operations, net of tax	--	(97)	--	(12,086)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	80,072
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(4,124,493)	$ 181,725	$(3,857,244)	$ 413,380
BASIC EARNINGS PER SHARE:				
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 0.54	$ 0.60	$ 1.32	$ 1.15
Discontinued Operations:				
Income from Reliant Resources, net of tax	0.16	--	0.28	--
Income (loss) from Other Operations, net of tax	--	--	--	(0.01)
Loss on disposal of Reliant Resources	(14.50)	--	(14.56)	--
Loss on disposal of Other Operations, net of tax	--	--	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	0.26
Net Income (Loss) Attributable to Common Shareholders	$ (13.80)	$ 0.60	$ (12.96)	$ 1.36
DILUTED EARNINGS PER SHARE:				
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 0.54	$ 0.60	$ 1.32	$ 1.14
Discontinued Operations:				
Income from Reliant Resources, net of tax	0.16	--	0.27	--
Income (loss) from Other Operations, net of tax	--	(0.01)	--	(0.01)
Loss on disposal of Reliant Resources	(14.47)	--	(14.51)	--
Loss on disposal of Other Operations, net of tax	--	--	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	0.26
Net Income (Loss) Attributable to Common Shareholders	$ (13.77)	$ 0.59	$ (12.92)	$ 1.35

See Notes to the Company's Unaudited Consolidated Interim Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 31, 2002	SEPTEMBER 30, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 304,281	$ 34,785
Investment in Time Warner common stock	283,486	326,983
Accounts receivable, net	558,328	497,750
Accrued unbilled revenues	354,497	224,775
Fuel stock and petroleum products	166,742	262,671
Materials and supplies	185,074	181,829
Non-trading derivative assets	27,275	15,127
Taxes receivable	72,027	133,349
Current assets of discontinued operations	12,505	6,399
Prepaid expenses and other current assets	71,138	78,733
Total current assets	2,035,353	1,762,401
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	19,852,729	19,863,869
Less accumulated depreciation and amortization	(8,487,612)	(8,726,128)
Property, plant and equipment, net	11,365,117	11,137,741
OTHER ASSETS:		
Goodwill, net	1,740,510	1,740,510
Other intangibles, net	65,880	80,086
Regulatory assets	4,000,646	4,776,690
Non-trading derivative assets	3,866	8,467
Non-current assets of discontinued operations	50,272	21,473
Other	444,860	531,160
Total other assets	6,306,034	7,158,386
TOTAL ASSETS	$ 19,706,504	$ 20,058,528

See Notes to the Company's Unaudited Consolidated Interim Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
(THOUSANDS OF DOLLARS)
(UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 2002	SEPTEMBER 30, 2003
CURRENT LIABILITIES:		
Short-term borrowings	$ 347,000	$ 55,000
Current portion of long-term debt	810,325	168,837
Indexed debt securities derivative	224,881	263,391
Accounts payable	621,528	470,202
Taxes accrued	192,570	165,773
Interest accrued	197,274	160,387
Non-trading derivative liabilities	26,387	14,388
Regulatory liabilities	168,173	181,359
Accumulated deferred income taxes, net	285,214	290,261
Deferred revenues	48,940	59,765
Current liabilities of discontinued operations	2,856	--
Other	286,005	249,265
Total current liabilities	3,211,153	2,078,628
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,445,133	2,789,323
Unamortized investment tax credits	230,037	217,010
Non-trading derivative liabilities	873	3,830
Benefit obligations	832,152	877,361
Regulatory liabilities	959,421	664,156
Non-current liabilities of discontinued operations	6,912	8,009
Other	698,121	730,463
Total other liabilities	5,172,649	5,290,152
LONG-TERM DEBT	9,194,320	10,890,928
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 12)		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	292	185,308
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	706,140	--
SHAREHOLDERS' EQUITY:		
Common stock (300,101,587 shares and 305,419,649 shares outstanding at December 31, 2002 and September 30, 2003, respectively)	3,050	3,060
Additional paid-in capital	3,046,043	2,868,485
Unearned ESOP stock	(78,049)	(9,542)
Retained deficit	(1,062,083)	(751,135)
Accumulated other comprehensive loss	(487,011)	(497,356)
Total shareholders' equity	1,421,950	1,613,512
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 19,706,504	$ 20,058,528

See Notes to the Company's Unaudited Consolidated Interim Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) attributable to common shareholders	$(3,857,244)	$ 413,380
Add: Loss (income) from discontinued operations, net of tax	(83,509)	2,077
Add: Loss on disposal of discontinued operations, net of tax	4,333,652	12,086
Less: Cumulative effect of accounting change, net of minority interest and tax	--	(80,072)
Income from continuing operations before cumulative effect of accounting change	392,899	347,471
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	459,616	469,794
Fuel-related amortization	20,269	15,920
Deferred income taxes	191,547	301,868
Investment tax credits	(13,843)	(13,027)
Loss (gain) on Time Warner investment	530,000	(43,497)
Loss (gain) on indexed debt securities	(508,578)	38,510
Minority interest	4	19,915
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues, net	(39,100)	190,385
Inventory	39,048	(92,684)
Taxes receivable	--	(61,322)
Accounts payable	(15,893)	(151,326)
Fuel cost recovery	188,858	(9,027)
Net non-trading derivative assets and liabilities	(146,747)	(15,955)
Interest and taxes accrued	(103,996)	(19,288)
Net regulatory assets and liabilities	(852,738)	(664,545)
Other current assets	(44,942)	(6,175)
Other current liabilities	(54,681)	(25,927)
Other assets	6,811	83,132
Other liabilities	102,845	47,990
Other, net	26,090	22,943
Net cash provided by operating activities	177,469	435,155
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(631,446)	(454,819)
Decrease (increase) in restricted cash	1,448	(1,420)
Other, net	64,534	(25,349)
Net cash used in investing activities	(565,464)	(481,588)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	3,097	5,041,529
Increase (decrease) in short-term borrowing, net	1,026,355	(292,000)
Payments of long-term debt	(220,766)	(4,704,141)
Payment of common stock dividends	(276,010)	(91,609)
Payment of common stock dividends by subsidiary	--	(11,427)
Proceeds from issuance of common stock	5,113	6,897
Debt issuance costs	(20,060)	(196,543)
Other, net	(44,971)	4,568
Net cash provided by (used in) financing activities	472,758	(242,726)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	12,794	19,663
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	97,557	(269,496)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,608	304,281
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 115,165	$ 34,785
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest	$ 482,260	$ 620,701
Income taxes	81,766	4,554

See Notes to the Company's Unaudited Consolidated Interim Financial Statements

(1) BACKGROUND AND BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q of CenterPoint Energy, Inc. (CenterPoint Energy), together with its subsidiaries (collectively, the Company), are the Company's consolidated interim financial statements and notes (Interim Financial Statements) including these companies' wholly owned and majority owned subsidiaries. The Company has filed a Current Report on Form 8-K dated November 7, 2003 (November 7, 2003 Form 8-K). The November 7, 2003 Form 8-K gives effect to certain reclassifications that have been made to the Company's historical financial statements as presented in the Annual Report on Form 10-K of CenterPoint Energy (CenterPoint Energy Form 10-K) for the year ended December 31, 2002. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the November 7, 2003 Form 8-K, including the exhibits thereto, and the Quarterly Reports on Form 10-Q of CenterPoint Energy for the quarter ended March 31, 2003 (First Quarter 10-Q) and the quarter ended June 30, 2003 (Second Quarter 10-Q).

RESTRUCTURING

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

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

CenterPoint Energy is the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. The Company's operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities, natural gas pipelines and electric generating plants. CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of the Company. The 1935 Act, among other things, generally limits the ability of the holding company and its subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions. The United States Congress is currently considering legislation that has a provision that would repeal the 1935 Act. The Company cannot predict at this time whether this legislation or any variation thereof will be adopted or, if adopted, the effect of such law on its business.

As of September 30, 2003, 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; 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 number of customers served. Through wholly owned subsidiaries, CERC owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services.

CenterPoint Energy also has an approximately 81% ownership interest in Texas Genco 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. CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to CenterPoint Energy'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 is reflected as a regulatory asset representing stranded costs in the Consolidated Balance Sheets as of September 30, 2003. This impairment charge represents the excess of the carrying value of CenterPoint Energy's net investment in Texas Genco over the market value of the Texas Genco common stock that was distributed. The financial impact of this impairment was offset by recording a $396 million regulatory asset reflecting CenterPoint Energy's expectation of stranded cost recovery of such impairment. See Note 4(c) for a discussion of generation related regulatory assets. Additionally, in connection with the distribution, CenterPoint Energy recorded minority interest ownership in Texas Genco of $146 million in its Consolidated Balance Sheets in the first quarter of 2003.

Reliant Resources has an option (Reliant Resources Option) to purchase all of the shares of common stock of Texas Genco owned by the Company. Reliant Resources has no obligation to exercise the option. The Reliant Resources Option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the Reliant Resources Option will equal the average daily closing price on The New York Stock Exchange for the 30 consecutive trading days with the highest average closing price for any 30 day trading period during the last 120 trading days ending January 9, 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. As of November 7, 2003, the highest average consecutive 30-day closing price for Texas Genco stock was $26.50. The per share exercise price is also subject to adjustment based on the difference between the per share dividends paid to the Company during the period from January 6, 2003 through the option closing date and Texas Genco's actual per share earnings during that period. Reliant Resources has agreed that if it exercises the Reliant Resources Option and purchases the shares of Texas Genco, Reliant Resources will also purchase from the Company all notes and other payables owed by Texas Genco to the Company 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 the Company as of the option closing date, Reliant Resources will assume those obligations in exchange for a payment from the Company of an amount equal to the principal plus accrued interest.

BASIS OF PRESENTATION

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

The Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's Statements of Consolidated Operations are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's presentation of financial statements in the current year. These reclassifications do not affect net income.

Subsequent to December 31, 2002, the Company sold all of its remaining Latin America operations. The Interim Financial Statements present these remaining Latin America operations 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).

In June 2003, the Company made a decision to sell a component of its Other Operations business segment that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. Accordingly, the Interim Financial Statements reflect these operations as discontinued operations.

The Interim Financial Statements have been prepared to reflect the effects of the Restructuring and the Reliant Resources Distribution as described above on the CenterPoint Energy financial statements. The Interim 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.

The following notes to the consolidated annual financial statements included in Exhibit 99.2 to the November 7, 2003 Form 8-K (CenterPoint Energy Notes) relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference.

CenterPoint Energy Notes: Note 3(d) (Long-Lived Assets and Intangibles), Note 3(e) (Regulatory Assets and Liabilities), Note 4 (Regulatory Matters), Note 5 (Derivative Instruments), Note 7 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities) and Note 13 (Commitments and Contingencies).

For information regarding certain legal, tax and regulatory proceedings and environmental matters, see Note 12.

(2) DISCONTINUED OPERATIONS

Latin America. 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. The Company recorded an after-tax gain of $7 million from the sale of Argener in the first quarter of 2003. In April 2003, the Company sold its final remaining investment in Argentina, a 90 percent interest in Empresa Distribuidora de Electricidad de Santiago del Estero S.A. (Edese). The Company recorded an after-tax loss of $3 million in the second quarter of 2003 related to its Latin American operations.

Revenues related to the Company's Latin America operations included in discontinued operations for the three months ended September 30, 2002 and 2003 were $3.8 million and $-0-, respectively. Income from these discontinued operations for the three months ended September 30, 2002 and 2003 is reported net of income tax expense of $0.1 million and $-0-, respectively. Revenues related to the Company's Latin America operations included in discontinued operations for the nine months ended September 30, 2002 and 2003 were $12.2 million and $2.2 million, respectively. Income from these discontinued operations for the nine months ended September 30, 2002 and 2003 is reported net of income tax expense of $1.2 million and $1.9 million, respectively.

CenterPoint Energy Management Services, Inc. As discussed in Note 1, in June 2003, the Company made a decision to sell a component of its Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The Company recorded an after-tax loss in discontinued operations of $16.2 million ($25.0 million pre-tax) during the nine months ended September 30, 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time employee termination benefits. Revenues related to CEMS included in discontinued operations for the three months ended September 30, 2002 and 2003 were $2.3 million and $3.3 million, respectively. Revenues related to CEMS included in discontinued operations for the nine months ended September 30, 2002 and 2003 were $6.3 million and $8.0 million, respectively. Income from these discontinued operations for the three months ended September 30, 2002 and 2003 is reported net of income tax expense of $0.3 million and $0.5 million, respectively. Income from these discontinued operations for the nine months ended September 30, 2002 and 2003 is reported net of income tax benefit of $0.6 million and $1.2 million, respectively.

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

Reliant Resources' revenues included in discontinued operations for the three months and nine months ended September 30, 2002 were $5.4 billion and $9.5 billion, respectively, as reported in Reliant Resources' Annual Report on Form 10-K/A, Amendment No. 1, filed with the Securities and Exchange Commission (SEC) on May 1, 2003. These amounts have been restated to reflect Reliant Resources' adoption of Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Income from these discontinued operations for the three months and nine months ended September 30, 2002 is reported net of income tax expense of $138 million and $284 million, respectively.

(3) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be recognized as a liability is incurred and capitalized as part of the cost of the related tangible long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

The Company has identified retirement obligations for nuclear decommissioning at the South Texas Project Electric Generating Station (South Texas Project) and for lignite mine operations at the mine supplying the Limestone electric generation facility. Prior to adoption of SFAS No. 143, the Company had recorded liabilities for nuclear decommissioning and the reclamation of the lignite mine. Liabilities were recorded for estimated decommissioning obligations of $139.7 million and $39.7 million for reclamation of the lignite at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, the Company reversed the $139.7 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of $99.1 million offset by accumulated depreciation of $35.8 million as well as a retirement obligation of $186.7 million. The $16.3 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 is being deferred as a liability due to regulatory requirements. The Company also reversed the $39.7 million it had previously recorded for the mine reclamation and recorded a plant asset of $1.9 million offset by accumulated depreciation of $0.4 million as well as a retirement obligation of $3.8 million. The $37.4 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 was recorded as a cumulative effect of accounting change. The Company has also identified other asset retirement obligations that cannot be estimated because the assets associated with the retirement obligations have an indeterminate life.

The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the nine months ended September 30, 2003:

	BALANCE, JANUARY 1, 2003	LIABILITIES INCURRED	LIABILITIES SETTLED	ACCRETION	CASH FLOW REVISIONS	BALANCE, SEPTEMBER 30, 2003
			(IN MILLIONS)			
Nuclear decommissioning	$186.7	--	--	$6.8	--	$193.5
Lignite mine	3.8	--	--	0.3	--	4.1
	$190.5	--	--	$7.1	--	$197.6

The following represents the pro-forma effect on the Company's net income for the three months and nine months ended September 30, 2002, as if the Company had adopted SFAS No. 143 as of January 1, 2002:

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2002
	(IN THOUSANDS)	
Income from continuing operations before cumulative effect of accounting change as reported	$ 161,887	$ 392,899
Pro-forma income from continuing operations before cumulative effect of accounting change	161,867	392,839
Net loss as reported	(4,124,493)	(3,857,244)
Pro-forma net loss	(4,124,513)	(3,857,304)
DILUTED EARNINGS PER SHARE:		
Income from continuing operations before cumulative effect of accounting change as reported	$ 0.54	$ 1.32
Pro-forma income from continuing operations before cumulative effect of accounting change	0.54	1.32
Net loss as reported	(13.77)	(12.92)
Pro-forma net loss	(13.77)	(12.92)

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

	AS REPORTED	PRO-FORMA
	(IN MILLIONS)	
Nuclear decommissioning	$139.7	$186.7
Lignite mine	39.7	3.8
Total	$179.4	$190.5

The Company's rate-regulated businesses recognize removal costs as a component of depreciation expense in accordance with regulatory treatment. As of September 30, 2003, these removal costs of $623 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. The Company's non-rate regulated businesses have previously recognized removal costs as a component of depreciation expense. The Company reversed $115 million during the three months ended March 31, 2003 of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was $152 million. Excluded from the $80 million after-tax cumulative effect of accounting change recorded for the three months ended March 31, 2003, is minority interest of $19 million related to the Texas Genco stock not owned by CenterPoint Energy.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. The Company has applied this guidance as it relates to lease accounting and the accounting provision related to debt extinguishment. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods is required to be reclassified. No such reclassification was required in the three months or nine months ended September 30, 2002. The Company has reclassified the $26 million loss on debt extinguishment related to the fourth quarter of 2002 from an extraordinary item to interest expense as presented in its November 7, 2003 Form 8-K.

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. The Company adopted the provisions of SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 had no effect on the Company's consolidated financial statements.

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 was 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 did not materially affect the Company's consolidated financial statements.

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. On October 9, 2003, the FASB deferred the application of FIN 46 until the end of the first interim or annual period ending after December 15, 2003 for variable interest entities created before February 1, 2003. The FASB is currently considering several amendments to FIN 46, and the Company will analyze the impact, if any, these changes may have on its consolidated financial statements upon ultimate implementation of FIN 46. The Company does not expect the adoption of FIN 46 to have a material effect on its consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 has added additional criteria, which were effective on July 1, 2003, for new, acquired, or newly modified forward contracts. The Company engages in forward contracts for the sale of power. The majority of these forward contracts are entered into either through state mandated Public Utility Commission of Texas (Texas Utility Commission) auctions or auctions mandated by an agreement with Reliant Resources. All of the Company's contracts resulting from these auctions specify the product types, the plant or group of plants from which the auctioned products are derived, the delivery location and specific delivery requirements, and pricing for each of the products. The Company has applied the criteria from current accounting literature, including SFAS No. 133 Implementation Issue No. C-15 - "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity", to both the state mandated and the contractually mandated auction contracts and believes they meet the definition of capacity contracts. Accordingly, the Company considers these contracts as normal sales contracts rather than as derivatives. The Company has evaluated its forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 did not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state mandated or contractually mandated auctions, and did not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Effective July 1, 2003, upon the adoption of SFAS No. 150, the Company reclassified $725 million of trust preferred securities as long-term debt and began to recognize the dividends paid on the trust preferred securities as interest expense. Prior to July 1, 2003, the

dividends were classified as "Distribution on Trust Preferred Securities" in the Statements of Consolidated Operations. Additionally, $19 million of debt issuance costs previously netted against the balance of the trust preferred securities was reclassified to unamortized debt issuance costs. SFAS No. 150 does not permit restatement of prior periods. The adoption of SFAS No. 150 did not impact the Company's income from continuing operations, net income or earnings per share.

(4) REGULATORY MATTERS

(a) Excess Cost Over Market (ECOM) True-Up.

Texas Genco sells, through auctions, entitlements to substantially all of its installed electric generation capacity, excluding reserves for planned and forced outages. From September 2001 through September 2003, it conducted auctions as required by the Texas Utility Commission and by the Company's master separation agreement with Reliant Resources.

The capacity auctions continue to be consummated at market-based prices that are below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. The Texas electric restructuring law allows recovery, in a "true-up" proceeding in 2004 (2004 True-Up Proceeding), of the difference between the prices for power sold in state mandated auctions from January 1, 2002 through December 31, 2003 and earlier estimates of market power prices by the Texas Utility Commission (ECOM True-Up). This calculation (the ECOM Calculation) measures the difference between (1) an imputed margin that reflects the actual market power prices received in the state mandated auctions, actual fuel expense and generation, and (2) the margin included in the Texas Utility Commission's estimates of power prices, fuel expense and generation in the ECOM model developed by the Texas Utility Commission (the ECOM Margin). The resulting difference is the ECOM True-Up amount.

The ECOM model from which the ECOM Margin is derived provides only annual estimates of power prices, fuel expense and generation. Accordingly, the Company must form its own quarterly allocation estimates during 2002-2003 for the purpose of determining ECOM True-Up revenue.

Beginning January 1, 2002, the Company allocated the ECOM Margin in the Company's ECOM Calculation based on annual estimated forecasts of power prices, fuel expense and generation. In the second quarter of 2003, the Company began using a cumulative methodology for allocating ECOM Margin. This methodology uses revenue amounts based on the actual state mandated auction price results and actual generation for historical periods, as well as forecasted amounts for the balance of 2003, rather than forecasted amounts for the two-year period allocated on an annual basis. Changes in estimates that affect the allocation of ECOM Margin will have an effect on the amount of ECOM True-Up revenue recorded in a specific period, but will not affect the total amount of ECOM True-Up revenue recorded during the two-year period ending December 31, 2003. Beginning in 2004, the ECOM Calculation will no longer apply.

In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the three months ended September 30, 2002 and 2003, CenterPoint Energy recorded approximately $240 million and $222 million, respectively, in non-cash ECOM True-Up revenue. In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the nine months ended September 30, 2002 and 2003, CenterPoint Energy recorded approximately $551 million and $455 million, respectively, in non-cash ECOM True-Up revenue. ECOM True-Up revenue is recorded as a regulatory asset and totaled $1.2 billion as of September 30, 2003. In October 2003, a group of intervenors filed a petition asking the Texas Utility Commission to open a rulemaking proceeding and reconsider certain aspects of its ECOM rules. On November 5, 2003, the Texas Utility Commission voted to deny the petition. Despite the denial of the petition, the Company expects that issues could be raised in the 2004 True-Up Proceeding regarding the Company's compliance with the Texas Utility Commission's rules regarding ECOM True-Up, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state mandated auctions. The Company believes Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM True-Up regulatory asset no longer probable, the Company would write off the unrecoverable balance of such asset as a charge against earnings. For additional information

regarding the capacity auctions and the related true-up proceeding, please read Notes 3(e) and 4(a) to the CenterPoint Energy Notes, which are incorporated herein by reference.

(b) Generation Asset Impairment Contingency.

The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144. As of September 30, 2003, no impairment had been indicated in its Texas generation assets. The Company anticipates that future events, such as changes in the market value of the Texas Genco stock, a change in the estimated holding period of the Texas generation assets, or a change in market demand for electricity, will require the Company to re-evaluate these assets for impairment. If an impairment is indicated, it could be material and may not be fully recoverable through the 2004 True-Up Proceeding.

The Texas electric restructuring law provides for the Company to recover the regulatory book value of its Texas generating assets (as defined in the Texas electric restructuring law) to the extent the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset, will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of September 30, 2003, the recorded book value was $462 million in excess of the regulatory book value. This amount declines as the recorded book value is depreciated and increases by the amount of capital expenditures incurred, excluding certain environmental capital expenditures allowable prior to May 1, 2003. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4(a) to the CenterPoint Energy Notes.

(c) Regulatory Assets Contingency.

As of September 30, 2003, in contemplation of the 2004 True-Up Proceeding, CenterPoint Houston has recorded, in addition to the ECOM amounts described above, a regulatory asset of $2.5 billion representing the estimated future recovery of previously incurred costs. 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. This estimated recovery amount includes:

- $1.1 billion of previously recorded accelerated depreciation (an amount equal to earnings above a stated overall annual rate of return on invested capital that was used to recover the Company's investment in generation assets);

- $841 million of redirected depreciation; and

- $396 million related to the Texas Genco distribution as discussed in Note 1.

Offsetting this regulatory asset is an $820 million regulatory liability relating to an order issued by the Texas Utility Commission in 2001 to refund amounts relating to prior mitigation of anticipated stranded costs. The Texas Utility Commission ruled that those amounts should be refunded based on its conclusion that those amounts would result in an over-mitigation of stranded costs unless they were refunded. CenterPoint Houston began refunding those amounts (excess mitigation credits) with January 2002 bills and is scheduled to continue to refund those credits over a seven-year period.

Because GAAP requires 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.

On June 26, 2003, CenterPoint Houston filed a petition with the Texas Utility Commission seeking to cease refunding excess mitigation credits on the ground that continuation of the refund in light of current projections of stranded costs only increases the amount of stranded costs that CenterPoint Houston will seek to recover in the 2004 True-Up Proceeding. The excess mitigation credits amount to approximately $18 million per month. This proceeding is currently pending before the Texas Utility Commission.

(d) Fuel Reconciliation Contingency.

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 March 3, 2003, a settlement agreement was filed under which 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. A hearing is scheduled to begin on November 12, 2003.

(e) 2004 True-Up Proceeding.

Under the Texas electric restructuring law, the Texas Utility Commission is required to conduct true-up proceedings for each investor-owned utility whose generation assets were "unbundled" from its transmission and distribution assets in order to quantify and reconcile the amount of stranded costs, ECOM True-Up, unreconciled fuel costs, "price to beat" clawback component (See Note 12(g)) and other regulatory assets associated with electric generation operations (true-up components). On June 18, 2003, the Texas Utility Commission ruled that CenterPoint Houston's filing for recovery of its true-up components will be made on March 31, 2004. The law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although, under its rules the Texas Utility Commission can extend the 150 day deadline for good cause.

Any delay in the final order date will result in a delay in the securitization of CenterPoint Houston's stranded costs and the start of recovery of certain carrying costs through non-bypassable charges to CenterPoint Houston's customers. In addition, the March 31, 2004 filing date for CenterPoint Houston's recovery of its true-up components means that the calculation of the market value per share of the Texas Genco common stock for purposes of the Texas Utility Commission's stranded cost determination might be more than the purchase price per share calculated under the Reliant Resources Option. Under the Reliant Resources Option, the purchase price will be based on market prices during the 120 trading days ending on January 9, 2004, but under the filing schedule prescribed by the Texas Utility Commission, the value of that ownership interest for the stranded cost determination will be based on market prices during the 120 trading days ending on March 30, 2004. If Reliant Resources exercises its option at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

CenterPoint Houston will be required to establish and support the amounts it seeks to recover in the 2004 True-Up Proceeding. Third parties will have the opportunity and are expected to challenge CenterPoint Houston's calculation of these costs. The Company and the anticipated intervenors in the 2004 True-Up Proceeding have engaged in settlement discussions to determine if any or all of the true-up components can be resolved outside a contested proceeding.

The Company expects that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will seek to securitize its stranded costs, any regulatory assets not previously securitized by the October 2001 issuance of transition bonds and, to the extent permitted by the Texas Utility Commission, the balance of the other true-up components. Before CenterPoint Houston can securitize these amounts, the Texas Utility Commission must conduct a proceeding and issue a financing order authorizing CenterPoint Houston to do so. Under the Texas electric restructuring law, CenterPoint Houston is entitled to recover any portion of the true-up components not securitized by transition bonds through a non-bypassable competition transition charge assessed to its customers.

Following adoption of the True-Up rule by the Texas Utility Commission, CenterPoint Houston appealed certain aspects of the rule, including the decision to permit interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the True-Up Proceeding, instead of from January 1, 2002 as CenterPoint Houston had requested. That appeal remains pending before the Texas Supreme Court, which has not agreed to hear the appeal but has requested the parties to file briefs concerning the issues in the case.

(f) CenterPoint Energy Entex Rate Increase Filing.

On June 13, 2003, the CenterPoint Energy Entex (Entex) division of CERC Corp. filed a rate increase request with the City of Houston which, if approved, would yield approximately $17 million in additional annual revenue. The Company is seeking a return on common equity of 11.25% and an overall return of 8.87% on its rate base. The filing does not affect the rates under special contracts with certain industrial customers. The city has suspended the rate request while it negotiates a settlement with the Company. Upon resolution of its rate filing with the City of Houston, Entex will seek to implement new rates in adjacent cities and their surrounding areas that are similar to those ultimately approved by the City of Houston. The Company expects that new rates will become effective in these jurisdictions by the first quarter of 2004.

(5) DERIVATIVE FINANCIAL INSTRUMENTS

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 in cash flows of its natural gas businesses on its operating results and cash flows.

Cash Flow Hedges. During the nine months ended September 30, 2003, no hedge ineffectiveness was recognized in earnings from derivatives that are designated and qualify as cash flow hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. During the nine months ended September 30, 2003, there was no effect on earnings as a result of the discontinuance of cash flow hedges. As of September 30, 2003, the Company expects $0.7 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

Interest Rate Swaps. As of September 30, 2003, the Company had outstanding interest rate swaps with an aggregate notional amount of $750 million to fix the interest rate applicable to floating rate long-term debt. These swaps do not qualify as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (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 2002, the Company settled its forward-starting interest rate swaps having a notional amount of $1.5 billion at a cost of $156 million, which was recorded in other comprehensive income, and reclassified $36 million to interest expense in 2002. The remaining $120 million in other comprehensive income is being amortized into interest expense in the same period during which the interest payments are made for the designated fixed-rate debt. Amortization of amounts deferred in accumulated other comprehensive income for the three months ended September 30, 2003, was $3.6 million and is expected to amount to $11.9 million in 2003.

Embedded Derivative. The Company's $575 million of convertible senior notes, issued May 19, 2003 (see Note 9), contain a contingent interest provision. The contingent interest component is an embedded derivative as defined by SFAS No. 133, and accordingly, must be split from the host instrument and recorded at fair value on the balance sheet. The value of the contingent interest component was not material at issuance or at September 30, 2003.

(6) GOODWILL AND INTANGIBLES

Goodwill as of December 31, 2002 and September 30, 2003 by reportable business segment is as follows (in millions):

Natural Gas Distribution.....	$ 1,085
Pipelines and Gathering.....	601
Other Operations.....	55
Total.....	$ 1,741

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

	DECEMBER 31, 2002		SEPTEMBER 30, 2003	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(IN MILLIONS)			
Land use rights	$ 61	$ (12)	$ 61	$ (13)
Other	19	(2)	37	(5)
Total	$ 80	$ (14)	$ 98	$ (18)

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 September 30, 2003. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 40 to 75 years for land use rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for the three months ended September 30, 2002 and 2003 was $0.5 million and $1.8 million, respectively. Amortization expense for other intangibles for the nine months ended September 30, 2002 and 2003 was $1.4 million and $2.9 million, respectively. Estimated amortization expense for the remainder of 2003 and the five succeeding fiscal years is as follows (in millions):

2003	$ 0.8
2004	3.4
2005	3.6
2006	3.7
2007	3.6
2008	3.6
Total	$ 18.7

(7) COMPREHENSIVE INCOME (LOSS)

The following table summarizes the components of total comprehensive income (loss):

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Net income (loss) attributable to common shareholders	$ (4,124)	$ 182	$ (3,857)	$ 413
Other comprehensive income (loss):				
Net deferred losses from cash flow hedges	(46)	(26)	(59)	(19)
Reclassification of deferred loss from cash flow hedges realized in net income	--	4	3	8
Other comprehensive income (loss) from discontinued operations	(73)	--	159	1
Other comprehensive income (loss)	(119)	(22)	103	(10)
Comprehensive income (loss)	$ (4,243)	$ 160	$ (3,754)	$ 403

(8) CAPITAL STOCK

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. At December 31, 2002, 305,017,330 shares of CenterPoint Energy common stock were issued and 300,101,587 shares of CenterPoint Energy common stock were outstanding. At September 30, 2003, 306,005,345 shares of CenterPoint Energy common stock were issued and 305,419,649 shares of CenterPoint Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to CenterPoint Energy's Employee Stock Ownership Plan (4,915,577 and 585,530 at December 31, 2002 and September 30, 2003, respectively) and (b) treasury shares (166 at both December 31, 2002 and September 30, 2003). Reliant Energy declared a dividend of

$0.375 per share in each of the first and second quarters of 2002 and CenterPoint Energy declared a dividend of $0.16 per share in the third quarter of 2002. CenterPoint Energy declared a dividend of $0.10 per share in the first quarter of 2003 and $0.20 per share in the second quarter of 2003, which includes the third quarter dividend declared on June 18, 2003 and paid on September 10, 2003.

(9) SHORT-TERM BORROWINGS, LONG-TERM DEBT AND RECEIVABLES FACILITY

(a) Short-term Borrowings.

Credit Facilities. As of September 30, 2003, CERC Corp. had a revolving credit facility that provided for an aggregate of $200 million in committed credit. As of September 30, 2003, $55 million was borrowed under this revolving credit facility. This revolving credit facility terminates on March 23, 2004. Rates for borrowings under this facility, including the facility fee, are the London interbank offered rate (LIBOR) plus 250 basis points based on current credit ratings and the applicable pricing grid. The revolving credit facility contains various business and financial covenants. CERC Corp. is prohibited from making loans to or other investments in the Company. CERC Corp. is currently in compliance with the covenants under the credit agreement.

(b) Long-term Debt.

On February 28, 2003, the Company reached agreement with a syndicate of banks on a second amendment to its bank facility (Amended Bank Facility). Under the Amended Bank Facility, the termination 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 in 2003 were eliminated. The Amended Bank Facility consisted of a $2.35 billion term loan and a $1.5 billion revolver. Repayments of the term loan of $50 million in March 2003 and $954 million in May 2003 reduced the term loan to $1.35 billion as of June 30, 2003. Additional repayments of the term loan of $490 million in September 2003 further reduced the term loan to $856 million as of September 30, 2003. At September 30, 2003, $1.0 billion was borrowed under the $1.5 billion revolver. Borrowings under the Amended Bank Facility bore interest based on LIBOR rates under a pricing grid tied to the Company's credit rating. The drawn cost for the facility at September 30, 2003 was LIBOR plus 450 basis points.

On May 28, 2003, as contemplated in the amendment to the credit facility discussed above, the Company granted the lenders under the Amended Bank Facility a security interest in its 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco eliminated a 25 basis point increase in the borrowing costs under the Amended Bank Facility that would have been effective after May 28, 2003. The security interest was to be released at the time of the sale of Texas Genco. Proceeds from such sale were required to be used to reduce the facility.

On October 7, 2003, the Company replaced its Amended Bank Facility with a three-year facility composed of a revolving credit facility of $1.4 billion funded by a 12-bank syndicate and a $925 million term loan from institutional investors. The new facility matures on October 7, 2006. Borrowings under the revolver bear interest based on LIBOR rates under a pricing grid tied to the Company's credit ratings. At the Company's current ratings, the interest rate for borrowings under the revolver is LIBOR plus 300 basis points. The interest rate for borrowings under the term loan is LIBOR plus 350 basis points. As in the Amended Bank Facility, the Company's Texas Genco stock is pledged to the lenders under the new facility and the Company has agreed to limit the dividend paid on its common stock to $0.10 per share per quarter. The new facility provides that until such time as the facility has been reduced to $750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of stranded costs, after making any payments required under CenterPoint Houston's $1.3 billion term loan, and the net cash proceeds of any sales of the common stock of Texas Genco owned by the Company or of material portions of Texas Genco's assets shall be applied to repay loans under the CenterPoint Energy credit facility and reduce that facility. In contrast to the Amended Bank Facility, any money raised in other future capital markets offerings and in the sale of other significant assets is not required to be used to pay down the new facility. The new facility requires the Company to maintain a minimum interest coverage ratio and observe a maximum leverage ratio. In connection with entering into the new facility, the Company paid up-front fees of approximately $16 million and avoided a payment of $17.7 million which would have been due under the Amended Bank Facility on October 9, 2003 based on the outstanding balance of the facility at that date. Additionally, in October 2003, the Company expensed $20.7 million of unamortized loan costs associated with the Amended Bank Facility.

On March 18, 2003, CenterPoint Houston issued $762.3 million aggregate principal amount of general mortgage bonds composed of $450 million principal amount of 10-year bonds with an interest rate of 5.7% and $312.3 million principal amount of 30-year bonds with an interest rate of 6.95%. Proceeds were used to redeem approximately $312.3 million aggregate principal amount of CenterPoint Houston's first mortgage bonds and to repay $429 million of intercompany notes payable to CenterPoint Energy by CenterPoint Houston. Proceeds from the note repayment were ultimately used by CenterPoint Energy to repay $150 million aggregate principal amount of medium-term notes maturing on April 21, 2003 and to repay borrowings under the Amended Bank Facility, including $50 million of term loan repayments.

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

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

On May 19, 2003, the Company issued $575 million aggregate principal amount of convertible senior notes due May 15, 2023 with an interest rate of 3.75%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 86.3558 shares of common stock per $1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% or, following May 15, 2008, 110% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after May 15, 2008, in the event that the average trading price of a note for the applicable five trading day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. Contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five trading day period. Proceeds from the issuance of the convertible senior notes were used for term loan repayments and to repay revolver borrowings under the Amended Bank Facility in the amount of $557 million and $0.75 million, respectively.

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

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

In July 2003, the Company remarketed two series of insurance-backed pollution control bonds aggregating $150.9 million, reducing the interest rate from 5.8% to 4%. Of the total amount of bonds remarketed, $92.0 million mature on August 1, 2015 and $58.9 million mature on October 15, 2015.

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

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

On September 9, 2003, CenterPoint Energy issued $200 million aggregate principal amount of 7.25% senior notes due September 1, 2010. Proceeds in the amount of approximately $198 million were used to repay the term loan under the Amended Bank Facility.

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

On November 3, 2003, CERC issued $160 million aggregate principal amount of its 5.95% senior unsecured notes due 2014. CERC accepted $140 million aggregate principal amount of CERC's TERM Notes maturing in November 2003 and $1.25 million as consideration for the notes. CERC retired the TERM notes received and used the remaining proceeds to finance remaining costs of issuance of the notes and for general corporate purposes. As a result of this transaction, the $140 million aggregate principal amount of CERC's TERM Notes has been classified as long-term debt in the Consolidated Balance Sheet as of September 30, 2003.

(c) Receivables Facility.

In connection with CERC's November 2002 amendment and extension of its $150 million receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying 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 Sheets. Effective June 25, 2003, CERC elected to reduce the purchase limit under the receivables facility from $150 million to $100 million. As of December 31, 2002 and September 30, 2003, CERC had utilized $107 million and $68 million of its receivables facility, respectively.

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

The commitment to purchase receivables expires November 14, 2003. Purchases of receivables under the related uncommitted facility may occur until November 12, 2005. In the fourth quarter of 2003, CERC expects to replace the receivables facility with a committed one-year receivables facility.

(10) TRUST PREFERRED SECURITIES

(a) CenterPoint Energy.

Statutory business trusts created by CenterPoint Energy have issued trust preferred securities, the terms of which, and the related series of junior subordinated debentures, are described below (in millions):

TRUST	AGGREGATE LIQUIDATION AMOUNTS AS OF DECEMBER 31, 2002 AND SEPTEMBER 30, 2003 (IN MILLIONS)	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ 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

For additional information regarding these securities, see Note 10 to the CenterPoint Energy Notes, which note is incorporated herein by reference. The sole asset of each trust consists of junior subordinated debentures of 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, and the principal amounts corresponding to the common and preferred securities or capital securities issued by that trust.

For a discussion of the effect of adoption of SFAS No. 150 on the trust preferred securities discussed above, see Note 3.

(b) CERC Corp.

A statutory business trust created by CERC Corp. has issued 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, 2002 and September 30, 2003, $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.

The sole asset of the trust consists of convertible junior subordinated debentures of CERC having an interest rate and maturity date that correspond to the distribution rate and the mandatory redemption date of the convertible preferred securities, and the principal amount corresponding to the common and convertible preferred securities issued by the trust. For additional information regarding these securities, see Note 10 to the CenterPoint Energy Notes, which note is incorporated herein by reference.

(11) STOCK-BASED INCENTIVE COMPENSATION PLANS

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), and SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure -- an Amendment of SFAS No. 123," the Company applies the guidance contained in Accounting Principles Board Opinion No. 25 and discloses the required pro-forma effect on net income of the fair value based method of accounting for stock compensation.

Pro-forma information for the three months and nine months ended September 30, 2002 and 2003 is provided to take into account the amortization of stock-based compensation to expense on a straight-line basis over the vesting

period. Had compensation costs been determined as prescribed by SFAS No. 123, the Company's net income and earnings per share would have been as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Net Income (Loss):				
As reported	$(4,124)	$ 182	$(3,857)	$ 413
Total stock-based employee compensation determined under the fair value based method	(2)	(2)	(6)	(8)
Pro-forma	$(4,126)	$ 180	$(3,863)	$ 405
Basic Earnings Per Share:				
As reported	$(13.80)	$0.60	$(12.96)	$1.36
Pro-forma	$(13.81)	$0.59	$(12.98)	$1.34
Diluted Earnings Per Share:				
As reported	$(13.77)	$0.59	$(12.92)	$1.35
Pro-forma	$(13.77)	$0.58	$(12.94)	$1.33

(12) COMMITMENTS AND CONTINGENCIES

(a) 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, including attorneys' fees and other costs, arising out of the lawsuits described under "California Electricity and Gas Market Cases," "Western States Class Action," "Long-Term Contract Class Action," "Gas Trading Cases," "Gas Futures Cases," "Other Trading and Marketing Activities" and "Other Class Action Lawsuits." 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 Electricity and Gas Market Cases. Reliant Energy, Reliant Resources, Reliant Energy Power Generation, Inc. (REPG) and several other subsidiaries of Reliant Resources, as well as three former officers 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. The first six 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 stayed the remand order pending the appeal.

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 (a wholesale energy marketing subsidiary of Reliant Resources) 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, divestment of Reliant Resources' generation capacity and undefined equitable

relief. Reliant Resources removed the two state court cases to the federal district court in San Francisco. In August 2002, the district court dismissed the two cases originally filed in state court and also dismissed the damages claims asserted in the antitrust case. The Attorney General has appealed the dismissal of these cases to the court of appeals.

Following the filing of the Attorney General cases, seven additional class action cases were filed in state courts in Northern California. Each of these purported to represent the same class of California ratepayers, asserted the same claims as asserted in the other California class action cases, and in some instances repeated as well the allegations in the Attorney General cases. All of these cases were removed and consolidated in federal district court in San Diego. The court dismissed the consolidated case on grounds that the claims were barred by federal preemption of regulation of wholesale rates by the Federal Energy Regulatory Commission (FERC) and the filed rate doctrine. The plaintiffs have filed a notice of appeal.

In July 2003, the City of Los Angeles Attorney filed suit against the Company, Reliant Energy, Reliant Resources, Reliant Energy Services and one of Reliant Resources' employees in federal court in Los Angeles. The lawsuit alleges that the defendants conspired to manipulate the price for natural gas in breach of Reliant Energy Services' contract to supply the Los Angeles Department of Water and Power (LADWP) with natural gas in violation of federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organization Act and the California False Claims Act. The lawsuit seeks treble damages for the alleged overcharges for gas purchased by LADWP of an estimated $218 million, interest, costs of suit and attorneys' fees. The Company has filed a motion to dismiss the lawsuit for, among other things, lack of personal jurisdiction, and the defendants have filed a notice seeking to consolidate this case for pretrial purposes with the cases described under "Gas Trading Cases."

Western States Class Action. In May 2003, a class action lawsuit was filed against Reliant Resources, Reliant Energy and various market participants in state court in San Diego County, California. The plaintiffs allege that Reliant Resources and Reliant Energy engaged in unfair, unlawful and fraudulent business practices and violations of the California antitrust laws by manipulating energy markets in California and the West. The action is brought on behalf of all persons and businesses residing in Oregon, Washington, Utah, Nevada, Idaho, New Mexico, Arizona and Montana. The lawsuit seeks injunctive relief, treble damages, restitution, costs of suit and attorney's fees. In May 2003, the case was removed to federal court in San Diego. The plaintiffs have moved to remand the case back to state court. The case has been transferred to the visiting judge in San Diego before whom most of the other electricity cases have been consolidated.

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. The Reliant defendants intend to file motions to dismiss on grounds that the claims are barred by federal preemption and the filed rate doctrine.

Gas Trading Cases. The Company, Reliant Resources and Reliant Energy have been named as defendants in two lawsuits filed on behalf of a class of purchasers of natural gas alleging violations of state antitrust laws and state laws against unfair and unlawful business practices based on an alleged conspiracy with Enron Corp. to manipulate the California natural gas markets in 2000 and 2001. One lawsuit was filed in April 2003 in state court in Los Angeles County, California, and the other was filed in May 2003 in state court in San Diego County, California. The complaints are based on certain conclusions in a report by the FERC staff even though the staff investigation found no evidence that Reliant or Reliant's trader intended to manipulate gas prices and FERC has concluded that the trading activity did not violate the Natural Gas Act or any FERC regulation. The complaint seeks injunctive and declaratory relief, compensatory and punitive damages, restitution, costs of suit and attorneys' fees. The complaint alleges that there were "well over one billion dollars in excess charges to California consumers during the 2000 through 2001 time period." The plaintiffs are seeking a trebling of any damages award. Reliant Resources removed both cases to federal court and the plaintiffs in both cases have moved to remand the cases back to state court. The plaintiffs in the San Diego case have also filed a petition with the Federal Judicial Panel on Multidistrict Litigation to transfer the case to federal court in Nevada. The defendants have filed their own motion with the Panel to transfer the case to the Northern District of California and requested that the case be heard by a judge from the Southern District of New York. While Reliant Resources has not yet filed an answer, the Company understands that Reliant Resources intends to deny both the alleged violation of any laws and the participation in a conspiracy with Enron.

Neither the Company nor Reliant Energy was a party in the proceedings in which the report was submitted. Only former subsidiaries of the predecessor to the Company engaged in gas trading activities in California; however, neither the Company nor any of its current subsidiaries has ever engaged in gas trading in California.

Gas Futures Cases. In August 2003, a class action lawsuit was filed against CenterPoint Houston and Reliant Energy Services in federal court in New York on behalf of purchasers of natural gas futures contracts on the New York Mercantile Exchange (NYMEX). A second, similar class action was filed in the same court in October 2003. The complaints allege that the defendants manipulated the price of natural gas through their gas trading activities and price reporting practices in violation of the Commodity Exchange Act during the period January 1, 2000 through December 31, 2002. The plaintiffs seek damages based on the effect of such alleged manipulation on the value of the gas futures contracts they bought or sold. CenterPoint Houston has not yet been served in the second action.

Other 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' and Reliant Energy's financial reporting, internal controls and related matters. The investigation was 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. On May 12, 2003, the SEC advised Reliant Resources and Reliant Energy that it had issued a formal order in connection with this investigation. Reliant Energy, through its successor and our subsidiary, CenterPoint Houston, has entered into a settlement with the SEC that concludes this investigation. Under the settlement, Reliant Resources and Reliant Energy consented to the entry of an administrative cease-and-desist order with respect to future violations of certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, without admitting or denying the SEC's findings that violations of these laws had occurred. The SEC did not assess monetary penalties or fines against Reliant Energy, us or any of our subsidiaries.

In connection with the Texas Utility Commission's industry-wide investigation into potential manipulation of the Electric Reliability Council of Texas (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.

Other Class Action Lawsuits. Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy have been consolidated in federal district court in Houston. Reliant Resources and certain of its former and current executive officers are named as defendants. Reliant Energy is also named as a defendant in seven of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the 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.

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. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on the Company before filing suit. Thereafter, the plaintiff sent another demand asserting the same claims.

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

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

Texas Action. In July 2003, Texas Commercial Energy filed a lawsuit against Reliant Energy, Reliant Resources, Reliant Electric Solutions, LLC, several other Reliant Resources subsidiaries and several other participants in the ERCOT power market in federal court in Corpus Christi, Texas. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleges that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit seeks damages in excess of $500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The Company has not yet been served with the complaint.

Reliant Energy Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of 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 Three Cities have filed a petition for review at the Texas Supreme Court and the court has requested briefs from the parties.

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. CERC Corp. and certain of its subsidiaries are defendants in a suit filed in 1997 under the Federal False Claims Act alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the federal district court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case has been consolidated, together with the other similar False Claims Act cases, in the federal district court in Cheyenne, Wyoming.

In addition, CERC Corp. and certain of its subsidiaries are defendants in two mismeasurement lawsuits against approximately 245 pipeline companies and their affiliates pending in state court in Stevens County, Kansas. In one case (originally filed in May 1999 and amended four times), the plaintiffs purport to represent a class of royalty owners who allege that the defendants have engaged in systematic mismeasurement of the volume of natural gas for more than 25 years. The plaintiffs amended their petition in this suit in July 2003 in response to an order from the judge denying certification of the plaintiffs' alleged class. In the amendment the plaintiffs dismissed their claims against certain defendants (including two CERC subsidiaries), limited the scope of the class of plaintiffs they purport to represent and eliminated previously asserted claims based on mismeasurement of the Btu content of the gas. The same plaintiffs then filed a second lawsuit, again as representatives of a class of royalty owners, in which they assert their claims that the defendants have engaged in systematic mismeasurement of the Btu content of natural gas for more than 25 years. In both lawsuits, the plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees.

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 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 certain consumers of natural gas. In February 2003, a similar suit was filed against CERC in state court in Caddo Parish, Louisiana purportedly on behalf of a class of residential or business customers in Louisiana who allegedly have been overcharged for gas or gas service provided by CERC. The plaintiffs in both cases seek restitution for the alleged overcharges, exemplary damages and penalties. In both cases, the Company denies that it 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.

Supplier Suits. Texas Genco and the Company currently are engaged in a dispute with Northwestern Resources Co. (NWR), the supplier of fuel to the Limestone electric generation facility, over the terms and pricing at which NWR supplies fuel to that facility under a 1999 settlement agreement between the parties and under ancillary

obligations. NWR initiated a lawsuit in state district court in Limestone County, Texas seeking a declaratory judgment that the defendants have breached their obligations under the agreements by modifying the generation facility to burn coal from the Powder River Basin and by purchasing coal from the Powder River Basin without first giving NWR a right of first refusal to supply lignite at a price that is equal to or less than the coal from the Powder River Basin. Texas Genco has asserted counterclaims against NWR for unpaid production royalties and other fees owed by NWR under the terms of various leases between the parties. Texas Genco also seeks rulings that it has not breached its obligations regarding the modification of its facilities and the burning of Powder River Basin coal. The judge has ruled that price issues must be arbitrated in accordance with the contract.

FERC Contract Inquiry. On September 15, 2003, the FERC issued a Show Cause Order to CenterPoint Energy Gas Transmission Company (CEGT), one of CERC's natural gas pipeline subsidiaries. In its Show Cause Order, FERC contends that CEGT has failed to file with FERC and post on the internet certain information relating to negotiated rate contracts that CEGT had entered into pursuant to 1996 FERC orders. Those orders authorized CEGT to enter into negotiated rate contracts that deviate from the rates prescribed under its filed FERC tariffs. FERC also alleges that certain of the contracts contain provisions that CEGT was not authorized to negotiate under the terms of the 1996 orders.

FERC initially required CEGT to file a response within 30 days explaining why its failure to post all of the non-conforming terms and conditions in its negotiated rate contracts did not violate Section 4 of the Natural Gas Act and would not warrant FERC: (i) suspending or revoking CEGT's authority to enter into negotiated rate contracts; (ii) requiring CEGT to file all negotiated rate contracts for preapproval before they become effective; and (iii) requiring CEGT to provide to all customers on its system the preferential non-conforming terms and conditions that were not reported. FERC may also require CEGT to implement a strict compliance plan to ensure that future non-conforming contracts are reported to FERC. In its Show Cause Order, FERC did not propose any fine or other monetary sanction for the alleged violations. At the time it issued its Show Cause Order, FERC also initiated proceedings to review certain pending contracts between CEGT and members of Arkansas Gas Consumers, Inc. which FERC alleged contain similar non-conforming provisions. In that order, FERC directed CEGT to modify those contracts and make additional filings regarding them to conform to its conclusions in the Show Cause Order, including making certain provisions available on a generally applicable basis, unless CEGT can provide an acceptable explanation of why such modifications and filings are not required.

Subsequently, CEGT met with members of FERC's staff and provided additional information relating to FERC's Show Cause Order. CEGT was granted an extension of the response period to November 14, 2003, and has requested an additional extension to December 15, 2003, in order to allow additional time for further discussion with staff members.

CEGT believes that its past filings with the FERC conformed to FERC's filing requirements at the time the various contracts were negotiated and that it will be able to demonstrate to FERC that it has complied with the applicable policy in all material respects. CEGT intends to cooperate fully with FERC and will comply with applicable FERC requirements for filing and posting information relating to those contracts. CEGT believes at this time that the ultimate resolution of this matter would not have a material adverse effect on the financial condition or results of operations of either CERC or CEGT. The negotiated rate contracts in question are a subset of all of the CEGT transportation agreements. Even if it were ultimately precluded from using negotiated rate contracts, CEGT would still be able to provide firm and interruptible transportation services to its customers under its existing tariff.

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.

(b) Environmental Matters.

Clean Air Standards. The Texas electric restructuring law and regulations adopted by the Texas Commission on Environmental Quality in 2001 require substantial reductions in emission of oxides of nitrogen (NOx) from electric generating units. The Company is currently installing cost-effective controls at its generating plants to comply with these requirements. Through September 30, 2003, the Company has invested $639 million for NOx emission

control, and plans to make expenditures of up to approximately $157 million for the remainder of 2003 through 2007. The Texas electric restructuring law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements. Incurred costs include costs for which contractual obligations have been made. The Texas Utility Commission has determined that the Company's emission control plan is the most cost-effective option for achieving compliance with applicable air quality standards for the Company's generating facilities and the final amount for recovery will be determined in the 2004 True-Up Proceeding.

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

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

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

At September 30, 2003, CERC had accrued $19 million for remediation of the Minnesota sites. At September 30, 2003, 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 utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. CERC has collected or accrued $12.5 million at September 30, 2003 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. CERC has been named as a defendant in lawsuits under which contribution is sought for the cost to remediate former MGP sites based on the previous ownership of such sites by former affiliates of CERC or its divisions. The Company is investigating details regarding these sites and the range of environmental expenditures for potential remediation. Based on current information, the Company has not been able to quantify a range of environmental expenditures for such sites.

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

Other Environmental. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(c) 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.

(d) Other Proceedings.

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(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 $10.5 billion as of September 30, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to $100.6 million per reactor. The owners are jointly and severally liable at a rate not to exceed $10 million per incident per year. In addition, the security procedures at this facility have been enhanced to provide additional protection against terrorist attacks.

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 $2.9 million in 2002 to trusts established to fund its share of the decommissioning costs for the South Texas Project, and expects to contribute $2.9 million in 2003. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the United States Nuclear Regulatory Commission (NRC) relating to Texas Genco's nuclear decommissioning trusts. Texas Genco and CenterPoint Energy have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of $179 million as of September 30, 2003, of which approximately 39% were fixed-rate debt securities and the remaining 61% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trust, see Note 3(k) to the CenterPoint Energy Notes, which note is incorporated herein by reference. 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) to the CenterPoint Energy Notes, which note is incorporated herein by reference.

(g) "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 2004 True-Up Proceeding provides for a clawback of the "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by a non-affiliated retail electric provider by January 1, 2004. Pursuant to the Texas electric restructuring law and the master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources is obligated to pay CenterPoint Houston for the clawback component of the 2004 True-Up Proceeding. 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. As reported in Reliant Resources' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003, filed with the SEC on November 12, 2003, Reliant Resources expects that the clawback payment will be in the range of $170 million to $180 million, with a most probable estimate of $175 million.

(13) EARNINGS PER SHARE

The following table presents the Company's basic and diluted earnings per share (EPS) calculation:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic EPS Calculation:				
Income from continuing operations before cumulative effect of accounting change	$ 162	$ 183	$ 393	$ 347
Discontinued Operations:				
Income from Reliant Resources, net of tax	48	--	82	--
Income (loss) from Other Operations, net of tax	(1)	(1)	1	(2)
Loss on disposal of Reliant Resources	(4,333)		(4,333)	--
Loss on disposal of Other Operations, net of tax	--	--	--	(12)
Cumulative effect of accounting change, net of minority interest and tax	--	--	--	80
Net income (loss) attributable to common shareholders	$ (4,124)	$ 182	$ (3,857)	$ 413
Weighted average shares outstanding	298,794,000	305,007,000	297,580,000	303,261,000
Basic EPS:				
Income from continuing operations before cumulative effect of accounting change	$ 0.54	$ 0.60	$ 1.32	$ 1.15
Discontinued Operations:				
Income from Reliant Resources, net of tax	0.16	--	0.28	--
Income (loss) from Other Operations, net of tax	--	--	--	(0.01)
Loss on disposal of Reliant Resources	(14.50)	--	(14.56)	--
Loss on disposal of Other Operations, net of tax	--	--	--	(0.04)
Cumulative effect of accounting change, net of minority interest and tax	--	--	--	0.26
Net income (loss) attributable to common shareholders	$ (13.80)	$ 0.60	$ (12.96)	$ 1.36
Diluted EPS Calculation:				
Net income attributable to common shareholders	$ (4,124)	$ 182	$ (3,857)	$ 413
Plus: Income impact of assumed conversions:				
Interest on 6 -1/4% convertible trust preferred securities	--	--	--	--
Total earnings effect assuming dilution	$ (4,124)	$ 182	$ (3,857)	$ 413
Weighted average shares outstanding	298,794,000	305,007,000	297,580,000	303,261,000
Plus: Incremental shares from assumed conversions (1):				
Stock options	1,000	911,000	194,000	727,000
Restricted stock	822,000	1,409,000	822,000	1,409,000
6 -1/4% convertible trust preferred securities	12,000	18,000	12,000	18,000
Weighted average shares assuming dilution	299,629,000	307,345,000	298,608,000	305,415,000
Diluted EPS:				
Income from continuing operations before cumulative effect of accounting change	$ 0.54	$ 0.60	$ 1.32	$ 1.14
Discontinued Operations:				
Income from Reliant Resources, net of tax	0.16	--	0.27	--
Income (loss) from Other Operations, net of tax	--	(0.01)	--	(0.01)
Loss on disposal of Reliant Resources	(14.47)	--	(14.51)	--
Loss on disposal of Other Operations, net of tax	--	--	--	(0.04)
Cumulative effect of accounting change, net of minority interest and tax	--	--	--	0.26
Net income (loss) attributable to common shareholders	$ (13.77)	$ 0.59	$ (12.92)	$ 1.35

- ----------

(1) For the three months ended September 30, 2002 and 2003, the computation of diluted EPS excludes 9,971,384 and 10,120,798 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $12.87 to $36.25 per share and $8.61 to $32.26 per share for the third quarter 2002 and 2003, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

For the nine months ended September 30, 2002 and 2003, the computation of diluted EPS excludes 6,182,661 and 10,154,908 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $16.15 to $36.25 per share and $7.86 to $32.26 per share for the first nine months of 2002 and 2003, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

(14) 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 Company has identified the following reportable business segments: Electric Transmission & Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering and Other Operations. 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. Additionally, the Company's Latin America operations and its energy management services business, which were previously reported in the Other Operations business segment, are presented as discontinued operations within these consolidated financial statements. Reportable business segments for all prior periods presented have been restated to conform to the 2003 presentation.

In the second quarter of 2003, the Company began to evaluate business segment performance on an operating income basis. Operating income is shown because it is the measure that the chief operating decision maker uses to evaluate performance and allocate resources. Additionally, it is a widely accepted measure of financial performance prepared in accordance with GAAP. Prior to the second quarter of 2003, the Company evaluated performance on an earnings before interest expense, minority interest and income taxes (EBIT) basis. Historically, the difference between EBIT reported on a segment basis and operating income on a segment basis has not been material.

Financial data for the Company's reportable business segments are as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002		
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
	(IN MILLIONS)		
Electric Transmission & Distribution	$ 660(2)	$ --	$ 399
Electric Generation	526(3)	--	7
Natural Gas Distribution	670	11	(4)
Pipelines and Gathering	60	28	43
Other Operations	1	6	(14)
Eliminations	--	(45)	--
Consolidated	$1,917	$ --	$ 431

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003		
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
	(IN MILLIONS)		
Electric Transmission & Distribution	$ 654(2)	$--	$ 383
Electric Generation	657(3)	--	125
Natural Gas Distribution	880	17	(5)
Pipelines and Gathering	55	34	39
Other Operations	4	4	7
Eliminations	--	(55)	--
Consolidated	$2,250	$--	$ 549

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002			AS OF DECEMBER 31, 2002
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Transmission & Distribution (1)	$1,757(4)	$ --	$ 927	$ 9,098
Electric Generation	1,210(5)	56	(74)	4,389
Natural Gas Distribution	2,629	29	114	4,051
Pipelines and Gathering	194	88	119	2,481
Other Operations	3	18	(13)	1,345
Discontinued Operations	--	--	--	63
Eliminations	--	(191)	--	(1,720)
Consolidated	$5,793	$ --	$ 1,073	$ 19,707

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003			AS OF SEPTEMBER 30, 2003
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME	TOTAL ASSETS
	(IN MILLIONS)			
Electric Transmission & Distribution	$1,583(4)	$--	$ 823	$ 9,778
Electric Generation	1,594(5)	--	158	4,623
Natural Gas Distribution	3,862	51	146	3,723
Pipelines and Gathering	189	131	124	2,607
Other Operations	13	13	5	1,026
Discontinued Operations	--	--	--	28
Eliminations	--	(195)	--	(1,726)
Consolidated	$7,241	$--	$1,256	$ 20,059

(1) Retail customers remained regulated customers of Reliant Energy HL&P, then an unincorporated division of Reliant Energy, through the date of their first meter reading in January 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission & Distribution business segment.

(2) Sales to subsidiaries of Reliant Resources for the three months ended September 30, 2002 and 2003 represented approximately $298 million and $290 million, respectively, of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002.

(3) Sales to subsidiaries of Reliant Resources for the three months ended September 30, 2002 and 2003 represented approximately 69% and 76%, respectively, of Texas Genco's total revenues. Sales to a major customer for the three months ended September 30, 2002 and 2003 represented approximately 17% and 10%, respectively, of Texas Genco's total revenues.

(4) Sales to subsidiaries of Reliant Resources for the nine months ended September 30, 2002 and 2003 represented approximately $661 million and $727 million, respectively, of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002.

(5) Sales to subsidiaries of Reliant Resources for the nine months ended September 30, 2002 and 2003 represented approximately 67% and 72%, respectively, of Texas Genco's total revenues. Sales to a major customer for the nine months ended September 30, 2002 and 2003 represented approximately 13% and 10%, respectively, of Texas Genco's total revenues.

(15) SUBSEQUENT EVENT

On November 5, 2003, the Company's board of directors declared a quarterly cash dividend of $0.10 per share of common stock payable on December 10, 2003 to shareholders of record as of the close of business on November 17, 2003.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CENTERPOINT ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in combination with our Interim Financial Statements contained in this report.

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 operating subsidiaries own and operate electric generation plants, electric transmission and distribution facilities, natural gas distribution facilities and natural gas pipelines. We are a registered holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). For information about the 1935 Act, see "Liquidity and Capital Resources -- Future Sources and Uses of Cash Flows -- Certain Contractual and Regulatory Limits on Ability to Issue Securities." Our indirect wholly owned subsidiaries include:

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

- CenterPoint Energy Resources Corp. (CERC Corp., and together with its subsidiaries, CERC), which owns and operates our local gas distribution companies, gas gathering systems and interstate pipelines.

We also have an approximately 81% ownership interest in Texas Genco Holdings, Inc. (Texas Genco), which owns and operates the Texas generating plants formerly belonging to the integrated electric utility that was a part of Reliant Energy. We distributed the remaining 19% of the outstanding common stock of Texas Genco to our shareholders on January 6, 2003.

At the time of Reliant Energy's corporate restructuring, it owned an 83% interest in Reliant Resources, Inc. (Reliant Resources), which conducts non-utility wholesale and retail energy operations primarily in North America and Western Europe. On September 30, 2002, we distributed that interest to our shareholders (the Reliant Resources Distribution).

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 (Texas Genco);

- 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. 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. For business segment reporting information, please read Notes 1 and 14 to our Interim Financial Statements.

Subsequent to December 31, 2002, we sold our remaining Latin America operations. The Interim Financial Statements present these Latin America operations 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).

In June 2003, we made a decision to sell a component of our Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. We recorded an after-tax loss in discontinued operations of $16.2 million ($25.0 million pre-tax) during the nine months ended September 30, 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time employee termination benefits. The Interim Financial Statements present these operations as discontinued operations in accordance with SFAS No. 144.

The Interim Financial Statements have been prepared to reflect the effect of the Reliant Resources Distribution on the CenterPoint Energy financial statements. The Interim Financial Statements present the Reliant Resources businesses (previously reported as Wholesale Energy, European Energy and Retail Energy business segments and related corporate costs) as discontinued operations, in accordance with SFAS No. 144.

RECENT DEVELOPMENTS

In July 2003, a steam line ruptured at Texas Genco's W.A. Parish coal facility damaging one of the facility's units and temporarily taking another unit offline. The unit was returned to service in September 2003. A three-week planned maintenance outage originally scheduled for November 2003 was advanced and conducted concurrent with the unplanned outage.

In October 2003, the Federal Energy Regulatory Commission (FERC) granted EWG status to Texas Genco, LP, the wholly owned subsidiary of Texas Genco that owns and operates its electric generating plants. As a result of the FERC's actions, Texas Genco, LP is exempt from all provisions of the 1935 Act and Texas Genco is no longer a public utility holding company within the meaning of the 1935 Act. Securities and Exchange Commission (SEC) approval will be required, however, for CenterPoint Energy and its affiliates to continue to provide goods and services to Texas Genco after December 31, 2003. Additional SEC approval would also be required for CenterPoint Energy to issue and sell securities for the purpose of funding Texas Genco, or for CenterPoint Energy to guarantee a security of Texas Genco. Also, SEC policy generally precludes borrowing by Texas Genco from CenterPoint Energy's utility subsidiaries.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Revenues	$ 1,917	$ 2,250	$ 5,793	$ 7,241
Operating Expenses	1,486	1,701	4,720	5,985
Operating Income	431	549	1,073	1,256
Gain (Loss) on Time Warner Investment	(82)	(21)	(530)	43
Gain (Loss) on Indexed Debt Securities	87	17	509	(39)
Interest Expense	(170)	(237)	(428)	(676)
Distribution on Trust Preferred Securities	(14)	--	(42)	(28)
Other, net	3	2	18	7
Income Tax Expense	(93)	(111)	(207)	(196)
Minority Interest	--	(16)	--	(20)
Income From Continuing Operations Before Cumulative Effect of Accounting Change	162	183	393	347
Discontinued Operations:				
Income From Reliant Resources, net of tax	48	--	82	--
Income (Loss) From Other Operations, net of tax	(1)	(1)	1	(2)
Loss on Disposal of Reliant Resources	(4,333)	--	(4,333)	--
Loss on Disposal of Other Operations, net of tax	--	--	--	(12)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	80
Net Income (Loss) Attributable to Common Shareholders	$(4,124)	$ 182	$(3,857)	$ 413
BASIC EARNINGS PER SHARE:				
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.54	$ 0.60	$ 1.32	$ 1.15
Discontinued Operations:				
Income From Reliant Resources, net of tax	0.16	--	0.28	--
Income (Loss) From Other Operations, net of tax	--	--	--	(0.01)
Loss on Disposal of Reliant Resources	(14.50)	--	(14.56)	--
Loss on Disposal of Other Operations, net of tax	--	--	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	0.26
Net Income (Loss) Attributable to Common Shareholders	$(13.80)	$ 0.60	$(12.96)	$ 1.36
DILUTED EARNINGS PER SHARE:				
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.54	$ 0.60	$ 1.32	$ 1.14
Discontinued Operations:				
Income From Reliant Resources, net of tax	0.16	--	0.27	--
Income (Loss) From Other Operations, net of tax	--	(0.01)	--	(0.01)
Loss on Disposal of Reliant Resources	(14.47)	--	(14.51)	--
Loss on Disposal of Other Operations, net of tax	--	--	--	(0.04)
Cumulative Effect of Accounting Change, net of minority interest and tax	--	--	--	0.26
Net Income (Loss) Attributable to Common Shareholders	$(13.77)	$ 0.59	$(12.92)	$ 1.35

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of $183 million ($0.60 per diluted share) for the three months ended September 30, 2003 as compared to $162 million ($0.54 per diluted share) for the same period in 2002. The increase in income from continuing operations of $21 million was primarily due to the following:

- a $118 million increase in operating income from our Electric Generation business segment; and

- a $21 million increase in operating income from our Other Operations business segment.

The above items were partially offset by:

- a $53 million increase in interest expense due to higher borrowing costs and increased debt levels and financing costs;

- an $18 million increase in income tax expense;

- a $16 million decrease in operating income from our Electric Transmission & Distribution business segment primarily due to a reduction in ECOM revenue discussed below;

- a $16 million change in minority interest;

- a net loss of $4 million in our Time Warner investment and our related indexed debt securities in 2003 as compared to a net gain of $5 million in 2002;

- a $4 million decrease in operating income from our Pipelines and Gathering business segment;

- a $1 million increase in operating loss from our Natural Gas Distribution business segment; and

- a $1 million decrease in other income.

Income Tax Expense. During the three months ended September 30, 2003 and 2002, our effective tax rates were 35.8% and 36.4%, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of $347 million ($1.14 per diluted share) for the nine months ended September 30, 2003 as compared to $393 million ($1.32 per diluted share) for the same period in 2002. The decrease in income from continuing operations of $46 million was primarily due to the following:

- a $234 million increase in interest expense due to higher borrowing costs and increased debt levels and financing costs;

- a $104 million decrease in operating income from our Electric Transmission & Distribution business segment primarily due to a reduction in ECOM revenue discussed below;

- a $20 million change in minority interest; and

- an $11 million decrease in other income.

The above items were partially offset by:

- a $232 million increase in operating income from our Electric Generation business segment;

- a $32 million increase in operating income from our Natural Gas Distribution business segment;

- a net gain of $4 million in our Time Warner investment and our related indexed debt securities in 2003 as compared to a net loss of $21 million in 2002;

- an $18 million increase in operating income from our Other Operations business segment;

- an $11 million decrease in income tax expense; and

- a $5 million increase in operating income from our Pipelines and Gathering business segment.

Income Tax Expense. During the nine months ended September 30, 2003 and 2002, our effective tax rates were 34.8% and 34.5%, respectively.

Cumulative Effect of Accounting Change. In connection with the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), 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 mine supplying the Limestone electric generation facility. The net difference between the amounts determined under SFAS No. 143 and the previous method of accounting for estimated mine reclamation costs was $37 million and has been recorded as a cumulative effect of accounting change. Upon adoption of SFAS No. 143, we reversed $115 million of previously recognized removal costs with respect to our non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was $152 million. Excluded from the $80 million after-tax cumulative effect of accounting change recorded during the three months ended March 31, 2003, is minority interest of $19 million related to the Texas Genco stock not owned by CenterPoint Energy. For additional discussion of the adoption of SFAS No. 143, please read Note 3 to our Interim Financial Statements.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

In the second quarter of 2003, we began to evaluate business segment performance on an operating income basis. Operating income is shown because it is the measure used by the chief operating decision maker to evaluate performance and allocate resources. Additionally, it is a widely accepted measure of financial performance prepared in accordance with GAAP. Prior to the second quarter of 2003, we evaluated performance on an earnings before interest expense, minority interest and income taxes (EBIT) basis. Historically, the difference between EBIT reported on a segment basis and operating income on a segment basis has not been material.

The following table presents operating income (loss) for each of our business segments for the three and nine months ended September 30, 2002 and 2003. Some amounts from the previous year have been reclassified to conform to the 2003 presentation of the financial statements. These reclassifications do not affect consolidated net income.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Electric Transmission & Distribution	$ 399	$ 383	$ 927	$ 823
Electric Generation	7	125	(74)	158
Natural Gas Distribution	(4)	(5)	114	146
Pipelines and Gathering	43	39	119	124
Other Operations	(14)	7	(13)	5
Total Consolidated Operating Income	$ 431	$ 549	$ 1,073	$1,256

ELECTRIC TRANSMISSION & DISTRIBUTION

For information regarding factors that may affect the future results of operations of our Electric Transmission & Distribution business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Electric Transmission & Distribution Business," " -- Risk Factors Associated with Our Consolidated Financial Condition" and " -- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference. In 2004, the discontinuation of non-cash operating income associated with generation-related regulatory assets, or Excess Cost Over Market (ECOM), as described below, is also expected to negatively impact our earnings.

The following tables provide summary data of our Electric Transmission & Distribution business segment for the three months and nine months ended September 30, 2002 and 2003:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues:				
Electric Revenues	$ 420	$ 432	$ 1,206	$ 1,128
ECOM True-Up	240	222	551	455
Total Operating Revenues	660	654	1,757	1,583
Operating Expenses:				
Purchased Power	--	--	56	--
Operation and Maintenance	130	139	401	398
Depreciation and Amortization	75	70	204	203
Taxes Other than Income Taxes	56	62	169	159
Total Operating Expenses	261	271	830	760
Operating Income	$ 399	$ 383	$ 927	$ 823
Residential throughput (in gigawatt-hours (GWh))(1)	7,966	8,134	18,735	19,183

- ---------------

(1) Usage volumes (KWh) for commercial and industrial customers are excluded from throughput because the majority of these customers are billed on a peak demand (KW) basis and, as a result, revenues do not vary based on consumption.

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

Our Electric Transmission & Distribution business segment reported operating income of $383 million for the three months ended September 30, 2003, consisting of $161 million for the regulated electric transmission and distribution utility and non-cash operating income of $222 million associated with ECOM, as described below. For the three months ended September 30, 2002, operating income was $399 million, consisting of $159 million for the regulated electric transmission and distribution utility and non-cash operating income of $240 million associated with ECOM.

The regulated electric transmission and distribution utility continues to benefit from solid customer growth. Revenues increased from the addition of over 50,000 metered customers since September 2002 ($13 million), partially offset by milder weather ($4 million).

Under the Texas electric restructuring law, a regulated utility may recover, in its 2004 stranded cost true-up proceeding, any difference between market prices received through the state mandated auctions from January 1, 2002 through December 31, 2003 and the Texas Utility Commission's earlier estimates of those market prices. During 2002 and 2003, this difference, referred to as ECOM, produced non-cash operating income and is recorded as a regulatory asset. The reduction in ECOM True-Up revenue of $18 million from 2002 to 2003 is primarily a result of higher capacity auction prices for Texas Genco for this period in 2003 compared to the same period in 2002.

Operation and maintenance expense increased $9 million for the three months ended September 30, 2003 as compared to the same period in 2002 primarily due to higher pension and employee benefit expenses of $7 million.

Depreciation and amortization expense decreased $5 million for the three months ended September 30, 2003 as compared to the same period in 2002 due to decreased amortization of securitized assets ($7 million), partially offset by increases in plant in service ($2 million). The amortization of securitized assets is offset by revenue from non-bypassable transition charges payable by retail electric customers.

Taxes other than income taxes increased $6 million for the three months ended September 30, 2003 as compared to the same period in 2002 primarily due to increased property taxes ($2 million) and increased city franchise fees ($4 million).

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Our Electric Transmission & Distribution business segment reported operating income of $823 million for the nine months ended September 30, 2003, consisting of $368 million for the regulated electric transmission and distribution utility and non-cash operating income of $455 million associated with ECOM. For the nine months ended September 30, 2002, operating income was $927 million, consisting of $376 million for the regulated electric transmission and distribution utility and non-cash operating income of $551 million associated with ECOM. Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of the regulated utility during a transition period through the date of their first meter reading in 2002. The purchased power costs of $56 million for the nine months ended September 30, 2002 relate to operation of the regulated utility during this transition period.

Increased revenues from customer growth ($33 million) and positive impacts of weather ($1 million) were more than offset by transition period revenues occurring in 2002 only ($98 million) and decreased industrial demand.

The reduction in ECOM True-Up revenue of $96 million from 2002 to 2003 primarily resulted from higher capacity auction prices for Texas Genco for this period in 2003 compared to the same period in 2002.

Operation and maintenance expense decreased $3 million for the nine months ended September 30, 2003 as compared to the same period in 2002. The decrease was primarily due to a reduction in bad debt expense related to the 2002 transition period revenues ($14 million), decreased transmission cost of service ($5 million) and the termination of a factoring program ($3 million). These decreases were partially offset by increased employee benefit expenses primarily due to increased pension costs ($16 million) and increased insurance expenses ($3 million).

Depreciation and amortization expense decreased $1 million for the nine months ended September 30, 2003 as compared to the same period in 2002 primarily due to decreased amortization of securitized assets ($9 million), partially offset by increases in plant in service ($7 million). The amortization of securitized assets is offset by revenue from non-bypassable transition charges payable by retail electric customers.

Taxes other than income taxes decreased $10 million for the nine months ended September 30, 2003 as compared to the same period in 2002 primarily due to gross receipts tax associated with transition period revenue in the first quarter of 2002 ($9 million) and decreased state franchise taxes ($6 million), partially offset by increased city franchise fees ($3 million) and increased property taxes ($3 million).

ELECTRIC GENERATION

For information regarding factors that may affect the future results of operations of our Electric Generation business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Electric Generation Business," " -- Risk Factors Associated with Our Consolidated Financial Condition" and " -- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

The following tables provide summary data of our Electric Generation business segment for the three months and nine months ended September 30, 2002 and 2003:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues:				
Energy Revenues	$ 346	$ 404	$ 894	$ 1,006
Capacity and Other Revenues	180	253	372	588
Total Operating Revenues	526	657	1,266	1,594
Operating Expenses:				
Fuel and Purchased Power	372	386	901	978
Operation and Maintenance	98	100	272	311
Depreciation and Amortization	39	41	118	119
Taxes Other than Income Taxes	10	5	49	28
Total Operating Expenses	519	532	1,340	1,436
Operating Income (Loss)	$ 7	$ 125	$ (74)	$ 158
Power Sales (in GWh)	15,476	14,534	41,923	36,327

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

Our Electric Generation business segment reported operating income of $125 million for the three months ended September 30, 2003 compared to operating income of $7 million for the three months ended September 30, 2002. The $118 million improvement was primarily attributable to increased margins from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, partially offset by increased fuel costs due to higher natural gas prices and lower sales volumes. Due to the operating flexibility of some of the gas units, Texas Genco was able to partially mitigate the higher cost of natural gas by switching from natural gas to fuel oil.

Operation and maintenance expense increased $2 million for the three months ended September 30, 2003 as compared to the same period in 2002. The increase was primarily due to higher pension and employee benefits ($5 million), scheduled plant outages ($3 million) and repairs to South Texas Project Unit 1 and W.A. Parish Unit 8 ($4 million), partially offset by timing of technical support costs ($8 million).

Taxes other than income taxes decreased $5 million for the three months ended September 30, 2003 as compared to the same period in 2002. This decrease was primarily attributable to a reduction in property taxes due to lower property valuations.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Our Electric Generation business segment reported operating income of $158 million for the nine months ended September 30, 2003 compared to a loss of $74 million for the nine months ended September 30, 2002. The $232 million improvement was primarily attributable to increased margins from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, partially offset by increased fuel costs due to higher natural gas prices and lower sales volumes. Due to the operating flexibility of some of the gas units, Texas Genco was able to partially mitigate the higher cost of natural gas by switching from natural gas to fuel oil.

Operation and maintenance expense increased $39 million for the nine months ended September 30, 2003 as compared to the same period in 2002. The increase was primarily due to repairs on South Texas Project Unit 1 and W.A. Parish Unit 8 ($8 million), an unplanned outage on South Texas Project Unit 2 ($4 million), a planned refueling outage on South Texas Project Unit 1 without a comparable outage in 2002 ($6 million), higher pension and employee benefit costs ($9 million), timing of technical support expenses ($2 million) and increased insurance and other expenses ($8 million).

Taxes other than income taxes decreased $21 million for the nine months ended September 30, 2003 as compared to the same period in 2002. This decrease was primarily attributable to a reduction in state franchise taxes that are no longer applicable in 2003 ($12 million) and a reduction in property taxes due to lower property valuations ($9 million).

NATURAL GAS DISTRIBUTION

Our Natural Gas Distribution business segment's operations consist of 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.

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Natural Gas Distribution and Pipelines and Gathering Businesses," " -- Risk Factors Associated with Our Consolidated Financial Condition" and " -- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

The following table provides summary data of our Natural Gas Distribution business segment for the three months and nine months ended September 30, 2002 and 2003:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues	$ 681	$ 897	$ 2,658	$ 3,913
Operating Expenses:				
Natural Gas	509	713	1,997	3,168
Operation and Maintenance	125	133	381	417
Depreciation and Amortization	32	34	94	101
Taxes Other than Income Taxes	19	22	72	81
Total Operating Expenses	685	902	2,544	3,767
Operating Income (Loss)	$ (4)	$ (5)	$ 114	$ 146
Throughput (in billion cubic feet (Bcf)):				
Residential and Commercial	35	32	216	224
Industrial	9	12	33	36
Transportation	14	10	42	36
Non-rate Regulated Commercial and Industrial	130	120	346	365
Total Throughput	188	174	637	661

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

Our Natural Gas Distribution business segment's operating loss increased $1 million for the three months ended September 30, 2003 as compared to the same period in 2002. Operating margins (revenues less fuel costs) for the three months ended September 30, 2003 were $12 million higher than in the same period in 2002 primarily because of:

- higher revenues from rate increases implemented late in 2002 ($6 million);

- increased usage ($5 million);

- continued customer growth ($3 million); and

- increased franchise fees billed to customers ($2 million),

partially offset by reduced margins from our unregulated commercial and industrial sales ($4 million).

Operation and maintenance expense increased $8 million for the three months ended September 30, 2003 as compared to the same period in 2002. The increase in operations and maintenance expense was primarily due to:

- higher employee benefit expenses primarily due to increased pension costs ($4 million);

- certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared with being included in interest expense in the prior year ($2 million); and

- increased bad debt expense primarily due to higher gas prices ($1 million).

Depreciation and amortization expense increased $2 million for the three months ended September 30, 2003 as compared to the same period in 2002 primarily as a result of increases in plant in service.

Taxes other than income taxes increased $3 million for the three months ended September 30, 2003 as compared to the same period in 2002 primarily due to franchise fees resulting from higher revenues ($2 million).

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Our Natural Gas Distribution business segment's operating income increased $32 million for the nine months ended September 30, 2003 as compared to the same period in 2002. Operating margins (revenues less fuel costs) for the nine months ended September 30, 2003 were $84 million higher than in the same period in 2002 primarily because of:

- higher revenues from rate increases implemented late in 2002 ($30 million);

- increased usage ($10 million);

- increased franchise fees billed to customers ($9 million);

- improved margins from our unregulated commercial and industrial sales ($8 million);

- continued customer growth ($8 million);

- increased miscellaneous service revenues and forfeited discounts ($5 million); and

- colder weather ($4 million).

Operation and maintenance expense increased $36 million for the nine months ended September 30, 2003 as compared to the same period in 2002. The increase in operations and maintenance expense was primarily due to:

- higher employee benefit expenses primarily due to increased pension costs ($16 million);

- certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared with being included in interest expense in the prior year ($9 million); and

- increased bad debt expense primarily due to colder weather and higher gas prices ($3 million).

Depreciation and amortization expense increased $7 million for the nine months ended September 30, 2003 as compared to the same period in 2002 primarily as a result of increases in plant in service.

Taxes other than income taxes increased $9 million for the nine months ended September 30, 2003 as compared to the same period in 2002 due to franchise fees resulting from higher revenue.

PIPELINES AND GATHERING

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

For information regarding factors that may affect the future results of operations of our Pipelines and Gathering business segment, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Natural Gas Distribution and Pipelines and Gathering Businesses," " -- Risk Factors Associated with Our Consolidated Financial Condition" and " -- Other Risks" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

The following table provides summary data of our Pipelines and Gathering business segment for the three months and nine months ended September 30, 2002 and 2003:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues	$ 88	$ 89	$ 282	$ 320
Operating Expenses:				
Natural Gas	3	5	20	62
Operation and Maintenance	27	31	99	90
Depreciation and Amortization	11	10	31	31
Taxes Other than Income Taxes	4	4	13	13
Total Operating Expenses	45	50	163	196
Operating Income	$ 43	$ 39	$ 119	$ 124
Throughput (in Bcf):				
Sales	1	1	12	9
Transportation	192	159	633	630
Gathering	72	73	213	219
Elimination (1)	(1)	--	(2)	(4)
Total Throughput	264	233	856	854

- ----------
(1) Elimination of volumes both transported and sold.

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

Our Pipelines and Gathering business segment's operating income for the three months ended September 30, 2003 compared to the same period in 2002 decreased $4 million. Operating margins (revenues less natural gas costs) were $1 million lower for the three months ended September 30, 2003 than in the same period in 2002.

Operation and maintenance expenses increased $4 million for the three months ended September 30, 2003 compared to the same period in 2002 primarily due to higher pension, employee benefit and other miscellaneous expenses.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Our Pipelines and Gathering business segment's operating income for the nine months ended September 30, 2003 compared to the same period in 2002 increased $5 million. Operating margins (revenues less natural gas costs) were $4 million lower for the nine months ended September 30, 2003 than in the same period in 2002 primarily due to:

- reduced project-related revenues ($16 million); and

- a one-time refund of a tax on fuel in 2002 ($3 million), partially offset by;

- higher commodity prices ($8 million);

- improved margins from new transportation contracts to power plants ($5 million); and

- improved margins from enhanced services in our gas gathering operations ($4 million).

Operation and maintenance expenses decreased $9 million for the nine months ended September 30, 2003 compared to the same period in 2002 primarily due to the decrease in project-related costs ($16 million), partially offset by higher pension, employee benefit and other miscellaneous expenses.

OTHER OPERATIONS

Our Other Operations business segment includes other corporate operations that support all of our business operations.

The following table provides summary data of our Other Operations business segment for the three months and nine months ended September 30, 2002 and 2003:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003	2002	2003
	(IN MILLIONS)			
Operating Revenues	$ 7	$ 8	$ 21	$ 26
Operating Expenses	21	1	34	21
Operating Income (Loss)	$ (14)	$ 7	$ (13)	$ 5

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2002

Our Other Operations business segment's operating income for the three months ended September 30, 2003 compared to the same period in 2002 increased $21 million primarily due to a decrease in unallocated corporate costs and corporate accruals ($8 million), a decrease in business separation costs ($3 million) and a decrease in property taxes ($3 million).

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2002

Our Other Operations business segment's operating income for the nine months ended September 30, 2003 compared to the same period in 2002 increased $18 million primarily due to a decrease in unallocated corporate costs and corporate accruals ($15 million) and a decrease in business separation costs ($3 million).

DISCONTINUED OPERATIONS

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

On September 30, 2002, we distributed to our shareholders on a pro rata basis all of the shares of Reliant Resources common stock owned by us. The Interim Financial Statements have been prepared to reflect the effect of the Reliant Resources Distribution as described above on our Interim Financial Statements. The Interim Financial Statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) as discontinued operations. We recorded after-tax income from discontinued operations of $48 million and $82 million for the three months and nine months ended September 30, 2002, respectively, related to the operations of Reliant Resources. As a result of the spin-off of Reliant Resources, we recorded a non-cash loss on disposal of discontinued operations of $4.3 billion in the third quarter of 2002.

In June 2003, we made a decision to sell a component of our Other Operations business segment, CEMS, that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. We recorded an after-tax loss in discontinued operations of $16 million ($25 million pre-tax) during the three months ended June 30, 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time termination benefits. The Interim Financial Statements present these operations as discontinued operations in accordance with SFAS No. 144.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data -- Certain Factors Affecting Future Earnings" in Exhibit 99.1 to the Current Report on Form 8-K dated November 7, 2003 (November 7, 2003 Form 8-K), and "Risk Factors" in Item 5 of Part II of this report, each of which is incorporated herein by reference.

In addition to these factors, increased borrowing costs and increased pension expense are expected to negatively impact our earnings in 2003. In 2004, the discontinuation of non-cash operating income associated with ECOM is also expected to negatively impact our earnings.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2002 and 2003:

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ 177	$ 435
Investing activities	(565)	(482)
Financing activities	473	(243)

Net cash provided by operating activities during the nine months ended September 30, 2003 increased $258 million compared to the same period in 2002 primarily due to increased earnings from our Electric Generation business segment as a result of higher capacity auction prices, which are driven by higher gas prices. Additionally, decreases in accounts receivable and accrued unbilled revenues and increases in accrued taxes and interest contributed to the increase in net cash provided by operating activities. These increases in cash flow were partially offset by the non-recurrence of recovery of fuel costs by our Electric Transmission & Distribution business segment in 2002 and an increase in taxes receivable in 2003.

Net cash used in investing activities decreased $83 million during the nine months ended September 30, 2003 compared to the same period in 2002 primarily due to lower capital expenditures in 2003 related to our Electric Transmission & Distribution and Electric Generation business segments.

Net cash used in financing activities increased $716 million during the nine months ended September 30, 2003 compared to the same period in 2002 primarily due to a decrease in short-term borrowings, partially offset by an increase in net proceeds from long-term debt.

FUTURE SOURCES AND USES OF CASH

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

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).

In 2003, we and our subsidiaries completed several capital market and bank financing transactions which, collectively, converted a significant amount of our interest payment obligations from floating rates to fixed rates, reduced current maturities of long-term debt (excluding maturities of transition bonds issued by a special purpose entity) from $792 million at December 31, 2002 to $269 million at September 30, 2003 and extended the termination date of our credit facility to October 2006. Our 2003 capital market transactions included the following:

- In May, we issued $575 million aggregate principal amount of 3.75% convertible senior notes due 2023, $200 million aggregate principal amount of 5.875% senior notes due 2008 and $200 million aggregate principal amount of 6.85% senior notes due 2015. In addition, in April, we remarketed $175 million aggregate principal amount of pollution control tax-exempt bonds that we had owned since the fourth quarter of 2002, consisting of $100 million bearing interest at 7.75% due 2018 and $75 million bearing interest at 8% due 2029. In July, we remarketed $151 million aggregate principal amount of insurance-backed pollution control bonds due 2015, reducing the interest rate from 5.8% to 4%. In September, we issued $200 million aggregate principal amount of 7.25% senior notes due 2010. Proceeds from these financings, as well as certain funds received from the repayment by CenterPoint Houston of intercompany debt, were used to reduce the size of our bank facility from $3.85 billion at December 31, 2002 to $2.36 billion at September 30, 2003. In October, we refinanced the $2.36 billion bank facility having a termination date of June 2005 with a $2.35 billion credit facility having a termination date of October 2006, reducing the drawn cost of the amount remaining outstanding from LIBOR plus 450 basis points to LIBOR plus 350 basis points on the $925 million term loan and LIBOR plus 300 basis points on the $1.425 billion revolver. At the time of the refinancing, $1.9 billion was borrowed under the $2.36 billion credit facility, comprised of $1.0 billion borrowed under the revolver and $856 million borrowed under the term loan. For additional information on the new $2.35 billion credit facility, see Note 9(b) to our Interim Financial Statements.

- In March and May, CenterPoint Houston issued $962.3 million aggregate principal amount of its general mortgage bonds, consisting of $450 million bearing interest at 5.70% due 2013, $312.3 million bearing interest at 6.95% due 2033 and $200 million bearing interest at 5.60% due 2023. Proceeds were used by CenterPoint Houston to redeem $512.3 million aggregate principal amount of its first mortgage bonds ($250 million at 7.75% due 2023, $62.3 million at 8.75% due 2022 and $200 million at 7.5% due 2023) and to repay $429 million of intercompany notes payable to us and bearing interest at a weighted average rate of 6.11%. We used proceeds from the intercompany note repayment to repay $150 million of 6.5% medium-term notes due in April 2003, $229 million of revolving credit borrowings under our bank facility and $50 million of the term loan under our bank facility. In September, CenterPoint Houston issued $300 million aggregate principal amount of its 5.75% general mortgage bonds due 2014. Proceeds were used by CenterPoint Houston to repay approximately $258 million of intercompany notes payable to us bearing interest at a rate of 5.9% and to repay approximately $40 million in money pool borrowings bearing interest at a rate of 6.2%. We used proceeds from the intercompany note and money pool repayments to repay approximately $292 million of the term loan under our former bank facility.

- In March and April, CERC issued $762 million aggregate principal amount of its 7.875% senior notes due 2013, the proceeds from which were used to refinance $360 million aggregate principal amount of CERC's 6-3/8% Term Enhanced ReMarketable Securities (TERM Notes) maturing in November 2003, pay the cost of terminating a remarketing option relating to those securities and repay approximately $340 million of bank borrowings bearing interest at 1.575% under CERC's $350 million credit facility having a termination date of March 31, 2003. CERC replaced the matured credit facility with a new $200 million revolving credit facility that terminates in March 2004. On November 3, 2003, CERC issued $160 million aggregate principal amount of its 5.95% senior unsecured notes due 2014. CERC accepted $140 million aggregate principal amount of CERC's TERM Notes and $1.25 million as consideration for the notes. CERC retired the TERM notes received and used the remaining proceeds to finance remaining costs of issuance of the notes and for general corporate purposes.

We have $840 million of outstanding 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (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 Time Warner common stock (TW Common). There are 1.5 reference shares of TW Common for each of the 17.2 million ZENS units originally issued (of which approximately 16% were exchanged for cash in the amount of approximately $45 million in 2002). The exchange market value is calculated using the average closing price per share of 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 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 TW Common offset the cash paid on exchanges, ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and TW Common become current tax obligations when ZENS are exchanged and TW Common is sold. There have been no ZENS exchanges in 2003.

CenterPoint Houston has outstanding approximately $499 million aggregate principal amount of first mortgage bonds and approximately $3.1 billion aggregate principal amount of general mortgage bonds, of which approximately $924 million combined aggregate principal amount of first mortgage bonds and general mortgage bonds collateralizes debt of CenterPoint Energy. The lien of the general mortgage indenture (under which the general mortgage bonds are issued) is junior to that of the first mortgage indenture (under which the first mortgage bonds are issued). The aggregate amount of incremental general mortgage bonds and first mortgage bonds that could be issued is approximately $400 million based on estimates of the value of CenterPoint Houston's property encumbered by the general mortgage, the cost of such property, the amount of retired bonds that could be used as the basis for issuing new bonds and the 70% bonding ratio contained in the general mortgage. However, contractual limitations on CenterPoint Houston expiring in November 2005 limit the incremental aggregate amount of first mortgage and general mortgage bonds that may be issued to $200 million. Generally, first mortgage bonds and general mortgage bonds can be issued to refinance outstanding first mortgage bonds or general mortgage bonds in the same principal amount.

The Texas electric restructuring law allows the former integrated utility to recover its stranded costs in order to recover its generation investment in a "true-up" proceeding to be held in 2004 (2004 True-Up Proceeding). Following the unbundling of the integrated utility into its components, CenterPoint Houston remains a regulated transmission and distribution utility through which stranded investment is recovered. Since CenterPoint Houston does not own the once-regulated generating assets, it is obligated to distribute recovery of stranded investment to CenterPoint Energy, the ultimate owner of these generation assets.

The $396 million impairment that was recorded in the first quarter of 2003 related to the partial distribution of our investment in Texas Genco. Since this amount is expected to be recovered in the 2004 True-Up Proceeding, CenterPoint Houston has recorded a regulatory asset, reflecting its right to recover this amount, and an associated payable to us. Any additional impairment or loss that CenterPoint Energy incurs on its Texas Genco investment that CenterPoint Houston expects to recover as stranded investment will be recorded in the same manner.

One of our indirect finance subsidiaries, CenterPoint Energy Transition Bond Company, LLC, has $717 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 recourse only to the assets or revenues of the transition bond company, and our other creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the transition bond company. CenterPoint Houston, the transition bond company's direct parent company, 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, the transition bond company and other parties.

Short-Term Debt and Receivables Facility. CERC's revolver and receivables facility are scheduled to terminate on the dates indicated. Please read Note 9(c) to our Interim Financial Statements regarding CERC's receivables facility.

BORROWER/SELLER	TYPE OF FACILITY	AMOUNT OF FACILITY	AMOUNT OUTSTANDING AS OF SEPTEMBER 30, 2003	TERMINATION DATE
		(IN MILLIONS)		
CERC	Receivables	$ 100 (1)	$ 68	November 14, 2003
CERC Corp.	Revolver	200	55	March 23, 2004
Total		$ 300	$ 123	

- ----------

(1) The commitment to purchase receivables expires November 14, 2003. Purchases of receivables under the related uncommitted facility may occur until November 12, 2005.

Rates for borrowings under CERC Corp.'s revolving credit facility, including the facility fee, are LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid.

Effective June 25, 2003, we elected to reduce the purchase limit under the CERC receivables facility from $150 million to $100 million. The bankruptcy remote subsidiary established to purchase and subsequently sell receivables makes such purchases with a combination of cash and subordinated notes. In July 2003, the subordinated notes owned by CERC were pledged to a gas supplier to secure obligations incurred in connection with the purchase of gas by CERC. In the fourth quarter of 2003, we plan to extend the existing committed facility for one year or replace the receivables facility with a committed one-year receivables facility.

On September 30, 2003, we had no 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 was required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. In accordance with the October 3, 2001 order, CenterPoint Houston recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation and in January 2002 CenterPoint Houston began refunding excess mitigation credits, which are to be refunded over a seven-year period. The annual refund of excess mitigation credits is approximately $237 million. Under the Texas electric restructuring law, a final determination of these stranded costs will occur in the 2004 True-Up Proceeding. CenterPoint Houston is currently seeking authority from the Texas Utility Commission to terminate these refunds based on preliminary estimates of what that final determination will be. This case is still pending before the Texas Utility Commission.

Cash Requirements in 2003 and 2004. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. Our principal cash requirements during the last three months of 2003 and during 2004 include the following:

- approximately $912 million of capital expenditures, of which $215 million relates to the fourth quarter of 2003;
- an estimated $291 million in refunds of excess mitigation credit as described above, of which approximately $53 million relates to the fourth quarter of 2003;
- dividend payments on CenterPoint Energy common stock;
- $16.6 million of maturing long-term debt;

- up to $100 million in the event CERC's committed receivables facility is not replaced or extended; and

- maturity of any borrowings under CERC's $200 million revolving credit agreement.

We expect that revolving credit borrowings, anticipated cash flows from operations and, to the extent permitted by our bank facility and CenterPoint Houston's term loan, proceeds from possible capital market transactions, will be sufficient to meet our cash needs for the remainder of 2003 and 2004. The $2.35 billion credit facility we obtained in October 2003 provides that, until such time as the credit facility has been reduced to $750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of stranded costs, after making any payments required under CenterPoint Houston's term loan, and the net cash proceeds of any sales of the common stock of Texas Genco that we own or of material portions of Texas Genco's assets shall be applied to repay loans under our credit facility and reduce the credit facility. Our $2.35 billion credit facility contains no other restrictions with respect to our use of proceeds from financing activities. CenterPoint Houston's term loan limits, subject to certain exceptions, the application of proceeds from capital markets transactions by CenterPoint Houston over $200 million to repayment of debt existing in November 2002. If we are unable to obtain external financings to meet our future capital requirements on terms that are acceptable to us, our financial condition and future results of operations could be materially and adversely affected. 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. Such terms may negatively impact our ability to operate our business or may restrict distributions from our subsidiaries.

At September 30, 2003, CenterPoint Energy had a shelf registration statement covering 15 million shares of common stock and CERC Corp. had a shelf registration statement covering $50 million 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:

- 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.

We may access the bank and capital markets to refinance debt that is not scheduled to mature in the next twelve months.

Principal Factors Affecting Cash Requirements in 2004 and 2005. We anticipate selling our 81% ownership interest in Texas Genco in 2004. It is possible that Reliant Resources may decline to exercise its option to purchase our interest in Texas Genco. We have engaged a financial advisor to assist us in exploring alternatives for monetizing Texas Genco's assets in the event the Reliant Resources option is not exercised, 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 based on the current stock price of Texas Genco and Texas Utility Commission rules.

We expect that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will issue securitization bonds to monetize and recover its stranded costs, any regulatory assets not previously securitized by the October 2001 issuance of transition bonds and, to the extent permitted by the Texas Utility Commission, the balance of the other true-up components. 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 providers required to take delivery service from CenterPoint Houston. The holders of the new securitization bonds would have recourse only to the assets or revenues of the issuer of the new securitization bonds, and our other creditors would not have recourse to any assets or revenues of that issuer. 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 required to be utilized to reduce our credit facility as discussed above.

Impact on Liquidity of a Downgrade in Credit Ratings. As of October 7, 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		S&P		FITCH	
COMPANY/INSTRUMENT	RATING	OUTLOOK/ REVIEW(1)	RATING	OUTLOOK(2)	RATING	OUTLOOK(3)
CenterPoint Energy Senior Unsecured Debt	Ba1	Review for Downgrade	BBB-	Stable	BBB-	Stable
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds)	Baa2	Outlook Negative	BBB	Stable	BBB+	Stable
CERC Corp. Senior Debt	Ba1	Outlook Negative	BBB	Stable	BBB	Stable

- ----------

(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 Moody's review for downgrade reflects concerns which may lead to a downgrade in a shorter time period than the horizon for a "negative" outlook.

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

(3) A "stable" outlook from Fitch indicates that the rating is not likely to change over a one- to two-year period.

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

A decline in credit ratings would increase borrowing costs under the revolving portion of our credit facility and increase the facility fees and borrowing cost under CERC's $200 million revolving credit facility. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions. If we were unable to maintain an investment-grade rating from at least one rating agency, as a registered public utility holding company we would be required to obtain further approval from the SEC for any additional capital markets transactions.

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 our bank facilities generally relate to an event, development or circumstance that has or would reasonably be expected to have a material adverse effect on (a) the business, financial condition or operations of the borrower and its subsidiaries taken as a whole, or (b) the legality, validity or enforceability of the loan documents.

The $100 million receivables facility of CERC 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 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 TW Common that we own or from other sources. We own shares of TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and TW Common become current tax obligations when ZENS are exchanged and 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 natural gas 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 October 31, 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 $29 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Under our bank facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding $50 million by us or any of our significant subsidiaries will cause a default. Pursuant to our indenture dated as of May 19, 2003 with JPMorgan Chase Bank, as supplemented, a payment default by us, CERC Corp. or CenterPoint Houston in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of $50 million will cause a default. Our 3.75% senior convertible notes due 2023, our 5.875% senior notes due 2008, our 6.85% senior notes due 2015 and our 7.25% senior notes due 2010 are issued under this indenture. A default by CenterPoint Energy would not trigger a default under our subsidiaries' debt instruments.

Pension Plan. As discussed in Note 11(b) of the notes to the consolidated financial statements included in Exhibit 99.2 to the November 7, 2003 Form 8-K (CenterPoint Energy Notes), which is incorporated herein by reference, we maintain a non-contributory pension plan covering substantially all employees. At December 31, 2002, the projected benefit obligation exceeded the market value of plan assets by $496 million. In September 2003, we elected to make a $22.7 million contribution to our pension plan. As a result, we will not be required to make any contributions to our pension plan prior to 2005. Changes in interest rates and the market values of the securities held by the plan during 2003 could materially, positively or negatively, change our underfunded status and affect the level of pension expense and required contributions in 2004 and beyond. For example, every .5% difference in our actual 2003 asset returns versus our assumed 9% long-term asset return rate would increase or decrease the underfunded status of our plans by approximately $5 million and our 2004 pension expense by approximately $1 million. Similarly, a .5% change in the discount rate used to value pension liabilities at December 31, 2003, could increase or decrease the underfunded status of our plans by approximately $100 million and 2004 pension expense by approximately $10 million. Actual investment returns and changes in the discount rate during 2003 will have no effect on our 2003 pension expense. Additionally, we expect that a separate pension plan will be established for Texas Genco prior to its disposition. Texas Genco would receive an allocation of assets from the CenterPoint Energy pension plan pursuant to rules and regulations under the Employee Retirement Income Security Act of 1974 and record its pension obligations in accordance with SFAS No. 87, "Employer's Accounting for Pensions." It is anticipated that a plan established for Texas Genco would be underfunded and that such underfunding could be significant. Changes in interest rates and the market values of the securities held by the CenterPoint Energy pension plan during 2003 could materially, positively or negatively, change the funding status of a plan established for Texas Genco.

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

- cash collateral requirements that could exist in connection with certain contracts, including our gas purchases, gas price hedging and gas storage activities of our Natural Gas Distribution business segment, particularly given gas price levels and volatility;

- acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of suppliers;

- increased costs related to the acquisition of gas for storage;

- increases in interest expense in connection with debt refinancings;

- various regulatory actions; and

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

Money Pool. We have a "money pool" through which our participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money pool's net funding requirements are expected to be met with bank loans. Prior to October 2003, Texas Genco participated in this money pool. Following Texas Genco's certification by FERC as an "exempt wholesale generator" under the 1935 Act, it can no longer participate with our utility subsidiaries in the same money pool. We have established a second money pool in which Texas Genco and certain of our other unregulated subsidiaries can participate. It is anticipated that Texas Genco will meet its cash needs with a combination of funds from operations, borrowings from us and funds obtained through the new money pool. Except in an emergency situation (in which we could provide funding pursuant to applicable SEC rules), we would be required to obtain approval from the SEC to issue and sell securities for purposes of funding Texas Genco's operations or for us to guarantee a security of Texas Genco. The terms of both money pools are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act and the June 2003 Financing Order.

Certain Contractual and Regulatory Limits on Ability to Issue Securities. Factors affecting our ability to issue securities or take other actions to adjust our capitalization include:

- covenants and other provisions in our credit facilities and the credit facilities and receivables facility of our subsidiaries and other borrowing agreements; and

- limitations imposed on us as a registered public utility holding company under the 1935 Act.

The collateralized term loan of CenterPoint Houston limits CenterPoint Houston's debt, excluding transition bonds, as a percentage of its total capitalization to 68%. CERC Corp.'s bank facility and its receivables facility limit CERC's debt as a percentage of its total capitalization to 60% and contain an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest covenant. CERC Corp.'s bank facility also contains a provision that could, under certain circumstances, limit the amount of dividends that could be paid by CERC Corp. Our $2.35 billion credit facility limits dividend payments as described above, contains a debt to EBITDA covenant, an EBITDA to interest covenant and restrictions on the use of proceeds from certain debt issuances and certain asset sales. These facilities include certain restrictive covenants. We and our subsidiaries are in compliance with such covenants.

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

We received an order from the SEC relating to our financing activities and those of our subsidiaries on June 30, 2003 (June 2003 Financing Order), which is effective until June 30, 2005. On August 1, 2003 and October 28,

2003, the SEC issued supplemental orders (August 2003 Financing Order and October 2003 Financing Order, respectively, and, together with the June 2003 Financing Order, the Orders). The August 2003 Financing Order permitted CenterPoint Houston to issue an additional $250 million of debt securities. The October 2003 Financing Order permitted CERC Corp. to issue up to an additional $50 million of debt securities in connection with retiring the TERM Notes.

The Orders establish limits on the amount of external debt and equity securities that can be issued by us and certain of our subsidiaries without additional authorization and permit refinancing. Each of us and our subsidiaries is in compliance with the authorized limits. Discussed below are the incremental amounts of debt and equity that we are authorized to issue after giving effect to our issuance of $200 million principal amount of senior notes in September 2003, CenterPoint Houston's issuance of $300 million principal amount of general mortgage bonds in September 2003 and CERC's issuance of $160 million principal amount of senior notes in November 2003. The Orders also permit utilization of undrawn credit facilities at CenterPoint Energy and CERC.

- CenterPoint Energy is authorized to issue an additional aggregate $250 million of preferred stock, preferred securities and equity-linked securities and 200 million shares of common stock;

- CenterPoint Houston is authorized to issue an additional aggregate $200 million of debt and an aggregate $250 million of preferred stock and preferred securities; and

- CERC is authorized to issue an additional aggregate $250 million of preferred stock and preferred securities.

The SEC has reserved jurisdiction over, and must take further action to permit, the issuance of $478 million of additional debt at CenterPoint Energy and $450 million of additional debt at CERC. CenterPoint Houston has requested the authority to issue an incremental $300 million in external debt not previously authorized by the Orders. This request is pending at the SEC.

The June 2003 Financing Order requires that if we or any of our subsidiaries issues securities that are rated by a nationally recognized statistical rating organization (NRSRO), the security to be issued must obtain an investment grade rating from at least one NRSRO and, as a condition to such issuance, all outstanding rated securities of the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The June 2003 Financing Order also contains certain requirements for interest rates, maturities, issuance expenses and use of proceeds.

The 1935 Act requires the payment of dividends out of current and retained earnings without specific authorization to pay dividends from other funds. The SEC has reserved jurisdiction over payment of $500 million of dividends from CenterPoint Energy's unearned surplus or capital. Further authorization would be required to make those payments. As of September 30, 2003, we had a retained deficit on our Consolidated Balance Sheet. We expect to pay dividends out of current earnings. The June 2003 Financing Order requires that CenterPoint Houston and CERC maintain a ratio of common equity to total capitalization of thirty percent (30%).

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

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of

operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We believe the following critical accounting policies involve the application of accounting estimates for which a change in the estimate is inseparable from the effect of a change in accounting principle. Accordingly, these accounting policies 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 $4.0 billion and $4.8 billion as of December 31, 2002 and September 30, 2003, respectively. Additionally, regulatory liabilities reflected in our consolidated Balance Sheets aggregated $1.1 billion and $846 million at December 31, 2002 and September 30, 2003, respectively. Significant accounting estimates embedded within the application of SFAS No. 71 with respect to our Electric Transmission & Distribution business segment relate to $2.5 billion of recoverable electric generation plant mitigation assets (stranded costs) and $1.2 billion of ECOM true-up as of September 30, 2003. The stranded costs include $1.1 billion of previously recorded accelerated depreciation and $841 million of previously redirected depreciation as well as $396 million related to the Texas Genco distribution. These stranded costs are recoverable under the provisions of the Texas electric restructuring law. The ultimate amount of stranded cost recovery is subject to a final determination, which will occur in 2004, and is contingent upon the market value of Texas Genco. Any significant changes in our accounting estimate of stranded costs as a result of current market conditions or changes in the regulatory recovery mechanism currently in place could result in a material write-down of all or a portion of these regulatory assets.

The Texas electric restructuring law allows recovery of the difference between the prices for power sold in state mandated auctions and earlier estimates of market power prices by the Texas Utility Commission. This calculation (the ECOM Calculation) compares (1) an imputed margin that reflects the difference between actual market power prices received in the state mandated auctions, actual fuel expense and generation, and (2) the margin resulting from the Texas Utility Commission's estimates of power prices, fuel expense and generation in the ECOM model developed by the Texas Utility Commission (the ECOM Margin). The difference between those two amounts is the ECOM True-Up amount, which is the non-cash revenue related to the cost recovery.

The ECOM model from which the ECOM Margin is derived provides only annual estimates of power prices, fuel expense and generation. Accordingly, we must form our own quarterly allocation estimates during 2002-2003 for the purpose of determining ECOM True-Up revenue.

Beginning January 1, 2002, we allocated the ECOM Margin in our ECOM Calculation based on annual estimated forecasts of power prices, fuel expense and generation. In the second quarter of 2003, we began using a cumulative methodology for allocating ECOM Margin. This methodology uses revenue amounts based on the actual state mandated auction price results and actual generation for historical periods, as well as forecasted amounts for the balance of 2003, rather than forecasted amounts for the two-year period allocated on an annual basis. Changes in estimates that affect the allocation of ECOM Margin will have an effect on the amount of ECOM True-Up revenue recorded in a specific period, but will not affect the total amount of ECOM True-Up revenue recorded during the two-year period ending December 31, 2003.

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 $11.1 billion or 56% of our total assets as of September 30, 2003. 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 the assets exceeded their carrying value. However, a change in our estimated holding period of Texas Genco's generating assets, 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, 2003. 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 September 30, 2003, 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 Sheets 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. Accrued unbilled revenues recorded in the Consolidated Balance Sheets as of September 30, 2003 were $83 million related to our Electric Transmission & Distribution business segment and $142 million related to our Natural Gas Distribution business segment.

NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, we adopted 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.

We have identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations at the mine supplying the Limestone electric generation facility. Prior to adoption of SFAS No. 143, we had recorded liabilities for nuclear decommissioning and the reclamation of the lignite mine. Liabilities were recorded for estimated decommissioning obligations of $139.7 million and $39.7 million for reclamation of the lignite at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, we reversed the $139.7 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of $99.1 million offset by accumulated depreciation of $35.8 million as well as a retirement obligation of $186.7 million. The $16.3 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 is being deferred as a liability due to regulatory requirements. We also reversed the $39.7 million we had previously recorded for the mine reclamation and recorded a plant asset of $1.9 million offset by accumulated depreciation of $0.4 million as well as a retirement obligation of $3.8 million. The $37.4 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 was recorded as a cumulative effect of accounting change. We have also identified other asset retirement obligations that cannot be calculated because the assets associated with the retirement obligations have an indeterminate life.

The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the nine months ended September 30, 2003:

	BALANCE, JANUARY 1, 2003	LIABILITIES INCURRED	LIABILITIES SETTLED	ACCRETION	CASH FLOW REVISIONS	BALANCE, SEPTEMBER 30, 2003
			(IN MILLIONS)			
Nuclear decommissioning	$186.7	--	--	$ 6.8	--	$193.5
Lignite mine	3.8	--	--	0.3	--	4.1
	$190.5	--	--	$ 7.1	--	$197.6

The following represents the pro-forma effect on our net income for the three months and nine months ended September 30, 2002, as if we had adopted SFAS No. 143 as of January 1, 2002:

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2002
	(IN THOUSANDS)	
Income from continuing operations before cumulative effect of accounting change as reported	$ 161,887	$ 392,899
Pro-forma income from continuing operations before cumulative effect of accounting change	161,867	392,839
Net loss as reported	(4,124,493)	(3,857,244)
Pro-forma net loss	(4,124,513)	(3,857,304)
DILUTED EARNINGS PER SHARE:		
Income from continuing operations before cumulative effect of accounting change as reported	$ 0.54	$ 1.32
Pro-forma income from continuing operations before cumulative effect of accounting change	0.54	1.32
Net loss as reported	(13.77)	(12.92)
Pro-forma net loss	(13.77)	(12.92)

The following represents our asset retirement obligations on a pro-forma basis as if we had adopted SFAS No. 143 as of December 31, 2002:

	AS REPORTED	PRO-FORMA
	(IN MILLIONS)	
Nuclear decommissioning	$139.7	$186.7
Lignite mine	39.7	3.8
Total	$179.4	$190.5

Our rate-regulated businesses recognize removal costs as a component of depreciation expense in accordance with regulatory treatment. As of September 30, 2003, these removal costs of $623 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. Our non-rate regulated businesses have previously recognized removal costs as a component of depreciation expense. We reversed $115 million in the three months ended March 31, 2003 of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was $152 million. Excluded from the $80 million after-tax cumulative effect of accounting change recorded for the three months ended March 31, 2003, is minority interest of $19 million related to the Texas Genco stock not owned by us.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. We have applied this guidance as it relates to lease accounting and the accounting provision related to debt extinguishment. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods is required to be reclassified. No such reclassification was required in the three months or nine months ended September 30, 2002. We have reclassified the $26 million loss on debt extinguishment related to the fourth quarter of 2002 from an extraordinary item to interest expense as presented in our November 7, 2003 Form 8-K.

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. We adopted the provisions of SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 had no effect on our consolidated financial statements.

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 was 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 did not materially affect our consolidated financial statements.

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. On October 9, 2003, the FASB deferred the application of FIN 46 until the end of the first interim or annual period ending after December 15, 2003 for variable interest entities created before February 1, 2003. The FASB is currently considering several amendments to FIN 46, and we will analyze the impact, if any, these changes may have on our consolidated financial statements upon ultimate implementation of FIN 46. We do not expect the adoption of FIN 46 to have a material effect on our consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 has added additional criteria, which were effective on July 1, 2003, for new, acquired, or newly modified forward contracts. We engage in forward contracts for the sale of power. The majority of these forward contracts are entered into either through state mandated Texas Utility Commission auctions or auctions mandated by an agreement with Reliant Resources. All of our contracts resulting from these auctions specify the product types, the plant or group of plants from which the auctioned products are derived, the delivery location and specific delivery requirements, and pricing for each of the products. We have applied the criteria from current accounting literature, including SFAS No. 133 Implementation Issue No. C-15 - "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity", to both the state mandated and the contractually mandated auction contracts and believe they meet the definition of capacity contracts. Accordingly, we consider these contracts as normal sales contracts rather than as derivatives. We have evaluated our forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 did not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state mandated or contractually mandated auctions, and did not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Effective July 1, 2003, upon the adoption of SFAS No. 150, we reclassified $725 million of trust preferred securities as long-term debt and began to recognize the dividends paid on the trust preferred securities as interest expense. Prior to July 1, 2003, the dividends were classified as "Distribution on Trust Preferred Securities" in the Statements of Consolidated Operations. Additionally, $19 million of debt issuance costs previously netted against the balance of the trust preferred securities was reclassified to unamortized debt issuance costs. SFAS No. 150 does not permit restatement of prior periods. The aggregate liquidation amount of the trust preferred securities disclosed in Note 10 to our Interim Financial Statements is also the fair value as of September 30, 2003. The adoption of SFAS No. 150 did not impact our net income or earnings per share.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

We assess the risk of our non-trading derivatives (Energy Derivatives) using a sensitivity analysis method.

The sensitivity analysis performed on our Energy Derivatives measures the potential loss based on a hypothetical 10% movement in energy prices. A decrease of 10% in the market prices of energy commodities from their September 30, 2003 levels would have decreased the fair value of our Energy Derivatives from their levels on that date by $66 million.

The above analysis of the 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 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 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.

INTEREST RATE RISK

We have outstanding long-term debt, bank loans, mandatory redeemable preferred securities of subsidiary trusts holding solely our junior subordinated debentures, 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 a portion of our floating-rate debt.

Our floating-rate obligations to third parties aggregated $3.2 billion at September 30, 2003. If the floating rates were to increase by 10% from September 30, 2003 rates, our combined interest expense to third parties would increase by a total of $2.2 million each month in which such increase continued.

At September 30, 2003, we had outstanding fixed-rate debt (excluding indexed debt securities) aggregating $7.8 billion in principal amount and having a fair value of $8.2 billion. 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. However, the fair value of these instruments would increase by approximately $426 million if interest rates were to decline by 10% from their levels at September 30, 2003. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

As discussed in Note 13(f) to the CenterPoint Energy Notes, which note is incorporated herein by reference, beginning in 2002, we have contributed $2.9 million per year to trusts established to fund our share of the decommissioning costs for the South Texas Project. The securities held by the trusts for decommissioning costs had an estimated fair value of $179 million as of September 30, 2003, of which approximately 39% were 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 September 30, 2003, the fair value of the fixed-rate debt securities would decrease by approximately $1 million. Any unrealized gains or losses are accounted for as a long-term asset/liability as we will not benefit from any gains, and losses will be recovered through the rate making process. For further discussion regarding the recovery of decommissioning costs pursuant to the Texas electric restructuring law, please read Note 4(a) to the CenterPoint Energy Notes, which is incorporated herein by reference.

As discussed in Note 7 to the CenterPoint Energy Notes, which note is incorporated herein by reference, upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component. The debt component of $105 million at September 30, 2003 is a fixed-rate obligation and, therefore, does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately $16 million if interest rates were to decline by 10% from levels at September 30, 2003. Changes in the fair value of the derivative component will be recorded in our Statements of Consolidated Income 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 September 30, 2003 levels, the fair value of the derivative component would increase by approximately $5 million, which would be recorded as a loss in our Statements of Consolidated Income.

As of September 30, 2003, we have interest rate swaps with an aggregate notional amount of $750 million that fix the interest rate applicable to floating rate short-term debt. At September 30, 2003, the swaps relating to short-term debt could be terminated at a cost of $6 million. 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 Income. A decrease of 10% in the September 30, 2003 level of interest rates would increase the cost of terminating the swaps at September 30, 2003 by $0.9 million.

EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of approximately 22 million shares of Time Warner common stock, which we hold to facilitate our ability to meet our obligations under the ZENS. Please read Note 7 to the CenterPoint Energy Notes 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. Subsequent to adoption of SFAS No. 133, a decrease of 10% from the September 30, 2003 market value of Time Warner common stock would result in a net loss of approximately $3 million, which would be recorded as a loss in our Statements of Consolidated Income.

As discussed above under " -- Interest Rate Risk," we contribute to trusts established to fund our share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of September 30, 2003. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at September 30, 2003, the resulting loss in fair value of these securities would be approximately $11 million. Currently, the risk of an economic loss is mitigated as discussed above under " -- Interest Rate Risk."

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2003 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of certain legal and regulatory proceedings affecting CenterPoint Energy, please read Note 12 to our Interim Financial Statements, "Business -- Environmental Matters" in Item 1 of the CenterPoint Energy 10-K, "Legal Proceedings" in Item 3 of the CenterPoint Energy Form 10-K and Notes 4 and 13 to the CenterPoint Energy Notes, each of which is incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

RISK FACTORS

PRINCIPAL RISK FACTORS ASSOCIATED WITH OUR BUSINESSES

We are a holding company that conducts all of our business operations through subsidiaries, primarily CenterPoint Houston, CERC and Texas Genco. The following summarizes the principal risk factors associated with the businesses conducted by each of these subsidiaries:

RISK FACTORS AFFECTING OUR ELECTRIC TRANSMISSION & DISTRIBUTION BUSINESS

CENTERPOINT HOUSTON MAY NOT BE SUCCESSFUL IN RECOVERING THE FULL VALUE OF ITS STRANDED COSTS, REGULATORY ASSETS RELATED TO GENERATION AND OTHER TRUE-UP COMPONENTS.

Pursuant to the Texas electric restructuring law and rules promulgated thereunder by the Texas Utility Commission, 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 on March 31, 2004 in a true-up proceeding (2004 True-Up Proceeding) provided for by the Texas electric restructuring law. The purpose of this proceeding will be to quantify and reconcile the following costs or true-up components:

- the amount of stranded costs,
- regulatory assets that were not previously recovered through the issuance of transition bonds by a subsidiary,
- 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, and
- the "price to beat" clawback.

CenterPoint Houston will be required to establish and support the amounts of these costs in order to recover them. Third parties will have the opportunity and are expected to challenge CenterPoint Houston's calculation of these costs. CenterPoint Houston expects these costs to be substantial. To the extent recovery of a portion of these costs is denied or if we agree to forego recovery of a portion of the request under a settlement agreement, CenterPoint Houston would be unable to recover those amounts in the future. Additionally, in October 2003, a group of intervenors filed a petition asking the Texas Utility Commission to open a rulemaking proceeding and reconsider certain aspects of its ECOM rules. On November 5, 2003, the Texas Utility Commission voted to deny the petition. Despite the denial of the petition, we expect that issues could be raised in the 2004 True-Up Proceeding regarding our compliance with the Texas Utility Commission's rules regarding ECOM True-Up, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state mandated auctions. We believe Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions.

If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM True-Up amount no longer probable, we would write off the unrecoverable balance of such asset as a charge against earnings. CenterPoint Houston's $1.3 billion collateralized term loan that matures in November 2005 is expected to be repaid or refinanced with the proceeds from the issuance of transition bonds to recover its stranded costs and the balance of its regulatory assets. If CenterPoint Houston does not receive the proceeds on or before the maturity date, its ability to repay or refinance this term loan will be adversely affected.

The Texas Utility Commission's ruling that the 2004 True-Up Proceeding filing will be made on March 31, 2004 means that the calculation of the market value of a share of Texas Genco common stock for purposes of the Texas Utility Commission's stranded cost determination might be more than the per share purchase price calculated under the option held by Reliant Resources to purchase our 81% ownership interest in Texas Genco. The purchase price under the option will be based on market prices during the 120 trading days ending on January 9, 2004, but under the filing schedule prescribed by the Texas Utility Commission, the value of that ownership interest for the stranded cost determination will be based on market prices during the 120 trading days ending on March 30, 2004. If Reliant Resources exercises its option at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

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

CenterPoint Houston's receivables from the distribution of electricity are collected from retail electric providers that supply the electricity CenterPoint Houston distributes to their customers. Currently, CenterPoint Houston does business with approximately 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. Approximately 76% of CenterPoint Houston's $114 million in receivables from retail electric providers at September 30, 2003 was owed by subsidiaries of Reliant Resources. CenterPoint Houston's financial condition may be adversely affected if Reliant Resources is unable to meet these obligations. 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.

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

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

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

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

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

A portion of CenterPoint Houston's revenues is derived from rates that it collects from each retail electric provider based on the amount of electricity it distributes on behalf of 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.

RISK FACTORS AFFECTING OUR ELECTRIC GENERATION BUSINESS

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

Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. The ERCOT market consists of the majority of the population centers in 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 coal and lignite fueled generating stations and 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 exceeds peak demand (reserve margin) in the ERCOT market has exceeded 20% since 2001, and the Texas Utility Commission and the ERCOT Independent System Operator (ISO) have forecasted the reserve margin for 2004 to continue to exceed 20%. The commencement of commercial operation of new power generation facilities in the ERCOT market has increased and will continue to increase the

competitiveness of the wholesale power market, which could have a material adverse effect on Texas Genco's results of operations, financial condition, cash flows and the market value of Texas Genco's assets.

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

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

Texas Genco is obligated to sell substantially all of its available capacity and related ancillary services through 2003 pursuant to capacity auctions. 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.

The mechanics, regulations and agreements governing Texas Genco's capacity auctions are complex. 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.

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

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

- operating performance below expected levels of output or efficiency,
- breakdown or failure of equipment or processes,
- disruptions in the transmission of electricity,
- shortages of equipment, material or labor,
- labor disputes,
- fuel supply interruptions,
- limitations that may be imposed by regulatory requirements, including, among others, environmental standards,
- limitations imposed by the ERCOT ISO,
- violations of permit limitations,
- operator error, and

- catastrophic events such as fires, hurricanes, explosions, floods, terrorist attacks or other similar occurrences.

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

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

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

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

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

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

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

Subsidiaries of Reliant Resources purchased entitlements to 63% of Texas Genco's available 2002 capacity and through September 2003 had purchased 71% of Texas Genco's available 2003 capacity. 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. As of September 30, 2003, Reliant Resources' securities ratings are below investment grade. Texas Genco has been granted a security interest in accounts receivable and/or securitization notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to $250 million in purchase obligations.

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

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

- liability associated with the potential harmful effects on the environment and human health resulting from

the operation of nuclear facilities and the storage, handling and disposal of radioactive materials,

- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations, and

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

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines, shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. 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.

TEXAS GENCO'S OPERATIONS ARE SUBJECT TO EXTENSIVE REGULATION, INCLUDING ENVIRONMENTAL 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.

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

Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to Texas Genco or its facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events 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.

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

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

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

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

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

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

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

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

IF CERC FAILS TO EXTEND CONTRACTS WITH TWO OF ITS SIGNIFICANT INTERSTATE PIPELINES' CUSTOMERS, THERE COULD BE AN ADVERSE IMPACT ON ITS OPERATIONS.

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

CERC'S INTERSTATE PIPELINES ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

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

CERC'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

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

RISK FACTORS ASSOCIATED WITH OUR CONSOLIDATED FINANCIAL CONDITION

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

As of September 30, 2003, we had $11.1 billion of outstanding indebtedness. Approximately $3.9 billion principal amount of this debt must be paid through 2006, excluding principal repayments of approximately $142 million on transition bonds. Included in the approximately $3.9 billion is $140 million principal amount of TERM notes that were retired in November 2003. In addition, the capital constraints and other factors currently impacting our businesses may require our future indebtedness to include terms that are more restrictive or burdensome than those of our current or historical indebtedness. These terms may negatively impact our ability to operate our business, adversely affect our financial condition and results of operations or severely restrict or prohibit distributions from our subsidiaries. The success of our future financing efforts may depend, at least in part, on:

- 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 financing transactions under the 1935 Act.

As of September 30, 2003, our CenterPoint Houston subsidiary had $3.1 billion principal amount 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 $400 million of additional general mortgage bonds could be issued on the basis of property additions and retired bonds as of September 30, 2003, CenterPoint Houston has agreed under the $1.3 billion collateralized term loan maturing in 2005 to not issue, subject to certain exceptions, more than $200 million of incremental secured or unsecured debt. In addition, CenterPoint Houston is contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations of CenterPoint Energy and Subsidiaries -- Liquidity and Capital Resources -- Future Sources and Uses of Cash Flows -- Impact on Liquidity of a Downgrade in Credit Ratings" in Item 2 of Part I of this report. We cannot assure you that these credit ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

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

We derive substantially all our operating income from, and hold substantially all our assets through, our subsidiaries. As a result, we will depend on distributions from our subsidiaries in order to meet our payment obligations. In general, these subsidiaries are separate and distinct legal entities and will have no obligation to

provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. In addition, provisions of applicable law, such as those limiting the legal sources of dividends and those under the 1935 Act, limit their ability to make payments or other distributions to us, and they could agree to contractual restrictions on their ability to make distributions.

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

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

As of September 30, 2003, we had $3.2 billion of outstanding floating-rate debt owed to third parties. The interest rate spreads on such debt 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.

OTHER RISKS

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

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

- those transferred to Reliant Resources or its subsidiaries in connection with the organization and capitalization of Reliant Resources prior to its initial public offering in 2001,

- those transferred to Texas Genco in connection with its organization and capitalization, and

- those transferred to CenterPoint Energy in connection with the Restructuring.

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

Reliant Resources reported in its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 that as of September 30, 2003 it had $7.5 billion of total debt and its unsecured debt ratings are currently 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.

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

Houston and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed with respect to those claims.

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

IF RELIANT RESOURCES DOES NOT EXERCISE ITS OPTION TO PURCHASE THE COMMON STOCK OF TEXAS GENCO THAT WE OWN, WE MAY NOT BE ABLE TO MONETIZE TEXAS GENCO ON THE SAME TERMS OR ON THE SAME TIME SCHEDULE AS PROVIDED BY THE OPTION.

Reliant Resources reported in its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 that as of September 30, 2003 it had $7.5 billion of total debt and its unsecured debt ratings are currently below investment grade. It is not clear whether Reliant Resources will exercise its option to purchase the common stock of Texas Genco that we own. If Reliant Resources does not exercise its option, we will continue to operate Texas Genco's facilities or we will have to pursue an alternative strategy to monetize Texas Genco, and we have engaged a financial advisor to assist us in that pursuit. We may not be able to monetize our interest in Texas Genco under any alternative strategy on terms as favorable as those provided by the Reliant Resources option or as quickly as under the option. In addition, delays in monetization may increase the risk that the value of the ownership interest used in the stranded cost determination, which is to be based on market prices for Texas Genco common stock during the 120 trading days ending on March 30, 2004, will be higher than the proceeds received in the monetization process.

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

The competitive electric market in Texas became fully operational in January 2002, and none of CenterPoint Houston, Texas Genco, 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. 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 the businesses of CenterPoint Houston or Texas Genco.

Some restructured markets in other states have experienced supply problems and extreme price volatility. If the ERCOT market does not function as intended by the Texas electric restructuring law, Texas Genco's and CenterPoint Houston'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 CenterPoint Houston or their respective facilities and other future changes in laws and regulations that may have a detrimental effect on Texas Genco's and CenterPoint Houston's businesses.

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

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

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

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

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

We currently have general liability and property insurance in place to cover certain of our facilities in amounts that we consider appropriate. Such policies are subject to certain limits and deductibles and do not include business interruption coverage. We cannot assure you that insurance coverage will be available in the future 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 $10.5 billion as of September 30, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan. In addition, the security procedures at this facility have recently been enhanced to provide additional protection against terrorist attacks. All potential losses or liabilities associated with the South Texas Project may not be insurable, and the amount of insurance may not be sufficient to cover them. In particular, Texas Genco's insurance policies are subject to certain limits and deductibles and do not include business interruption coverage.

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

CHANGES IN TECHNOLOGY MAY ADVERSELY AFFECT OUR REVENUES AND RESULTS OF 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 utilizing newer facilities 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.

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.

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.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing of CenterPoint Energy, Inc.

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
3.1	--	Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Registration Statement on Form S-4	3-69502	3.1
3.2	--	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
3.3	--	Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.2
3.4	--	Statement of Resolution Establishing Series of Shares designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.3
4.1	--	Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1
4.2	--	Rights Agreement dated January 1, 2002 between CenterPoint Energy and JPMorgan Chase Bank, as Rights Agent	CenterPoint Energy's Form 10-K for the year ended December 21, 2001	1-31447	4.2
4.3.1	--	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Houston and JPMorgan Chase Bank, as Trustee	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(1)
4.3.2	--	First Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(2)
4.3.3	--	Second Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(3)
4.3.4	--	Third Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(4)
4.3.5	--	Fourth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(5)
4.3.6	--	Fifth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(6)
4.3.7	--	Sixth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(7)
4.3.8	--	Seventh Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(8)
4.3.9	--	Eighth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(9)
4.3.10	--	Ninth Supplemental Indenture to Exhibit 4.3.1, dated as of	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(e)(10)

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.3.11	--	Tenth Supplemental Indenture to Exhibit 4.3.1, dated as of March 18, 2003	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.1
4.3.12	--	Eleventh Supplemental Indenture to Exhibit 4.3.1, dated as of May 23, 2003	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.1
4.3.13	--	Officer's Certificate dated March 18, 2003 setting forth the form, terms and provisions of the Tenth Series and Eleventh Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.2
4.3.14	--	Registration Rights Agreement, dated as of March 18, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Tenth Series and Eleventh Series of general mortgage bonds.	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.3.14
4.3.15	--	Officer's Certificate dated May 23, 2003 setting forth the form, terms and provisions of the Twelfth Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.2
4.3.16	--	Registration Rights Agreement, dated as of May 23, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Twelfth Series of general mortgage bonds	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.3.16
4.3.17	--	Twelfth Supplemental Indenture to Exhibit 4.3.1, dated as of September 9, 2003	CenterPoint Energy's Form 8-K dated September 9, 2003	1-31447	4.2
4.3.18	--	Officer's Certificate dated September 9, 2003 setting forth the form, terms and provisions of the Thirteenth Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated September 9, 2003	1-31447	4.3
4.3.19	--	Registration Rights Agreement, dated as of September 9, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to the Thirteenth Series of general mortgage bonds	Amendment No. 1 to CenterPoint Houston's registration statement on Form S-4, filed September 30. 2003	333-108766	4.2.6
4.4.1	--	Indenture, dated as of February 1, 1998, between RERC Corp. and Chase Bank of Texas, National Association, as Trustee	CERC's Form 8-K dated February 5, 1998	1-13265	4.1
4.4.2	--	Supplemental Indenture No. 1 to Exhibit 4.4.1, dated as of February 1, 1998, providing for the issuance of RERC Corp.'s 6 1/2% Debentures due February 1, 2008	CERC's Form 8-K dated February 5, 1998	1-13265	4.2
4.4.3	--	Supplemental Indenture No. 2 to Exhibit 4.4.1, dated as of November 1, 1998, providing for the issuance of RERC Corp.'s 6 3/8% Term Enhanced ReMarketable Securities	CERC's Form 8-K dated November 9, 1998	1-13265	4.1

4.4.4	--	Supplemental Indenture No. 3 to Exhibit 4.4.1, dated as of July 1, 2000, providing for the issuance of RERC Corp.'s 8.125% Notes due 2005	CERC's Registration Statement on Form S-4	333-49162	4.2
4.4.5	--	Supplemental Indenture No. 4 to Exhibit 4.4.1, dated as of February 15, 2001, providing for the issuance of RERC Corp.'s 7.75% Notes due 2011	CERC's Form 8-K dated February 21, 2001	1-13265	4.1

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.4.6	--	Supplemental Indenture No. 5 to Exhibit 4.4.1, dated as of March 25, 2003, providing for the issuance of CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated March 18, 2003	1-31447	4.1
4.4.7	--	Supplemental Indenture No. 6 to Exhibit 4.4.1, dated as of April 14, 2003, providing for the issuance of additional CERC Corp. 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated April 7, 2003	1-31447	4.2
4.4.8	--	Supplemental Indenture No. 7 to Exhibit 4.4.1, dated as of November 3, 2003, providing for the issuance of CERC Corp.'s 5.95% Senior Notes due 2014	CenterPoint Energy's Form 8-K dated October 29, 2003	1-31447	4.2
4.4.9	--	Registration Rights Agreement, dated as of March 25, 2003, among CERC and the initial purchasers named therein relating to CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.4.8
4.4.10	--	Registration Rights Agreement dated as of April 14, 2003, among CERC and the initial purchasers names therein relating to CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.4.9
4.4.11	--	Registration Rights Agreement dated as of November 3, 2003 among CERC Corp. and the initial purchasers named therein relating to CERC Corp.'s 5.95% Senior Notes due 2014	CenterPoint Energy's Form 8-K dated October 29, 2003	1-31447	4.3
4.5.1	--	Indenture, dated as of May 19, 2003, between CenterPoint Energy and JPMorgan Chase Bank, as Trustee	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.1
4.5.2	--	Supplemental Indenture No. 1 to Exhibit 4.5.1, dated as of May 19, 2003 providing for the issuance of CenterPoint Energy's 3.75% Convertible Senior Notes due 2023	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.2
4.5.3	--	Supplemental Indenture No. 2 to Exhibit 4.5.1, dated as of May 27, 2003 providing for the issuance of CenterPoint Energy's 5.875% Senior Notes due 2008 and 6.85% Senior Notes due 2015	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.3
4.5.4	--	Registration Rights Agreement, dated as of May 19, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 3.75% Convertible Senior Notes due 2023	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.5.4
4.5.5	--	Registration Rights Agreement, dated as of May 27, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.5.5

CenterPoint Energy's
5.875% Senior Notes due
2008 and 6.85% Senior
Notes due 2015

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.5.7	--	Registration Rights Agreement, dated as of September 9, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 7.25% Senior Notes due 2010, Series A and B	CenterPoint Energy's Registration Statement on Form S-4	333-110349	4.5
+10.1	--	CenterPoint Energy 1985 Deferred Compensation Plan, as amended and restated effective January 1, 2003			
+10.2	--	CenterPoint Energy Deferred Compensation Plan, as amended and restated effective January 1, 2003			
+10.3	--	CenterPoint Energy Short Term Incentive Plan, as amended and restated effective January 1, 2003			
+10.4	--	CenterPoint Energy Executive Benefits Plan, as amended and restated effective June 18, 2003			
+10.5	--	CenterPoint Energy Executive Life Insurance Plan, as amended and restated effective June 18, 2003			
+10.6	--	CenterPoint Outside Director Benefits Plan, as amended and restated effective June 18, 2003			
+10.7	--	First Amendment, dated as of September 2, 2003 to the $1,310,000,000 Credit Agreement, dated as of November 12, 2002 among CenterPoint Houston and the lenders named therein			
+10.8	--	Credit Agreement, dated as of October 7, 2003, among CenterPoint Energy and the banks named therein			
+10.9	--	Pledge Agreement, dated as of October 7, 2003, executed in connection with Exhibit 10.8			
+12.1	--	Computation of Ratios of Earnings to Fixed Charges			
+31.1	--	Section 302 Certification of David M. McClanahan			
+31.2	--	Section 302 Certification of			

		Gary L. Whitlock
+32.1	--	Section 906 Certification of David M. McClanahan
+32.2	--	Section 906 Certification of Gary L. Whitlock
+99.1	--	Items incorporated by reference from the CenterPoint Energy Form 10-K: Item 1 "Business - Environmental Matters," Item 3 "Legal Proceedings".

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+99.2	--	Items incorporated by reference from the CenterPoint Energy Current Report on Form 8-K dated November 7, 2003: Exhibit 99.1 "Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data - Certain Factors Affecting Future Earnings" and the following Notes from Exhibit 99.2: Notes 3(d) (Long-Lived Assets and Intangibles), 3(e) (Regulatory Assets and Liabilities), 3(k) (Investment in Other Debt and Equity Securities), 4 (Regulatory Matters), 5 (Derivative Instruments), 7 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), 9(b) (Long-term Debt), 10 (Trust Preferred Securities), 11 (Stock-Based Incentive Compensation Plans and Employee Benefit Plans) and 13 (Commitments and Contingencies).			

(b) Reports on Form 8-K.

On July 29, 2003, we filed a Current Report on Form 8-K dated July 29, 2003 in which we furnished information under Item 12 of that form relating to our second quarter 2003 earnings.

On September 3, 2003, we filed a Current Report on Form 8-K dated September 3, 2003 to announce that CenterPoint Houston had amended its $1.3 billion collateralized term loan maturing in 2005 to permit the issuance by CenterPoint Houston of an additional $500 million of secured debt. Additionally, we summarized the risks that would exist if Reliant Resources, Inc. does not exercise its option to purchase the common stock of Texas Genco that we own. We also furnished information under Item 9 of that form stating that we were engaged in discussions related to the refinancing of our $2.85 billion bank facility in order to reduce the principal amount of the facility and our cost of borrowing.

On September 10, 2003, we filed a Current Report on Form 8-K dated September 9, 2003 announcing the closing of $200 million aggregate principal amount of senior notes in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended, and Regulation S. The notes bear interest at a rate of 7.25% and will be due September 1, 2010.

On September 10, 2003, we filed a Current Report on Form 8-K dated September 9, 2003 announcing the pricing and closing of $300 million aggregate principal amount of general mortgage bonds of our subsidiary, CenterPoint Energy Houston Electric, LLC, in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended, and Regulation S. The bonds bear interest at a rate of 5.75% and will be due January 15, 2014.

On September 18, 2003, we filed a Current Report on Form 8-K dated September 15, 2003 announcing that the Federal Energy Regulatory Commission issued a Show Cause Order to CenterPoint Energy Gas Transmission Company, one of CenterPoint Energy Resources Corp.'s natural gas pipeline subsidiaries. We also furnished under Item 9 of that form a slide presentation and information regarding our external debt balances expected to be presented to various members of the financial and investment community from time to time.

On September 25, 2003, we filed a Current Report on Form 8-K dated September 25, 2003 to announce Texas Genco's mothballing of gas-fired generation in two phases totaling 2,990 megawatts (MW).

On October 21, 2003, we filed a Current Report on Form 8-K dated October 21, 2003 in which we furnished information under Item 12 of that form relating to our third quarter 2003 earnings.

On October 29, 2003, we filed a Current Report on Form 8-K dated October 28, 2003 to furnish under Item 9 of that form a slide presentation and information regarding our external debt balances expected to be presented to various members of the utility industry and the financial and investment community at the 38th Annual Edison Electric Institute Financial conference.

On November 5, 2003, we filed a Current Report on Form 8-K dated October 29, 2003 announcing the pricing and closing of $160 million of senior notes by our subsidiary, CenterPoint Energy Resources Corp., in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended, and Regulation S. The notes bear interest at a rate of 5.95% and will be due January 15, 2014.

On November 7, 2003, we filed a Current Report on Form 8-K dated November 7, 2003 to provide information giving effect to certain reclassifications within our historical consolidated financial statements, Selected Financial Data, and Management's Discussion and Analysis of Financial Condition and Results of Operations as reported in our Current Report on Form 8-K dated May 12, 2003.

SIGNATURE

Pursuant to the requirements 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.

CENTERPOINT ENERGY, INC.

By: /s/James S. Brian

James S. Brian
Senior Vice President and
Chief Accounting Officer

Date: November 12, 2003

INDEX TO EXHIBITS

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing of CenterPoint Energy, Inc.

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
3.1	--	Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Registration Statement on Form S-4	3-69502	3.1
3.2	--	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
3.3	--	Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.2
3.4	--	Statement of Resolution Establishing Series of Shares designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.3
4.1	--	Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1
4.2	--	Rights Agreement dated January 1, 2002 between CenterPoint Energy and JPMorgan Chase Bank, as Rights Agent	CenterPoint Energy's Form 10-K for the year ended December 21, 2001	1-31447	4.2
4.3.1	--	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Houston and JPMorgan Chase Bank, as Trustee	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(1)
4.3.2	--	First Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(2)
4.3.3	--	Second Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(3)
4.3.4	--	Third Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(4)
4.3.5	--	Fourth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(5)
4.3.6	--	Fifth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(6)
4.3.7	--	Sixth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(7)
4.3.8	--	Seventh Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(8)
4.3.9	--	Eighth Supplemental Indenture to Exhibit 4.3.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(9)
4.3.10	--	Ninth Supplemental Indenture to Exhibit 4.3.1, dated as of November 12, 2002	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(e)(10)

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.3.11	--	Tenth Supplemental Indenture to Exhibit 4.3.1, dated as of March 18, 2003	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.1
4.3.12	--	Eleventh Supplemental Indenture to Exhibit 4.3.1, dated as of May 23, 2003	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.1
4.3.13	--	Officer's Certificate dated March 18, 2003 setting forth the form, terms and provisions of the Tenth Series and Eleventh Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.2
4.3.14	--	Registration Rights Agreement, dated as of March 18, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Tenth Series and Eleventh Series of general mortgage bonds.	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.3.14
4.3.15	--	Officer's Certificate dated May 23, 2003 setting forth the form, terms and provisions of the Twelfth Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated May 16, 2003	1-31447	4.2
4.3.16	--	Registration Rights Agreement, dated as of May 23, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to Twelfth Series of general mortgage bonds	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.3.16
4.3.17	--	Twelfth Supplemental Indenture to Exhibit 4.3.1, dated as of September 9, 2003	CenterPoint Energy's Form 8-K dated September 9, 2003	1-31447	4.2
4.3.18	--	Officer's Certificate dated September 9, 2003 setting forth the form, terms and provisions of the Thirteenth Series of general mortgage bonds	CenterPoint Energy's Form 8-K dated September 9, 2003	1-31447	4.3
4.3.19	--	Registration Rights Agreement, dated as of September 9, 2003, among CenterPoint Houston and the representatives of the initial purchasers named therein relating to the Thirteenth Series of general mortgage bonds	Amendment No. 1 to CenterPoint Houston's registration statement on Form S-4, filed September 30. 2003	333-108766	4.2.6
4.4.1	--	Indenture, dated as of February 1, 1998, between RERC Corp. and Chase Bank of Texas, National Association, as Trustee	CERC's Form 8-K dated February 5, 1998	1-13265	4.1
4.4.2	--	Supplemental Indenture No. 1 to Exhibit 4.4.1, dated as of February 1, 1998, providing for the issuance of RERC Corp.'s 6 1/2% Debentures due February 1, 2008	CERC's Form 8-K dated February 5, 1998	1-13265	4.2
4.4.3	--	Supplemental Indenture No. 2 to Exhibit 4.4.1, dated as of November 1, 1998, providing for the issuance of RERC Corp.'s 6 3/8% Term Enhanced ReMarketable Securities	CERC's Form 8-K dated November 9, 1998	1-13265	4.1

4.4.4	--	Supplemental Indenture No. 3 to Exhibit 4.4.1, dated as of July 1, 2000, providing for the issuance of RERC Corp.'s 8.125% Notes due 2005	CERC's Registration Statement on Form S-4	333-49162	4.2
4.4.5	--	Supplemental Indenture No. 4 to Exhibit 4.4.1, dated as of February 15, 2001, providing for the issuance of RERC Corp.'s 7.75% Notes due 2011	CERC's Form 8-K dated February 21, 2001	1-13265	4.1

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.4.6	--	Supplemental Indenture No. 5 to Exhibit 4.4.1, dated as of March 25, 2003, providing for the issuance of CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated March 18, 2003	1-31447	4.1
4.4.7	--	Supplemental Indenture No. 6 to Exhibit 4.4.1, dated as of April 14, 2003, providing for the issuance of additional CERC Corp. 7.875% Senior Notes due 2013	CenterPoint Energy's Form 8-K dated April 7, 2003	1-31447	4.2
4.4.8	--	Supplemental Indenture No. 7 to Exhibit 4.4.1, dated as of November 3, 2003, providing for the issuance of CERC Corp.'s 5.95% Senior Notes due 2014	CenterPoint Energy's Form 8-K dated October 29, 2003	1-31447	4.2
4.4.9	--	Registration Rights Agreement, dated as of March 25, 2003, among CERC and the initial purchasers named therein relating to CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.4.8
4.4.10	--	Registration Rights Agreement dated as of April 14, 2003, among CERC and the initial purchasers names therein relating to CERC Corp.'s 7.875% Senior Notes due 2013	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.4.9
4.4.11	--	Registration Rights Agreement dated as of November 3, 2003 among CERC Corp. and the initial purchasers named therein relating to CERC Corp.'s 5.95% Senior Notes due 2014	CenterPoint Energy's Form 8-K dated October 29, 2003	1-31447	4.3
4.5.1	--	Indenture, dated as of May 19, 2003, between CenterPoint Energy and JPMorgan Chase Bank, as Trustee	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.1
4.5.2	--	Supplemental Indenture No. 1 to Exhibit 4.5.1, dated as of May 19, 2003 providing for the issuance of CenterPoint Energy's 3.75% Convertible Senior Notes due 2023	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.2
4.5.3	--	Supplemental Indenture No. 2 to Exhibit 4.5.1, dated as of May 27, 2003 providing for the issuance of CenterPoint Energy's 5.875% Senior Notes due 2008 and 6.85% Senior Notes due 2015	CenterPoint Energy's Form 8-K dated May 19, 2003	1-31447	4.3
4.5.4	--	Registration Rights Agreement, dated as of May 19, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 3.75% Convertible Senior Notes due 2023	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.5.4
4.5.5	--	Registration Rights Agreement, dated as of May 27, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2003	1-31447	4.5.5

CenterPoint Energy's
5.875% Senior Notes due
2008 and 6.85% Senior
Notes due 2015

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.5.7	--	Registration Rights Agreement, dated as of September 9, 2003, among CenterPoint Energy and the representatives of the initial purchasers named therein relating to CenterPoint Energy's 7.25% Senior Notes due 2010, Series A and B	CenterPoint Energy's Registration Statement on Form S-4	333-110349	4.5
+10.1	--	CenterPoint Energy 1985 Deferred Compensation Plan, as amended and restated effective January 1, 2003			
+10.2	--	CenterPoint Energy Deferred Compensation Plan, as amended and restated effective January 1, 2003			
+10.3	--	CenterPoint Energy Short Term Incentive Plan, as amended and restated effective January 1, 2003			
+10.4	--	CenterPoint Energy Executive Benefits Plan, as amended and restated effective June 18, 2003			
+10.5	--	CenterPoint Energy Executive Life Insurance Plan, as amended and restated effective June 18, 2003			
+10.6	--	CenterPoint Outside Director Benefits Plan, as amended and restated effective June 18, 2003			
+10.7	--	First Amendment, dated as of September 2, 2003 to the $1,310,000,000 Credit Agreement, dated as of November 12, 2002 among CenterPoint Houston and the lenders named therein			
+10.8	--	Credit Agreement, dated as of October 7, 2003, among CenterPoint Energy and the banks named therein			
+10.9	--	Pledge Agreement, dated as of October 7, 2003, executed in connection with Exhibit 10.8			
+12.1	--	Computation of Ratios of Earnings to Fixed Charges			
+31.1	--	Section 302 Certification of David M. McClanahan			
+31.2	--	Section 302 Certification of			

		Gary L. Whitlock
+32.1	--	Section 906 Certification of David M. McClanahan
+32.2	--	Section 906 Certification of Gary L. Whitlock
+99.1	--	Items incorporated by reference from the CenterPoint Energy Form 10-K: Item 1 "Business - Environmental Matters," Item 3 "Legal Proceedings".

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+99.2	--	Items incorporated by reference from the CenterPoint Energy Current Report on Form 8-K dated November 7, 2003: Exhibit 99.1 "Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data - Certain Factors Affecting Future Earnings" and the following Notes from Exhibit 99.2: Notes 3(d) (Long-Lived Assets and Intangibles), 3(e) (Regulatory Assets and Liabilities), 3(k) (Investment in Other Debt and Equity Securities), 4 (Regulatory Matters), 5 (Derivative Instruments), 7 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), 9(b) (Long-term Debt), 10 (Trust Preferred Securities), 11 (Stock-Based Incentive Compensation Plans and Employee Benefit Plans) and 13 (Commitments and Contingencies).			

Exhibit 10.1

CENTERPOINT ENERGY, INC.
1985 DEFERRED COMPENSATION PLAN

(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2003)

CENTERPOINT ENERGY, INC. 1985 DEFERRED COMPENSATION PLAN
(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2003)

TABLE OF CONTENTS

CENTERPOINT ENERGY, INC.
1985 DEFERRED COMPENSATION PLAN
(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2003)

RECITALS

Houston Industries Incorporated, a Texas corporation ("HII"), established the Houston Industries Incorporated Deferred Compensation Plan, effective as of September 1, 1985, and as thereafter amended (the "Plan"), for the benefit of its eligible employees. Effective as of December 31, 1988, the Board of Directors of HII "froze" the Plan to cease the deferral to the Plan of compensation and bonuses earned on or after January 1, 1989.

CenterPoint Energy, Inc., a Texas corporation (the "Company"), as successor to HII, became sponsor of the Plan effective as of August 31, 2002.

Pursuant to Section 7.1 of the Plan, the Board of Directors of the Company authorized the amendment and restatement of the Plan, effective as of January 1, 2003, in order to incorporate all prior amendments to the Plan and to make certain design changes.

There shall be no termination and no gap or lapse in time or effect between the Plan, as in effect on December 31, 2002 (the "Prior Plan"), and this Plan, as amended and restated effective as of January 1, 2003. The Prior Plan, as in effect on December 31, 2002, in the form of this Plan shall not operate to exclude, diminish, limit or restrict the payments or continuation of payments of benefits to Participants under the terms of the Plan as in effect on December 31, 2002. Except to the extent otherwise required to reflect the fact that such Prior Plan Participants' benefits accrued under the Plan are continued under this Plan, the provisions of this Plan shall apply only to an Employee or a Director participating in this Plan on or after January 1, 2003.

NOW, THEREFORE, the Company hereby amends, restates in its entirety and continues the Prior Plan, as in effect on December 31, 2002, in the form of this CenterPoint Energy, Inc. 1985 Deferred Compensation Plan, as amended and restated effective January 1, 2003, which shall read as follows:

ARTICLE I

PURPOSES OF PLAN; DEFINITIONS; DURATION

1.1 Purposes. This 1985 Deferred Compensation Plan of CenterPoint Energy, Inc. for selected management and highly compensated employees is intended to aid certain of its employees in making more adequate provision for their retirement and is intended to be a "top-hat" plan under sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974.

1.2 Definitions. Each term below shall have the meaning assigned thereto for all purposes of this Plan unless the context requires a different construction.

"Affiliate" means any corporation in which the shares owned or controlled, directly or indirectly, by the Company represent 80%, or more, of the voting power of the issued and outstanding capital stock of such corporation, and a corporation which owns or controls, directly or indirectly, 80% or more, of the voting power of the issued and outstanding capital stock of the Company, and any corporation in which 80% or more, of the voting power of the issued and outstanding capital stock is owned or controlled, directly or indirectly, by any corporation which owns or controls, directly or indirectly, 80% or more, of the voting power of the issued and outstanding capital stock of the Company.

"Age" means the Participant's age on his birthday nearest the applicable Commencement Date.

"Agreement" means the deferred compensation agreement between the Employer and the Participant describing the benefits payable to the Participant under the Plan with respect to salary deferrals and Bonus deferrals for a Participation Year. Deferrals for each separate Participation Year will be covered by a separate Agreement.

"Beneficiary" means a person or persons, a trustee or trustees of a trust, or a partnership, corporation, limited liability partnership, limited liability company, or other entity designated by the Participant, as provided in Section 4.1, to receive any amounts distributed under the Plan after the Participant's death.

"Bonus" means a formula or discretionary bonus or incentive compensation paid by an Employer, including, but not limited to, a vested award under the Company's Executive Incentive Compensation Plan, granted after September 1, 1985.

"Company" means CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets.

"Commencement Date" means the first day of the Participation Year with respect to which a Compensation deferral occurs, except for the 1985 Participation Year, for which the Commencement Date is October 1, 1985.

"Committee" means the Benefits Committee or such other committee, which shall consist of five or fewer persons, as shall be appointed by the Board of Directors of the Company to administer the Plan pursuant to Article II hereof.

"Compensation" means the salary and Bonus which an Employer pays its Employees, and the retainer fee paid to a Director by an Employer.

"Director" means a member of the board of directors of an Employer who is not an Employee of the Company or an Affiliate.

"Disability" means a physical or mental condition that qualifies as a total and permanent disability under the CenterPoint Energy, Inc. Long Term Disability Plan.

"Early Retirement Date" means with respect to an Employee the first day of the month coincident with or next following his 60th birthday; and means with respect to a Director the first day of the month coincident with or next following his resignation or removal as a Director before his Normal Retirement Date.

"Employee" means any person, including an officer of any Employer (whether or not he is also a director thereof), who, at the time such person is designated a Participant hereunder, is employed by the Employer on a full-time basis, who is compensated for such employment by a regular salary, and who, in the opinion of the Committee, is one of the officers or other key employees of the Employer in a position to contribute materially to the continued growth and development and to the future financial success of the Employer.

"Employer" means the Company and each Affiliate which has adopted this Plan.

"Employment" means employment with an Employer or currently acting as a Director of an Employer. Neither the transfer of a Participant from employment by the Company to employment by an Affiliate nor the transfer of a Participant from employment by an Affiliate to employment by the Company shall be deemed to be a termination of Employment of the Participant. Moreover, the Employment of a Participant shall not be deemed to have been terminated because of his absence from active employment on account of temporary illness or during authorized vacation or during temporary leaves of absence, granted by the Employer for reasons of professional advancement, education, health, or government service, or during military leave for any period if the Participant returns to active employment within 90 days after the termination of his military leave, or during any period required to be treated as a leave of absence by virtue of any valid law or agreement. Notwithstanding the foregoing, from and after October 1, 1997, a Participant's employment with STP Nuclear Operating Company shall be deemed to constitute "Employment" with an Employer hereunder for all purposes except any such Participant shall not be eligible to make any additional deferrals of Compensation under the Plan. Further notwithstanding the foregoing, from and after the RRI Distribution Date, a Participant's continuous employment with Reliant Resources, Inc. ("RRI") and/or its subsidiaries following such date ("RRI Employment") shall be deemed to constitute "Employment" with an Employer hereunder (to the extent such Participant commenced RRI Employment prior to the RRI Distribution Date and

immediately prior to such date was otherwise an Employee) for all purposes except any such Participant shall not be eligible to make any additional deferrals of Compensation under the Plan; provided, however, that such Participant made a one-time, irrevocable election on or before December 31, 2000, to treat such RRI Employment as Employment for the Plan as described herein. The Committee may allow individuals electing not to treat RRI Employment as "Employment" hereunder to make a subsequent, one-time election, on such form and in such manner as prescribed by the Committee, to transfer benefits under this Plan to a deferred compensation program or plan sponsored by RRI.

"Moody's Rate" means a rate of interest equal to the composite yield on Moody's Average Corporate Bond Yield Index for the calendar month as determined from Moody's Bond Record published by Moody's Investors Service, Inc. (or any successor thereto), or, if such yield is no longer published, a substantially similar average selected by the Committee.

"Normal Retirement Date" means with respect to an Employee the first day of the month coincident with or next following his 65th birthday or the date of his termination of employment, if later, and means with respect to a Director the first day of the month coincident with or next following his 70th birthday.

"Participant" means an Employee or a Director who has been designated by the Committee to participate in the Plan pursuant to Section 3.2 or 3.6 hereof.

"Participation Year" means (1) with respect to Compensation in the form of a Bonus, the Plan Year during which the Bonus would have been paid if not deferred, and (2) with respect to Compensation in the form of salary, the Plan Year during which a Participant performs services for the Employer for a salary.

"Plan" means the CenterPoint Energy, Inc. 1985 Deferred Compensation Plan, as initially established effective September 1, 1985, and amended and restated effective January 1, 2003, as set forth herein, and as the same may hereafter be amended from time to time.

"Plan Year" means the calendar year.

"RRI Distribution Date" means September 30, 2002, which is the date the Company distributed to its shareholders all shares of common stock of Reliant Resources, Inc. that the Company owned as of such date.

1.3 Term. The effective date of the Plan is September 1, 1985. The Plan shall continue until terminated by the Board of Directors of the Company.

ARTICLE II

ADMINISTRATION

The Plan shall be administered by the Committee. The Committee shall represent the Company and other Employers in all matters concerning the administration of the Plan. Members of the Committee may be Participants under the Plan, but no member may vote on any matter relating to his benefits under the Plan. The Committee shall have primary responsibility for the administration and operation of the Plan and shall have all powers necessary to carry out the provisions of the Plan, including the power to determine which Employees and Directors shall be Participants under the Plan and which Compensation may be subject to deferral. The determination of the Committee as to the construction, interpretation, or application of any terms and provisions of the Plan, including whether and when there has been a termination of an Employee's employment, shall be final, binding, and conclusive upon all persons.

ARTICLE III

PARTICIPATION

3.1 Eligibility of Employees and Directors. An Employee must be a manager or a highly compensated salaried employee of an Employer to be eligible to participate in the Plan. All Directors shall be eligible to participate in the Plan. The Committee may from time to time establish additional eligibility requirements for participation in the Plan.

3.2 Designation of Participants. Prior to the commencement of any Participation Year after 1985 the Committee shall designate and notify in writing the Employees and/or Directors who are eligible to elect to defer Compensation. A designation of an Employee or Director to participate with respect to Compensation for a particular Participation Year shall not automatically entitle such Participant to participate with respect to any other Participation Year. The Committee may, in its sole discretion, notify a Participant that he is entitled to participate with respect to all future Compensation for all Participation Years beginning after the date of notification by the Committee in which event the Participant may continue to participate and elect to defer Compensation awarded in respect of future Participation Years until such time as the Committee notifies the Participant in writing that he may not participate for particular future Participation Years.

Notwithstanding the foregoing or any other provision of the Plan to the contrary, no Employee or Director shall be eligible to be designated as a Participant in the Plan with respect to Compensation earned after December 31, 1988.

3.3 Election to Participate. After a Participant has been notified by the Committee that he is eligible to participate in the Plan, he must, in order to participate in the Plan, notify the Committee in writing of his election to so participate. The election to participate in the Plan shall be effective upon the receipt by the Committee of the Participant's written election to defer Compensation which specifies the type or types and the amount or amounts of his Compensation that he wishes to defer and the manner of such deferral pursuant to Section 3.4, 3.5 or 3.6 hereof.

3.4 Salary Deferral. A Participant's election to defer the payment of salary for 1986 and subsequent Plan Years must be made prior to December 1 of the Plan Year preceding the Plan Year in which the salary is earned by the Participant. Such election will be irrevocable as of December 31 of the calendar year preceding the calendar year in which the salary is earned.

A Participant may not elect to defer less than $2,000 for any Participation Year and may not elect to defer more than 40% of his annual salary in any Participation Year in which the Participant is Age 50 or older, and may not elect to defer more than 25% of his annual salary in any Participation Year in which the Participant is Age 49 or younger.

The amount of Compensation elected to be deferred pursuant to this Section 3.4 shall be withheld from the Participant's salary during a Plan Year in equal semi-monthly amounts.

3.5 Bonus Deferral. A Participant's election to defer the payment of a Bonus must be made prior to, and will become irrevocable on, the earlier of (a) December 1st of the Plan Year before the Participation Year with respect to which the Bonus is paid, or (b) the date on which the amount of Bonus to be paid to the Participant for such Participation Year is determined or determinable by the Board.

A Participant may not elect to defer more than 100% of his annual cash Bonus award with respect to a particular Participation Year, nor less than $2,000 for each Participation Year.

The amount of Compensation elected to be deferred under this Section 3.5 shall not be paid but shall be deemed to have been deferred in one lump sum on the Commencement Date of the applicable Participation Year. If the amount of Bonus awarded to the Participant with respect to a Participation Year is less than the amount of Bonus which the Participant had elected to defer for such Participation Year, the entire amount of the Bonus awarded shall be deferred in accordance with this Section 3.5, and no further deferral shall be made with respect to such election for such Participation Year.

3.6 Participation for the Participation Year Ending December 31, 1985. Notwithstanding any other provision of the Plan to the contrary, for the Participation Year ending December 31, 1985, the Committee may select and notify eligible Participants, in accordance with the provisions of Section 3.2 hereof, at any time on or before September 1, 1985.

Any such eligible Participant may elect in writing, in accordance with the provisions of Section 3.3 hereof, at any time on or before the date which follows by 30 days the date on which such Participant is so notified to defer the payment of any portion of his Compensation earned subsequent to October 1, 1985 and prior to December 31, 1985, up to the maximum salary deferral authorized under Section 3.4. Such election shall be irrevocable as of the date which follows by 30 days the date on which the Participant is so notified that he is eligible to participate in the Plan. The amount of Compensation elected to be deferred pursuant to this paragraph shall be withheld from the Participant's salary received subsequent to October 1, 1985 during the calendar year ending December 31, 1985, in equal semi-monthly amounts.

3.7 Waiver or Suspension of Deferral. The Committee may, in its sole discretion, grant a waiver or suspension of a Participant's irrevocable deferral election under this Article III for such time as the Committee may deem to be necessary upon a finding that the Participant has suffered a financial hardship.

3.8 Cessation of Post-1988 Deferrals. Notwithstanding any other provision of the Plan to the contrary, no Employee, Director or Participant shall be eligible to defer any Compensation (whether salary or Bonus) earned on or after January 1, 1989.

ARTICLE IV

BENEFICIARY DESIGNATIONS; WITHHOLDING

4.1 Beneficiary Designations. Each person becoming a Participant shall file with the Committee a designation of one or more Beneficiaries to whom distributions otherwise due the Participant shall be made in the event of his death while in the employ of the Company or after termination of employment but prior to the complete distribution of the benefits payable with respect to the Participant. Such designation shall be effective when received in writing by the Committee. The Participant may from time to time revoke or change any such designation of the Beneficiary by written document delivered to the Committee. If there is no valid designation of the Beneficiary on file with the Committee at the time of the Participant's death, or if all of the Beneficiaries designated therein shall have predeceased the Participant or otherwise ceased to exist, the Beneficiary shall be, and any payment hereunder shall be made to, the Participant's spouse, if she survives the Participant, otherwise to the Participant's estate. If the Beneficiary, whether under a valid beneficiary designation or under the preceding sentence, shall survive the Participant but die before receiving all payments hereunder, the balance of the benefits which would have been paid to the Beneficiary had he or she lived shall, unless the Participant's designation provided otherwise, be distributed to the Beneficiary's estate.

4.2 Withholding of Taxes. The Committee shall cause the Employer to deduct from the amount of all benefits paid under the Plan any taxes required to be withheld by the federal government or any state or local government.

ARTICLE V

BENEFITS

5.1 Benefit Payments. The benefit payments with respect to deferrals for a specific Participation Year will be determined by the amount of Compensation deferred during that Participation Year and the Participant's Age on the Commencement Date, as set forth below:

(a) A Participant who has attained Age 58 or older on the Commencement Date of a Participation Year during which part of his Compensation is deferred will receive 15 annual installment payments from his Employer commencing on the first day of the month following his termination of employment on or after his Normal Retirement Date. A Participant who has attained Age 55, 56 or 57 on the Commencement Date of a Participation Year during which part of his Compensation is deferred will receive equal annual installments for three years if Age 55, or for two years if Age 56, or will receive a

single payment if Age 57, to commence or to be paid on the seventh anniversary of the Commencement Date, provided he remains in the continuous employ of his Employer from the Commencement Date through the date(s) of payment of such annual installment(s) or, if applicable, his Early Retirement Date. Each such Participant Age 55, 56 or 57 on any such Commencement Date will also receive annual installment payments for 15 years commencing on the first of the month following his termination of employment on or after his Normal Retirement Date. In any case where payments pursuant to this Section 5.1(a) are to commence later than the Participant's Normal Retirement Date, the amount of such payments otherwise payable commencing on the Participant's Normal Retirement Date shall be increased by application of the interest rate specified in his Agreement, compounded annually from his Normal Retirement Date until the date of the first such payment.

(b) A Participant who has not attained Age 55 on the Commencement Date of a Participation Year during which part of his Compensation is deferred will receive equal annual installments for four years commencing on the seventh anniversary of the Commencement Date, provided he remains in the continuous employ of his Employer from the Commencement Date through the date(s) of payment of such annual installment(s) or, if applicable, his Early Retirement Date. Such a Participant will also receive annual installment payments for 15 years commencing on the first of the month following his termination of employment on or after his Normal Retirement Date. In any case where such 15 annual installment payments pursuant to this Section 5.1(b) are to commence later than the Participant's Normal Retirement Date, the amount of such payments otherwise payable commencing on his Normal Retirement Date shall be increased by application of the interest rate specified in his Agreement, compounded annually, from his Normal Retirement Date until the date of the first such payment.

(c) Notwithstanding any provision of this Article V to the contrary, a Participant who terminates employment (i) after December 31, 2002, and (ii) on or after the first day of the month coincident with or next following the Participant's 55th birthday but prior to his Early Retirement Date shall receive his benefit under the Plan in 15 annual installment payments, with such payments 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, if such Participant consents to receiving his benefit in accordance with this Section 5.1(c). If the Participant does not so consent, his benefit shall be paid as otherwise provided under this Article V.

(d) Any Participant who terminates employment after his Early Retirement Date (or an earlier date if authorized by the Committee in its discretion) but prior to his Normal Retirement Date, will (if he is living on the date of payment) receive 15 equal annual installment payments commencing on the first of the month following his Normal Retirement Date. Such commencement date may be accelerated by the Committee, in its sole discretion, but could not occur before a Participant's termination of employment. In any case where 15 annual installment payments pursuant to this Section 5.1(d) are to commence earlier than the Participant's Normal Retirement Date, the amount of such payments otherwise payable commencing on the Participant's Normal Retirement Date shall be reduced and discounted to reflect early receipt by application of the interest rate

specified in the Participant's Agreement, compounded annually, for the period from the date of payment to the Participant's Normal Retirement Date.

(e) The amount of benefit payments will be stated in the Agreement between the Employer and the Participant, based on the Company's administrative guidelines under the Plan.

(f) Any installment benefits, at the request of the Participant and in the sole discretion of the Committee, may be commuted to a lump-sum payment or may be paid over a shorter period of time on the basis of the interest rate specified in the Participant's Agreement, compounded annually.

5.2 Death.

(a) If a Participant dies (i) prior to his Normal Retirement Date and prior to his termination of employment, or (ii) after his termination of employment having met the requirements for 15 annual installment payments pursuant to Section 5.1(d) as of the date of such termination, but prior to the commencement of such 15 annual installments payments, the payments otherwise described in Section 5.1 not theretofore made shall not be made, but the Employer shall pay Participant's Beneficiary the sum or sums actually deferred with interest thereon compounded annually from the Commencement Date through the date of payment at the annual percentage rate specified in the Participant's Agreement, less an amount equal to the benefits paid prior to Participant's death with interest thereon at such annual rate compounded annually from the date of such prior benefit payment through the date of payment of the death benefit pursuant to this Section 5.2(a). The payment pursuant to this Section 5.2(a) shall be made within 90 days following the date of Participant's death. Notwithstanding the foregoing, if there is a conflict between the provisions of this section and the terms of the Participant's Severance Agreement (as described in Section 5.4), the terms of the Severance Agreement shall control.

(b) If Participant dies (i) after his Normal Retirement Date but prior to his termination of employment, (ii) after his termination of employment, provided he had attained his Normal Retirement Date on or before the date of such termination, or (iii) after commencement of 15 annual installment payments pursuant to Section 5.1 but prior to completion of all such payments, the Employer shall make (or continue to make) such payments provided for in Section 5.1 to the Participant's Beneficiary. Notwithstanding the foregoing, if there is a conflict between the provisions of this section and the terms of the Participant's Severance Agreement (as described in Section 5.4), the terms of the Severance Agreement shall control.

(c) Any installment death benefits, at the request of the Beneficiary and in the sole discretion of the Committee, may be commuted to a lump-sum payment or may be paid over a shorter period of time on the basis of the interest rate specified in the Participant's Agreement, compounded annually. Notwithstanding the foregoing, if there is a conflict between the provisions of this section and the terms of the Participant's Severance Agreement (as described in Section 5.4), the terms of the Severance Agreement shall control.

5.3 Disability. In the event of the Disability of a Participant while in the employ of an Employer, the Participant shall be considered to have remained in the continuous employment of the Employer during his Disability until his Normal Retirement Date or earlier death. The benefits payable to each Participant under the Plan shall be paid in the amounts and at the times otherwise provided in Section 5.1, except that at the request of the Participant and in the sole discretion of the Committee any such payments may be commuted to a lump-sum payment or may be paid over a shorter period of time on the basis of the interest rate specified in the Participant's Agreement, compounded annually.

5.4 Payment Upon Termination of Employment. If the employment of a Participant who is an Employee of an Employer is terminated for any reason other than death, retirement at or after his Normal Retirement Date, or early retirement in accordance with the provisions of Section 5.1(c) or 5.1(d), the 15 annual installment payments described in Section 5.1 shall not be made, but the Employer shall pay the Participant the sum or sums actually deferred with interest thereon compounded annually from the Commencement Date through the date of payment, at a rate determined as follows:

(a) If the date of Participant's termination of employment occurs prior to the seventh anniversary of the Commencement Date, the interest rate shall be the lesser of (i) Moody's Rate, or (ii) the annual percentage rate specified in Participant's Agreement.

(b) If the date of Participant's termination of employment occurs after the seventh anniversary of the Commencement Date, the interest rate shall be the annual percentage rate specified in Participant's Agreement.

Notwithstanding the foregoing, the amount payable under this Section 5.4 shall be reduced by an amount equal to any benefits paid prior thereto with interest thereon at the rate determined in accordance with the foregoing compounded annually from the date of such prior benefit payment through the date of the termination payment pursuant to this Section 5.4. The payment pursuant to this Section 5.4 shall be made on the first of the month coincident with or next following the expiration of 90 days following the date of Participant's termination of employment.

However, if any Participant who has entered into a Severance Agreement, as defined in the CenterPoint Energy, Inc. Executive Severance Benefits Plan, effective as of September 3, 1997, experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Participant shall be treated as if his termination did not occur until after his Early Retirement Date, and the provisions of Section 5.1(d) shall apply.

5.5 Termination of Employment During Participation Year. If Participant terminates his employment with an Employer for any reason during the Participation Year for which Compensation is to be deferred, the amount of deferral specified in his Agreement for that Participation Year shall be adjusted to equal the actual deferral amount for the Participation Year prior to such termination. In addition, any benefits payable in accordance with this Plan shall be proportionately reduced to reflect such actual deferral amount.

5.6 Terminations Under the Separation Program.

(a) Voluntary Terminations.

(i) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant is terminated voluntarily under the Voluntary Early Retirement Program adopted by the Board of Directors of the Company on January 8, 1992 and prior to the first day of the month coincident with or next following the Participant's 60th birthday, a Normal Retirement Date distribution as described in Section 5.1 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 rate specified in the Participant's agreement for each Participation Year, from the Commencement Date through the date of payment, (y) shall pay such amount in 15 annual installment payments, in accordance with Section 5.1(b) above, commencing the month 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 equal annual installments to such Participant, as described in Section 5.1(a)-(b).

(ii) After Early Retirement Date. If the employment of a Participant is terminated voluntarily as described in (a)(i) above but after the first day of the month coincident with or next following the Participant's 60th birthday, distributions (including the equal annual installments) shall be made as otherwise provided in this Article V.

(b) Involuntary Terminations.

(i) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant is terminated involuntarily under the severance program adopted by the Board of Directors of the Company on January 8, 1992 and prior to the first day of the month coincident with or next following the Participant's 60th birthday, a Normal Retirement Date distribution as described in Section 5.1 shall not be made, but the Employer (a) 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, (b) shall pay such amount in a lump sum within 90 days following the date of Participant's termination of employment or as soon as practicable thereafter, and (c) shall not make any equal annual installments to such Participant, as described in Section 5.1(a)-(b).

(ii) After Early Retirement Date. If the employment of a Participant is terminated involuntarily as described in (b)(i) above but after the first day of the month coincident with or next following the

Participant's 60th birthday, distributions (including the equal annual installments) shall be made as otherwise provided in this Article V.

(c) Commutation. Any installment payments hereunder may be commuted as provided in Section 5.1(f).

5.7 Terminations Under the UFI Severance Program.

(a) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant is terminated under the Utility Fuels, Inc. severance program, on or after July 26, 1993, and prior to the first day of the month coincident with or next following the Participant's 60th birthday, a Normal Retirement Date distribution as described in Section 5.1 shall not be made, but the Employer (i) 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, (ii) shall pay such amount in a lump sum within 90 days following the date of Participant's termination of employment or as soon as practicable thereafter (or, if a Participant is designated to receive installment payments as determined in the sole discretion of the Chief Operating Officer of the Company, shall pay such amount in 15 annual installment payments, in accordance with Section 5.1(b) above, commencing the month following the month in which such designated Participant terminates employment and payable thereafter in that same month in each remaining year), and (iii) shall not make any equal annual installments to such Participant, as described in Section 5.1(a)-(b), after the date of termination.

(b) After Early Retirement Date. If the employment of a Participant is terminated as described in (a) above but after the first day of the month coincident with or next following the Participant's 60th birthday, distributions (including the equal annual installments) shall be made as otherwise provided in this Article V.

(c) Commutation. Any installment payments hereunder may be commuted as provided in Section 5.1(f).

5.8 Terminations Under the 1995 Voluntary Early Retirement Program.

(a) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant who fulfills the requirements for the Voluntary Early Pension for 1995 Program participants under Section 9.7(a) 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, distribution shall not be made as described in Section 5.1(a), (b) or (d), 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, (y) shall pay such amount in 15 annual installment payments, commencing the first day of the month following the month in which the Participant terminates employment and payable thereafter in that same month in each remaining year, and

(z) shall not pay any equal annual installments (as described in Section 5.1(a)-(b)) 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 Participant's Early Retirement Date, distributions (including the equal annual installments) shall be made as otherwise provided in this Article V.

(c) Commutation. Any installment payments hereunder may be commuted as provided in Section 5.1(f).

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), (b) or (d), 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 equal annual installments, as described in Section 5.1(a)-(b), 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(f).

ARTICLE VI

RIGHTS OF PARTICIPANTS

6.1 Limitation of Rights. Nothing in this Plan shall be construed to:

(a) Give any Employee of an Employer any right to be designated a Participant in the Plan other than in the sole discretion of the Committee;

(b) Limit in any way the right of the Employer to terminate a Participant's employment at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company or any other Employer will employ a Participant in any particular position or at any particular rate of remuneration.

6.2 Non-Alienation of Benefits. No right or benefit under this Plan shall be subject to anticipation, alienation, transfer, sale, assignment, pledge, encumbrance or charge, whether voluntary, involuntary, direct or indirect, by operation of law or otherwise, including, without limitation, a change in beneficial interest of any trust and a change in ownership of a corporation or partnership, but not including a change of legal and beneficial title of a right or benefit resulting from the death of any Participant or the spouse of any Participant (any such proscribed transaction hereinafter a "Disposition") and any attempted Disposition will be null and void. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of any Participant or other person entitled to such benefits. The foregoing provisions of this Section 6.2 shall not apply to a domestic relations order awarding any benefits under the Plan to the divorced spouse of a Participant. The foregoing provisions of this Section 6.2 shall also not apply to an irrevocable Disposition of a right or benefit under this Plan to a "Permitted Assignee," as defined below, by (i) a Participant age 55 or older (an "Eligible Participant"), or (ii) a "Permitted Assignee," as defined below, who has received an assignment from an Eligible Participant pursuant to this sentence.

(a) Permitted Assignee. The term "Permitted Assignee" shall mean:

(i) The Eligible Participant;

(ii) A spouse of the Eligible Participant;

(iii) Any person who is a lineal ascendant or descendant of the Eligible Participant or the Eligible Participant's spouse;

(iv) Any brother or sister of the Eligible Participant;

(v) Any spouse of any individual described in subparagraph (iii) or (iv);

(vi) A trustee of any trust which, at the applicable time, is 100% Actuarially Held for a Permitted Assignee or Assignees (as defined in Section 6.2(c));

(vii) Any corporation in which, at the applicable time, each class of stock is 100% owned by a Permitted Assignee or Permitted Assignees;

(viii) Any partnership in which, at the applicable time, each class of partnership interest is 100% owned by a Permitted Assignee or Permitted Assignees; or

(ix) Any limited liability company or other form of incorporated or unincorporated business organization in which each class of stock, membership or other equity interest is 100% owned by a Permitted Assignee or Assignees.

(b) Subsequent Assignees. This Section 6.2 shall be fully applicable to all Permitted Assignees, and the provisions of this Section 6.2 shall be fully applicable to any right or benefit transferred by an Eligible Participant to any Permitted Assignee as if such Permitted Assignee were an Eligible Participant; provided, however, that no Permitted Assignee shall be deemed an Eligible Participant for determining the persons who constitute Permitted Assignees under Section 6.2(a). Any Permitted Assignee acquiring a right or benefit under this Plan shall execute and deliver to the Committee an Agreement pursuant to which such Permitted Assignee agrees to be bound by all of the terms and provisions of the Plan, provided that the failure to execute and deliver such an Agreement shall not be deemed to relieve such Permitted Assignee of the restrictions imposed by the Plan. Any attempted Disposition of a right or benefit under this Plan in breach of this Section 6.2, whether voluntary, involuntary, by operation of law or otherwise shall be null and void.

(c) Actuarially Held. In making the determination whether a trust is 100% Actuarially Held for Permitted Assignee(s), a trust, at the applicable point in time, is 100% Actuarially Held for Permitted Assignee or Assignees when 100% of the actuarial value of the beneficial interests of the trust, except as provided in the following sentence, are held for a Permitted Assignee or Permitted Assignees. For purposes of making the determination described above, the possibility that an interest in a trust may be appointed pursuant to a special or general power of appointment shall be ignored; provided, that the actual exercise of any such power of appointment shall not be ignored.

6.3 Prerequisites to Benefits. No Participant, nor any Beneficiary or other person claiming through a Participant, shall have any right or interest in the Plan, or any benefits hereunder, unless and until all the terms, conditions, and provisions of the Plan which affect such Participant or such other person shall have been complied with as specified herein.

6.4 Nature of Employer's Obligation. This Plan is intended to be, and shall be construed as, an unfunded plan maintained by each Employer primarily for the purpose of providing deferred compensation for a select group of its management or highly compensated employees. The benefits provided under this Plan shall be a general, unsecured obligation of the Employer payable solely from the general assets of the Employer, and neither the Participant nor the Participant's Beneficiary or estate shall have any interest in any assets of the Employer by virtue of this Plan. No fund or other assets will ever be set aside or segregated for the benefit of the Participant or the Participant's Beneficiary under this Plan. The adoption of the Plan and any setting aside of amounts by an Employer with which to discharge its obligations hereunder shall not be deemed to create a trust; legal and equitable title to any funds so set aside shall remain in the Employer and any funds so set aside shall remain subject to the general creditors of the Employer. If it becomes necessary for a Participant to institute a claim, by litigation or otherwise, to enforce his rights under the Plan, the Employer shall indemnify Participant from and against all costs and expenses, including legal fees, incurred by him instituting and maintaining such claim.

6.5 Claims and Review Procedures.

(a) Claims Procedure. If any person believes he or she is entitled to any rights or benefits under the Plan, such person may file a claim in writing with the Committee.

If any such claim is wholly or partially denied, the Committee will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) information as to the steps to be taken if the person wishes to submit a request for review, the time limits applicable to such procedures, and a statement of the person's rights following an adverse benefit determination on review, including a statement of his or her right to file a lawsuit under the Employee Retirement Income Security Act of 1974 ("ERISA") if the claim is denied on appeal. Such notification will be given within 90 days after the claim is received by the Committee (or within 180 days, if special circumstances require an extension of time for processing the claim, and if written notice of such extension and circumstances is given to such person within the initial 90-day period).

(b) Claim Review Procedure. Within 60 days after the date on which a person receives a notice of denial (or within 60 days after the date on which such denial is considered to have occurred), such person or his or her duly authorized representative ("Applicant") may (i) file a written request with the Committee for a review of his or her denied claim; (ii) review pertinent documents; and (iii) submit issues and comments in writing. The Committee shall render a decision no later than the date of its regularly scheduled meeting next following receipt of a request for review, except that a decision may be rendered no later than the second such meeting if the request is received within 30 days of the first meeting. The Applicant may request a formal hearing before the Committee which the Committee may grant in its discretion. Notwithstanding the foregoing, under special circumstances that 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 regularly scheduled Committee meeting following the receipt of the request for review. If such an extension is required, the Applicant will be advised in writing before the extension begins. The decision on review shall be in written or electronic notice of the final determination. If the claim is denied in whole or part, such notice, which shall be in a manner calculated to be understood by the person receiving such notice, shall include the specific reasons for the decision, the specific references to the pertinent plan provisions on which the decision is based, that the person is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits, and a statement of the person's right to file a lawsuit under ERISA.

Benefits under this Plan will only be paid if the Committee decides, in its discretion, that a person is entitled to them. Moreover, no action at law or in equity shall be brought to recover benefits under this Plan prior to the date the claimant has exhausted the administrative process of appeal available under the Plan.

ARTICLE VII

MISCELLANEOUS

7.1 Amendment or Termination of the Plan. The Board of Directors of the Company may amend or terminate this Plan at any time. Any such amendment or termination

shall not, however, affect the rights of any Participant to any accrued benefits payable under the Plan. Any such amendment or termination shall not, however, without the written consent of the affected Participant, reduce the interest rate applicable to, or otherwise adversely affect the rights of a Participant with respect to, Compensation with respect to which a Participant made an irrevocable deferral election before the later of the date that such amendment is executed or effective.

7.2 Reliance Upon Information. The Committee shall not be liable for any decision or action taken in good faith in connection with the administration of this Plan. Without limiting the generality of the foregoing, any such decision or action taken by the Committee in reliance upon any information supplied to it by an officer of the Company, the Company's legal counsel, or the Company's independent accountants in connection with the administration of this Plan shall be deemed to have been taken in good faith.

7.3 Effective Date. The Plan was originally effective as of September 1, 1985, and amended and restated effective as of January 1, 2003.

7.4 Governing Law. The Plan shall be construed, administered, and governed in all respects under the laws of the State of Texas.

7.5 Severability. If any term, provision, covenant, or condition of the Plan is held to be invalid, void, or otherwise unenforceable, the rest of the Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

7.6 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the dates shown on the postmark on the receipt for registration or certification.

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 _____ day of September, 2003, but effective as of January 1, 2003.

CENTERPOINT ENERGY, INC.

By: /s/David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/Richard Dauphin
- ---
Assistant Secretary

Exhibit 10.2

CENTERPOINT ENERGY, INC.
DEFERRED COMPENSATION PLAN

(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2003)

CENTERPOINT ENERGY, INC.
DEFERRED COMPENSATION PLAN

(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2003)

TABLE OF CONTENTS

CENTERPOINT ENERGY, INC.
DEFERRED COMPENSATION PLAN

(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2003)

RECITALS

Houston Industries Incorporated, a Texas corporation ("HII"), established the Houston Industries Incorporated Deferred Compensation Plan, effective as of January 1, 1989, and as thereafter amended (the "1989 Plan"), for the benefit of its eligible employees.

HII established the Houston Industries Incorporated Deferred Compensation Plan, effective as of January 1, 1991, and as thereafter amended (the "1991 Plan"), for the benefit of its eligible employees.

CenterPoint Energy, Inc., a Texas corporation (the "Company"), as successor to HII, became sponsor of the plans effective as of August 31, 2002.

The Board of Directors of the Company authorized the merger of the 1989 Plan with the 1991 Plan and the amendment and restatement of the resulting merged plan, effective as of January 1, 2003 (the "Plan"), in order to incorporate all prior amendments to the 1989 Plan and 1991 Plan, as in effect on December 31, 2002 (the "Prior Plans"), to reflect the merger of Prior Plans, and to make certain design changes.

There shall be no termination and no gap or lapse in time or effect between the Prior Plans, as each was in effect on December 31, 2002, and this Plan, as amended and restated effective as of January 1, 2003. The Plan shall not operate to exclude, diminish, limit or restrict the payments or continuation of payments of benefits to Participants under the terms of the Prior Plans as each was in effect on December 31, 2002. Except to the extent otherwise required to reflect the fact that the Participants' benefits accrued under the Prior Plans are continued under this Plan, the provisions of this Plan shall apply only to an Employee or a Director eligible to participate under this Plan on or after January 1, 2003.

NOW, THEREFORE, the Company hereby merges, amends, restates in its entirety and continues the Prior Plans, as each was in effect on December 31, 2002, in the form of this CenterPoint Energy, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 2003, which shall read as follows:

ARTICLE I

PURPOSES OF PLAN; DEFINITIONS; DURATION

1.1 Purposes. This CenterPoint Energy, Inc. Deferred Compensation Plan for selected management and highly compensated employees is intended to aid certain of its employees in making more adequate provision for their retirement and is intended to be a "top-hat" plan under sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974.

1.2 Definitions. Each term below shall have the meaning assigned thereto for all purposes of this Plan unless the context requires a different construction.

"Agreement" means the deferred compensation agreement, if any, between the Employer and the Participant which, for this Plan, specifies the amount of Compensation being deferred, the method of payment for benefits payable under this Plan at normal retirement, and the election of any Early Distribution. Deferrals for each separate Participation Year will be covered by a separate Agreement, if any.

"Beneficiary" means a person or persons, a trustee or trustees of a trust, or a partnership, corporation, limited liability partnership, limited liability company, or other entity designated by the Participant, as provided in Section 4.1, to receive any amounts distributed under the Plan after a Participant's death.

"Bonus" means, on and after January 1, 2003, a formula or discretionary bonus or incentive compensation paid under the CenterPoint Energy, Inc. Short Term Incentive Plan.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means CenterPoint Energy, Inc., a Texas corporation, or a successor to CenterPoint Energy, Inc., in the ownership of substantially all of its assets.

"Commencement Date" means the first day of the Participation Year, with respect to which a Compensation deferral occurs.

"Committee" means the Benefits Committee or such other committee, which shall consist of five or fewer persons, as shall be appointed by the Board of Directors of the Company to administer the Plan pursuant to Article II hereof.

"Compensation" means the salary and Bonus which an Employer pays its Employees, and the meeting attendance fees and retainer fee paid to a Director by an Employer.

"Director" means a member of the board of directors of an Employer. A Director who is also an Employee shall be considered an Employee for all purposes with respect to salary and Bonus deferrals and shall be considered a Director for all purposes with respect to deferrals of meeting attendance fees.

"Disability" means a physical or mental condition that qualifies as a total and permanent disability under the CenterPoint Energy, Inc. Long Term Disability Plan, as amended from time to time.

"Early Distribution" means the benefit payment option available to a Participant under Section 5.1(a) hereof.

"Early Retirement Date" means with respect to an Employee the first day of the month coincident with or next following his 60th birthday or an earlier age as may be authorized by the Committee in its sole discretion; and means with respect to a Director the first day of the month coincident with or next following his resignation or removal as a Director before his Normal Retirement Date.

"Employee" means any person, including an officer of any Employer (whether or not he is also a director thereof), who, at the time such person is designated a Participant hereunder, is employed by an Employer on a full-time basis, who is compensated for such employment by a regular salary, and who, in the opinion of the Committee, is one of the officers or other key employees of the Employer in a position to contribute materially to the continued growth and development and to the future financial success of the Employer. Any Participant who is an Employee of a Subsidiary shall not be deemed to have terminated employment with an Employer for purposes of this Plan until the date upon which the Participant is no longer employed by any entity which would be considered an "Employer" or Subsidiary hereunder.

"Employer" means (i) the Company, (ii) each Subsidiary which has adopted the Plan with the consent of the Committee, and (iii) each other employing organization in which the Company has a direct or indirect ownership interest and which has been approved by the Committee as an Employer under the Plan, subject to the terms and conditions established by the Committee.

"Employment" means employment with an Employer as an Employee or the current holding of a position as a Director of an Employer. Neither the transfer of an Employee Participant from employment by the Company to employment by a Subsidiary nor the transfer of an Employee Participant from employment by a Subsidiary to employment by the Company shall be deemed to be a termination of Employment of such Participant. Moreover, the Employment of a Participant shall not be deemed to have been terminated because of his absence from active employment on account of temporary illness or during authorized vacation or during temporary leaves of absence, granted by the Employer for reasons of professional advancement, education, health, or government service, or during military leave for any period if the Participant returns to active employment within 90 days after the termination of his military leave, or during any period required to be treated as a leave of absence by virtue of any valid law or agreement. Notwithstanding the foregoing, from and after October 1, 1997, a Participant's employment with STP Nuclear Operating Company shall be deemed to constitute "Employment" with an Employer hereunder for all purposes except any such Participant shall not be eligible to make any additional deferrals of Compensation under the Plan. Further notwithstanding the foregoing, from and after the RRI Distribution

Date, a Participant's continuous employment with Reliant Resources, Inc. ("RRI") and/or its subsidiaries following such date ("RRI Employment") shall be deemed to constitute "Employment" with an Employer hereunder (to the extent such Participant commenced RRI Employment prior to the RRI Distribution Date and immediately prior to such date was otherwise an Employee) for all purposes except any such Participant shall not be eligible to make any additional deferrals of Compensation under the Plan; provided, however, that such Participant made a one-time, irrevocable election on or before December 31, 2000, to treat such RRI Employment as Employment for the Plan as described herein. The Committee may allow individuals electing not to treat RRI Employment as "Employment" hereunder to make a subsequent, one-time election, on such form and in such manner as prescribed by the Committee, to transfer benefits under this Plan to a deferred compensation program or plan sponsored by RRI.

"Interest Crediting Rate" means, for a given Plan Year, a rate of interest equivalent to the average Moody's Rate for such year plus two percentage points (2%) or, with respect to a Participant who is designated to receive a higher rate of interest by the Committee of the Board, such higher rate as determined by the Committee of the Board and communicated to such Participant.

"Moody's Rate" means a rate of interest equal to the composite yield on Moody's Long-Term Corporate Bond Index for the calendar month as determined from Moody's Bond Record published by Moody's Investor's Service, Inc. (or any successor thereto), or, if such yield is no longer published, a substantially similar average selected by the Committee.

"Normal Retirement Distribution" means the benefit payment options available to a Participant under Section 5.1(b) hereof.

"Normal Retirement Date" means with respect to an Employee the first day of the month coincident with or next following his 65th birthday, and means with respect to a Director the first day of the month coincident with or next following his 70th birthday.

"Participant" means an Employee or a Director who has been designated by the Committee to participate in the Plan pursuant to Section 3.2 hereof and who has elected to participate in the Plan pursuant to Section 3.3.

"Participation Year" means (i) with respect to Compensation in the form of a Bonus, the Plan Year during which the Bonus would have been paid if not deferred, (ii) with respect to Compensation in the form of salary, the Plan Year during which a Participant performs services for the Employer for a salary, and (iii) with respect to Compensation in the form of a Director's meeting attendance fees and a Director's retainer fee, the Plan Year during which a Participant performs services for the Company or a Subsidiary for such fees.

"Plan" means the CenterPoint Energy, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 2003, and as set forth herein, as the same may hereafter be amended from time to time.

"Plan Year" means the calendar year.

"Prior Agreement" means the Deferred Compensation Agreement, if any, entered into between the Employer and Participant pursuant to provisions of the Prior Plan.

"Prior Plan" means collectively and individually, as applicable, the CenterPoint Energy, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 1989, and thereafter amended, and the CenterPoint Energy, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 1991, and thereafter amended, as each was in effect on December 31, 2002, and each of which is incorporated herein by reference for purposes of its applicability under this Plan as to Compensation deferred with respect to Participation Years commencing before January 1, 2003.

"RRI Distribution Date" means September 30, 2002, which is the date the Company distributed to its shareholders all shares of common stock of Reliant Resources, Inc. that the Company owned as of such date.

"Subsidiary" means a subsidiary corporation with respect to the Company as defined in Section 424(f) of the Code.

Words used in this Plan 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 may be appropriate under any particular circumstances of the masculine, feminine or neuter genders.

1.3 Term. The effective date of the Plan, as amended and restated, is January 1, 2003. The Plan shall continue until terminated by the Board of Directors of the Company. The Committee, in its sole discretion, may or may not authorize deferral of Compensation during the term of the Plan.

ARTICLE II

ADMINISTRATION

The Plan shall be administered by the Committee, which shall represent the Company and other Employers in all matters concerning the administration of the Plan. Members of the Committee may be Participants under the Plan, but no member may vote on any matter relating to his benefits under the Plan. The Committee shall have primary responsibility for the administration and operation of the Plan and shall have all powers necessary to carry out the provisions of the Plan, including the power to determine which Employees and Directors shall be Participants under the Plan and which Compensation may be subject to deferral. The determination of the Committee as to the construction, interpretation, or application of any terms and provisions of the Plan, including whether and when there has been a termination of an Employee's employment, shall be final, binding, and conclusive upon all persons.

ARTICLE III

PARTICIPATION

3.1 Eligibility of Employees and Directors. An Employee must be a manager or a highly compensated (within the meaning of Section 414(q) of the Code) salaried employee of an Employer to be eligible to participate in the Plan. All Directors shall be eligible to participate in the Plan. The Committee may from time to time establish additional eligibility requirements for participation in the Plan.

3.2 Designation of Participants. Prior to the commencement of any Participation Year, the Committee shall designate and notify in writing the Employees and/or Directors who are eligible to defer Compensation under this Plan. A designation of an Employee or Director to participate with respect to Compensation for a particular Participation Year shall not automatically entitle such Participant to participate with respect to any other Participation Year. The Committee may, in its sole discretion, notify a Participant that he is entitled to participate with respect to all future Compensation for all Participation Years beginning after the date of notification by the Committee, in which event the Participant may continue to participate and elect to defer Compensation awarded in respect of future Participation Years until such time as the Committee notifies the Participant in writing that he may not participate for future Participation Years.

3.3 Election to Participate. After an Employee or Director has been notified by the Committee that he is eligible to participate in the Plan he must notify the Committee that he chooses to participate in the Plan. An election to participate in the Plan shall be effective upon its receipt by the Committee. A Participant's election (i) shall specify the type or types and the amount or amounts of Compensation that he wishes to defer and the manner of such deferral pursuant to Sections 3.4 through 3.7 hereof; (ii) shall specify, if the Participant so elects, that he wishes to receive an Early Distribution of benefits with respect to some or all deferrals for such Participation Year under Section 5.1(a) hereof; and (iii) shall specify the manner of Normal Retirement Distribution the Participant chooses with respect to such deferrals under Section 5.1(b) hereof.

3.4 Salary Deferral. A Participant's election to defer the payment of salary must be made prior to the first day of the Plan Year in which the salary is earned by the Participant. Such election will be irrevocable as of December 31 of the calendar year preceding the calendar year in which the salary is earned.

A Participant may not elect to defer more than 100% of his annual salary with respect to a particular Participation Year. The amount of Compensation elected to be deferred under this Section 3.4 shall be withheld from the Participant's salary during a Plan Year in equal amounts. Any interest which accrues on such 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.

A Participant may also make a "Savings Plan excess deferral election" with respect to the payment of Compensation resulting from the limitations under Section 401(a)(17)

or 415(c) of the Code (or any successor provisions) (the "Applicable Limits") with respect to contributions made to the CenterPoint Energy, Inc. Savings Plan, as amended from time to time ("Savings Plan"). 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 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 Participant Year under this Section 3.4.

3.5 Bonus Deferral. A Participant's election to defer the payment of a Bonus must be made prior to the first day of the Plan Year in which the Bonus is paid to the Participant. Such election will be irrevocable as of December 31 of the calendar year preceding the calendar year in which the Bonus is paid. The foregoing notwithstanding, for the Plan Year commencing January 1, 2003, any deferral of a Bonus earned in 2002 shall be accomplished under the terms of the Prior Plan.

A Participant may not elect to defer more than 100% of his annual cash Bonus award with respect to a particular Participation Year. The amount of Compensation elected to be deferred under this Section 3.5 shall be withheld from the Participant's Bonus otherwise payable during the Plan Year. If the amount of Bonus awarded to the Participant with respect to a Participation Year is less than the amount of Bonus which the Participant had elected to defer for such Participation Year, the entire amount of the Bonus awarded shall be deferred in accordance with this Section 3.5, and no further deferral shall be made with respect to such election for such Participation Year. Any interest which accrues on such deferrals pursuant to Article V shall accrue from January 1 of each Participation Year on the total amount of the Bonus deferred during the Participation Year under this Section 3.5.

3.6 Retainer Fee Deferral. A Participant's election to defer the payment of a retainer fee must be made prior to the first day of the Plan Year in which the retainer fee is earned by the Participant. Such election will be irrevocable as of December 31 of the Plan Year preceding the Participation Year with respect to which the retainer fee is payable.

A Participant may not elect to defer more than 100% of his annual retainer fee with respect to a particular Participation Year. The amount of Compensation elected to be deferred under this Section 3.6 shall not be paid but shall be withheld from the Participant's retainer fee otherwise payable during the Plan Year. Any interest which accrues on such deferrals pursuant to Article V shall accrue from January 1 of each Participation Year on the total amount of Compensation elected to be deferred under this Section 3.6.

3.7 Meeting Attendance Fees Deferral. A Participant's election to defer the payment of meeting attendance fees must be made prior to the first day of the Plan Year in which the meeting attendance fees are paid to the Participant. Such election will be irrevocable as of December 31 of the Plan Year preceding the Participation Year with respect to which the meeting attendance fees are payable.

A Participant may not elect to defer more than 100% of the total meeting attendance fees payable in any Participation Year. The amount of Compensation elected to be deferred pursuant to Section 3.7 shall be withheld from each meeting attendance fee earned by a Director during a Participation Year in equal percentages. Any interest which accrues on such deferrals pursuant to Article V shall accrue from January 1 of each Participation Year on the total amount of Compensation elected to be deferred under this Section 3.7.

3.8 Waiver or Suspension of Deferral. The Committee may, in its sole discretion, grant a waiver or suspension of a Participant's irrevocable deferral election under this Article III for such time as the Committee may deem to be necessary upon a finding that the Participant has suffered a financial hardship. The Committee may also, in its sole discretion, permit a Participant to take prospective remedial action within the same year in order to bring his total Compensation deferral for the Participation Year in which the event resulting in a waiver or suspension occurred to the level of his original deferral election, provided that the limits of this Article III are not thereby exceeded.

ARTICLE IV

BENEFICIARY DESIGNATIONS; WITHHOLDING

4.1 Beneficiary Designations. Each person becoming a Participant shall file with the Committee, in the form prescribed by the Committee, a designation of one or more Beneficiaries to whom distributions otherwise due the Participant shall be made in the event of his death while in the employ of the Company or after termination of Employment but prior to the complete distribution of the benefits payable with respect to the Participant. Such designation shall be effective when received by the Committee. The Participant may from time to time revoke or change any such designation of a Beneficiary by notifying the Committee. If there is no valid designation of the Beneficiary on file with the Committee at the time of the Participant's death, or if all of the Beneficiaries designated therein shall have predeceased the Participant or otherwise ceased to exist, the Beneficiary shall be, and any payment hereunder shall be made to, the Participant's spouse, if he or she survives the Participant, or otherwise to the Participant's estate. If the Beneficiary, whether under a valid beneficiary designation or under the preceding sentence, shall survive the Participant but die before receiving all payments hereunder, the balance of the benefits which would have been paid to the Beneficiary had he or she lived shall, unless the Participant's designation provided otherwise, be distributed to the Beneficiary's estate.

4.2 Withholding of Taxes. The Committee shall cause the Employer to deduct from the amount of all benefits paid under the Plan any taxes required to be withheld by the federal government or any state or local government.

ARTICLE V

BENEFITS

5.1 Benefit Payments. The benefit payments with respect to deferrals of Compensation for a specific Participation Year will be determined as set forth below:

(a) Early Distribution. At the time a Participant elects to defer Compensation for a Participation Year pursuant to Section 3.3 hereof, he may elect to receive an Early Distribution of benefits attributable to such Compensation. The Early Distribution will represent either (i) 50% or (ii) 100% of the Compensation deferred for that Participation Year, and will include interest amounts accrued thereon at the applicable Interest Crediting Rates. The Participant shall receive such Early Distribution within 95 days of the beginning of any year selected by the Participant, which year may not commence earlier than three years from the end of the Plan Year in which the Participant deferred such Compensation. A Participant may make only one Early Distribution election under this Plan for each Participation Year.

(b) Normal Retirement Distribution. At the time a Participant elects to defer Compensation for a Participation Year pursuant to Section 3.3 hereof, he must elect to receive a Normal Retirement Distribution of benefits attributable to such Compensation, taking into account any Early Distribution election made by him under Section 5.1(a). The Participant may elect to receive a Normal Retirement Distribution equal either to (i) a lump-sum distribution of the amounts of Compensation deferred with interest thereon, compounded annually, at the applicable Interest Crediting Rates, minus any Early Distributions, or (ii) a benefit in the form of 15 annual installment payments of such Compensation, including interest thereon, compounded annually, at the applicable Interest Crediting Rates, minus any Early Distributions. Payment of a Normal Retirement Distribution will be made, if payable in a lump sum, in the January following the Participant's termination of employment on or after his Normal Retirement Date. Payment of a Normal Retirement Distribution will be made, if payable in 15 annual installments, commencing the month coincident with or next following the month in which the Participant terminates employment on or after his Normal Retirement Date, and will be paid in that same month in each remaining year. For purposes of determining a benefit payable in the form of 15 installment payments under this Section 5.1(b), the Interest Crediting Rate shall be the greater of (i) the Interest Crediting Rate in effect for the Plan Year in which an Employee Participant attains age 65 or a Director Participant attains age 70 or (ii) the Interest Crediting Rate in effect for the Plan Year immediately prior to which an Employee Participant attains age 65 or a Director Participant attains age 70. With respect to deferrals made after January 1, 1998, the Interest Crediting Rate shall be the Interest Crediting Rate in effect for the Plan Year immediately prior to which an Employee Participant attains age 65 or a Director Participant attains age 70. This Interest Crediting Rate will constitute the applicable Interest Crediting Rate for all years thereafter in which the Normal Retirement Distribution is paid or payable.

(c) Failure to Elect Method of Distribution. If a Participant fails to make an election as to the manner in which a Normal Retirement Distribution will be paid, such

Normal Retirement Distribution will be made in the form of a lump-sum distribution in accordance with Section 5.1(b) above, as if the Participant had specifically so elected.

(d) Termination After Age 55 and Prior to Early Retirement Date. Notwithstanding any provision of this Article V to the contrary, a Participant who terminates employment (i) after December 31, 2002, and (ii) on or after the first day of the month coincident with or next following the Participant's 55th birthday, but prior to his Early Retirement Date, shall receive his benefit under the Plan in 15 annual installment payments, with such payments 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; provided, however, that (x) the Participant did not elect to receive his benefit under the Plan in a lump-sum distribution or as an Early Distribution and (y) the Participant consents to receiving his benefit attributable to Compensation deferred under the Prior Plan in accordance with this Section 5.1(d). If a Participant, who meets the requirements of this Section 5.1(d), elected to receive his benefits under the Plan in a lump-sum distribution or as an Early Distribution, then his benefit under the Plan shall be paid or commence, as applicable, during the January following the year in which the Participant terminates employment. If the Participant does not so consent, his Prior Plan benefit shall be paid as otherwise provided under this Article V.

(e) Termination After Early Retirement Date and Prior to Normal Retirement Date. Any Participant who terminates employment after his Early Retirement Date but prior to his Normal Retirement Date, will (if he is living on the date of payment) receive a lump-sum distribution or 15 annual installment payments, in accordance with his election under Section 5.1(b) above, commencing once he has attained his Normal Retirement Date. Such commencement date may be accelerated by the Committee, in its sole discretion, with a corresponding reduction in the amount of the payment, but may not occur before a Participant's termination of employment.

(f) Benefits Stated in Agreement. The form of benefit payments elected will be stated in the Agreement, if any, between the Employer and the Participant, based on the Company's administrative guidelines under the Plan.

(g) Commutation of Benefit Payments. Any installment benefits, at the request of the Participant and in the discretion of the Committee, may be commuted to a lump-sum payment or may be paid over a shorter period of time, with interest accrued to such date at the applicable Interest Crediting Rate.

5.2 Death.

(a) Death Prior to Commencement of Normal Retirement Distribution. If a Participant dies (i) prior to his Normal Retirement Date and prior to his termination of employment or (ii) after his termination of employment after his Early Retirement Date, but prior to the commencement of a Normal Retirement Distribution payable in 15 annual installments, the payments otherwise described in Section 5.1 not theretofore made shall not be made, but the Employer shall pay Participant's Beneficiary the sum or sums of

Compensation actually deferred with interest thereon from the Commencement Date through the date of payment at the applicable Interest Crediting Rates less an amount equal to any Early Distributions or other benefits paid prior to Participant's death. Payments made pursuant to this Section 5.2(a) shall be made within approximately 95 days following the date of Participant's death. Notwithstanding the foregoing, if there is a conflict between the provisions of this Section and the terms of the Participant's Severance Agreement (as further described in Section 5.4), the terms of the Severance Agreement shall control.

(b) Death After Normal Retirement Date. If the Participant dies (i) after his Normal Retirement Date but prior to his termination of employment, (ii) after his termination of employment, provided the Participant had attained his Normal Retirement Date on or before the date of such termination, or (iii) after commencement of a Normal Retirement Distribution in the form of 15 annual installment payments pursuant to Section 5.1 but prior to completion of all such payments, the Employer shall make (or continue to make) such payments provided for in Section 5.1 to the Participant's Beneficiary. Notwithstanding the foregoing, if there is a conflict between the provisions of this Section and the terms of the Participant's Severance Agreement (as further described in Section 5.4), the terms of the Severance Agreement shall control.

(c) Commutation of Death Benefit. Any installment death benefits, at the request of a Beneficiary and in the sole discretion of the Committee, may be commuted to a lump sum payment or may be paid over a shorter period of time, with interest accrued to such date at the applicable Interest Crediting Rate. Notwithstanding the foregoing, if there is a conflict between the provisions of this Section and the terms of the Participant's Severance Agreement (as further described in Section 5.4), the terms of the Severance Agreement shall control.

5.3 Disability. In the event of the Disability of a Participant while in the employ of an Employer, the Participant shall be considered to have remained in the continuous employment of the Employer during such Disability until his Normal Retirement Date or earlier death. The benefits payable to such Participant under the Plan shall be paid in the amounts and at the times otherwise provided in Section 5.1, all in accordance with the Participant's initial election under Section 3.3, except that at the request of a Participant and in the discretion of the Committee, any such payments may be commuted to a lump-sum payment or paid over a shorter period of time, with interest accrued to such date at the applicable Interest Crediting Rate.

5.4 Payment Upon Termination of Employment. 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) or 5.1(e), 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. If any Participant who has entered into a Severance Agreement, as defined in the CenterPoint Energy, Inc. Executive Severance Benefits Plan, effective as of September 3, 1997, and as thereafter amended, experiences a termination giving rise to a right to benefits under his Severance Agreement and complies with the conditions set forth in his Severance Agreement for the receipt of benefits thereunder, then such Participant shall be treated as if his termination did not occur until after his Early Retirement Date, and the provisions in Section 5.1(e) shall apply.

5.5 Termination of Employment During Participation Year. If Participant terminates his employment with an Employer for any reason during the Participation Year for which Compensation is to be deferred, the amount of deferral specified in his Agreement, if any, for that Participation Year shall be adjusted to reflect the amount actually deferred for the Participation Year prior to such termination. If Participant terminates employment with an Employer for any reason during the Participation Year for which he has elected to defer the payment of a Bonus, such election shall become null and void with respect to any Bonus which has not become payable to the Participant as of the date the Participant terminates his employment with an Employer.

5.6 Benefits for Prior Participation Years, Including the Participation Year Ending December 31, 2002. Notwithstanding any other provision of the Plan to the contrary, for Participation Years ending on or before December 31, 2002, benefits awarded under the Prior Plan shall be distributed in accordance with, and governed by the terms of, the Prior Plan and any Prior Agreements except, where applicable under the Plan, as otherwise consented to by the Participant. The interest rates used for determination of benefits payable under the Prior Plan shall be those set out in a Participant's Prior Agreement, if any.

5.7 Terminations Under the Separation Program.

(a) Voluntary Terminations.

(i) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant is terminated under the Voluntary Early Retirement Program adopted by the Board of Directors of the Company on January 8, 1992 and prior to the first day of the month coincident with or next following the Participant's 60th birthday, a Normal Retirement Distribution as described in Section 5.1 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, (y) shall make a lump-sum distribution or 15 annual installment payments, in accordance with the Participant's election under

Section 5.1(b) above, and if payable in a lump sum, in the January following the Participant's termination of employment or if payable in installments, commencing the month 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.

(ii) After Early Retirement Date. If the employment of a Participant is terminated as described in (a)(i) above but after the first day of the month coincident with or next following the Participant's 60th birthday, distributions (including Early Distributions) shall be made as otherwise provided in the preceding Sections of this Article V.

(b) Involuntary Terminations.

(i) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant is terminated involuntarily under the severance program adopted by the Board of Directors of the Company on January 8, 1992 and prior to the first day of the month coincident with or next following the Participant's 60th birthday, a Normal Retirement Distribution as described in Section 5.1 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, (y) shall pay such amount in a lump sum (regardless of any election previously made by the Participant) within 95 days following the date of Participant's termination of employment or as soon as practicable thereafter, and (z) shall not make any future Early Distributions to such Participant.

(ii) After Early Retirement Date. If the employment of a Participant is terminated involuntarily as described in (b)(i) above but after the first day of the month coincident with or next following the Participant's 60th birthday, distributions (including Early Distributions) shall be made as otherwise provided in the preceding Sections of this Article V.

(c) Commutation. Any installment payments hereunder may be commuted as provided in Section 5.1(g).

5.8 Terminations Under the 1995 Voluntary Early Retirement Program.

(a) Prior to Early Retirement Date. Notwithstanding any other provision of the Plan to the contrary, if the employment of a Participant who fulfills the requirements for the Voluntary Early Pension for 1995 Program participants under Section 9.7(a) 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, 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, (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 the month 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 (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 payments hereunder may be commuted as provided in Section 5.1(g).

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(g).

ARTICLE VI

RIGHTS OF PARTICIPANTS

6.1 Limitation of Rights. Nothing in this Plan shall be construed to:

(a) Give any Employee of an Employer or any Director any right to be designated a Participant in the Plan other than in the sole discretion of the Committee;

(b) Limit in any way the right of the Employer to terminate a Participant's employment at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company or any other Employer will employ a Participant in any particular position or at any particular rate of remuneration.

6.2 Non-Alienation of Benefits. No right or benefit under this Plan shall be subject to anticipation, alienation, transfer, sale, assignment, pledge, encumbrance or charge, whether voluntary, involuntary, direct or indirect, by operation of law or otherwise, including, without limitation, a change in beneficial interest of any trust and a change in ownership of a corporation or partnership, but not including a change of legal and beneficial title of a right or benefit resulting from the death of any Participant or the spouse of any Participant (any such proscribed transaction hereinafter a "Disposition") and any attempted Disposition will be null and void. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of any Participant or other person entitled to such benefits. The foregoing provisions of this Section 6.2 shall not apply to a domestic relations order awarding any benefits under the Plan to the divorced spouse of a Participant. The foregoing provisions of this Section 6.2 shall also not apply to an irrevocable Disposition of a right or benefit under this Plan to a "Permitted Assignee," as defined below, by (i) a Participant age 55 or older (an "Eligible Participant"), or (ii) a "Permitted Assignee," as defined below, who has received an assignment from an Eligible Participant pursuant to this sentence.

(a) Permitted Assignee. The term "Permitted Assignee" shall mean:

(i) The Eligible Participant;

(ii) A spouse of the Eligible Participant;

(iii) Any person who is a lineal ascendant or descendant of the Eligible Participant or the Eligible Participant's spouse;

(iv) Any brother or sister of the Eligible Participant;

(v) Any spouse of any individual described in subparagraph (iii) or (iv);

(vi) A trustee of any trust which, at the applicable time, is 100% Actuarially Held for a Permitted Assignee or Assignees (as defined in Section 6.2(c));

(vii) Any corporation in which, at the applicable time, each class of stock is 100% owned by a Permitted Assignee or Permitted Assignees;

(viii) Any partnership in which, at the applicable time, each class of partnership interest is 100% owned by a Permitted Assignee or Permitted Assignees; or

(ix) Any limited liability company or other form of incorporated or unincorporated business organization in which each class of stock, membership or other equity interest is 100% owned by a Permitted Assignee or Assignees.

(b) Subsequent Assignees. This Section 6.2 shall be fully applicable to all Permitted Assignees, and the provisions of this Section 6.2 shall be fully applicable to any right or benefit transferred by an Eligible Participant to any Permitted Assignee as if such Permitted Assignee were an Eligible Participant; provided, however, that no Permitted Assignee shall be deemed an Eligible Participant for determining the persons who constitute Permitted Assignees under Section 6.2(a). Any Permitted Assignee acquiring a right or benefit under this Plan shall execute and deliver to the Committee an Agreement pursuant to which such Permitted Assignee agrees to be bound by all of the terms and provisions of the Plan, provided that the failure to execute and deliver such an Agreement shall not be deemed to relieve such Permitted Assignee of the restrictions imposed by the Plan. Any attempted Disposition of a right or benefit under this Plan in breach of this Section 6.2, whether voluntary, involuntary, by operation of law or otherwise shall be null and void.

(c) Actuarially Held. In making the determination whether a trust is 100% Actuarially Held for Permitted Assignee(s), a trust, at the applicable point in time, is 100% Actuarially Held for Permitted Assignee or Assignees when 100% of the actuarial value of the beneficial interests of the trust, except as provided in the following sentence, are held for a Permitted Assignee or Permitted Assignees. For purposes of making the determination described above, the possibility that an interest in a trust may be appointed pursuant to a special or general power of appointment shall be ignored; provided, that the actual exercise of any such power of appointment shall not be ignored.

6.3 Prerequisites to Benefits. No Participant, nor any Beneficiary or other person claiming through a Participant, shall have any right or interest in the Plan, or any benefits hereunder, unless and until all the terms, conditions, and provisions of the Plan which affect such Participant or such other person shall have been complied with as specified herein.

6.4 Nature of Employer's Obligation. This Plan is intended to be, and shall be construed as, an unfunded plan maintained by each Employer primarily for the purpose of providing deferred compensation for a select group of its management or highly compensated salaried employees. The benefits provided under this Plan shall be a general, unsecured obligation of the Employer payable solely from the general assets of the Employer, and neither the Participant nor the Participant's Beneficiary or estate shall have any interest in any assets of the Employer by virtue of this Plan. No fund or other assets will ever be set aside or segregated for the benefit of the Participant or the Participant's Beneficiary under this Plan. The adoption of the Plan and any setting aside of amounts by an Employer with which to discharge its obligations hereunder shall not be deemed to create a trust; legal and equitable title to any funds so set aside shall remain in the Employer and any funds so set aside shall remain subject to the general creditors of the Employer.

6.5 Claims and Review Procedures.

(a) Claims Procedure. If any person believes he or she is entitled to any rights or benefits under the Plan, such person may file a claim in writing with the Committee. If any such claim is wholly or partially denied, the Committee will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) information as to the steps to be taken if the person wishes to submit a request for review, the time limits applicable to such procedures, and a statement of the person's rights following an adverse benefit determination on review, including a statement of his or her right to file a lawsuit under the Employee Retirement Income Security Act of 1974 ("ERISA") if the claim is denied on appeal. Such notification will be given within 90 days after the claim is received by the Committee (or within 180 days, if special circumstances require an extension of time for processing the claim, and if written notice of such extension and circumstances is given to such person within the initial 90-day period).

(b) Claim Review Procedure. Within 60 days after the date on which a person receives a notice of denial (or within 60 days after the date on which such denial is considered to have occurred), such person or his or her duly authorized representative ("Applicant") may (i) file a written request with the Committee for a review of his or her denied claim; (ii) review pertinent documents; and (iii) submit issues and comments in writing. The Committee shall render a decision no later than the date of its regularly scheduled meeting next following receipt of a request for review, except that a decision may be rendered no later than the second such meeting if the request is received within 30 days of the first meeting. The Applicant may request a formal hearing before the Committee which the Committee may grant in its discretion. Notwithstanding the foregoing, under special circumstances that 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 regularly scheduled Committee meeting following the receipt of the request for review. If such an extension is required, the Applicant will be advised in writing before the extension begins. The decision on review shall be in written or electronic notice of the final determination. If the claim is denied in

whole or part, such notice, which shall be in a manner calculated to be understood by the person receiving such notice, shall include the specific reasons for the decision, the specific references to the pertinent plan provisions on which the decision is based, that the person is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits, and a statement of the person's right to file a lawsuit under ERISA.

Benefits under this Plan will only be paid if the Committee decides, in its discretion, that a person is entitled to them. Moreover, no action at law or in equity shall be brought to recover benefits under this Plan prior to the date the claimant has exhausted the administrative process of appeal available under the Plan.

ARTICLE VII

MISCELLANEOUS

7.1 Amendment or Termination of the Plan. The Board of Directors of the Company may amend or terminate this Plan at any time. Any such amendment or termination shall not, however, without the written consent of the affected Participant, reduce the interest rate applicable to, or otherwise adversely affect the rights of a Participant with respect to, Compensation with respect to which a Participant made an irrevocable deferral election before the later of the date that such amendment is executed or effective.

7.2 Reliance Upon Information. The Committee shall not be liable for any decision or action taken in good faith in connection with the administration of this Plan. Without limiting the generality of the foregoing, any such decision or action taken by the Committee in reliance upon any information supplied to it by an officer of the Company, the Company's legal counsel, or the Company's independent accountants in connection with the administration of this Plan shall be deemed to have been taken in good faith.

7.3 Effective Date. The Plan shall become effective as of January 1, 2003.

7.4 Governing Law. The Plan shall be construed, administered, and governed in all respects under the laws of the State of Texas.

7.5 Severability. If any term, provision, covenant, or condition of the Plan is held to be invalid, void, or otherwise unenforceable, the rest of the Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

7.6 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the principal office of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the dates shown on the postmark on the receipt for registration or certification.

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 _____ day of September, 2003, but effective as of January 1, 2003.

CENTERPOINT ENERGY, INC.

By: /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ Richard Dauphin
- ---
Assistant Secretary

Exhibit 10.3

CENTERPOINT ENERGY, INC.
SHORT TERM INCENTIVE PLAN

(As Amended and Restated Effective January 1, 2003)

RECITALS

Effective as of January 1, 1999, the Board of Directors of CenterPoint Energy, Inc., formerly Reliant Energy, Incorporated (the "Company"), authorized the amendment, restatement and continuation of the Company's prior annual incentive compensation plan, as in effect on December 31, 1998, in the form of the Reliant Energy, Incorporated Annual Incentive Compensation Plan (the "Prior Plan"). The Board of Directors of the Company has authorized the amendment and restatement of the Prior Plan in the form of, and renamed as, the CenterPoint Energy, Inc. Short Term Incentive Plan (the "Plan") effective January 1, 2003 to make administrative clarifications therein and to reflect the reorganization of the Company effective August 31, 2002.

There shall be no termination and no gap or lapse in time or effect between the Prior Plan and this Plan. The amendment, restatement and continuation 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 to Participants under the terms of the Prior Plan as in effect prior to its amendment, restatement and continuation in the form of this Plan. Except to the extent otherwise required to reflect the fact that benefits accrued under the Prior Plan are continued under this Plan, the provisions of this Plan shall apply only to an employee eligible to participate under this Plan on or after January 1, 2003.

NOW, THEREFORE, effective as of January 1, 2003, the Company hereby amends, restates in its entirety and continues the CenterPoint Energy, Inc. Short Term Incentive Plan as follows:

1. PURPOSE: The purpose of the Plan is to encourage a high level of corporate performance through the establishment of predetermined corporate, Subsidiary or business unit and/or individual goals, the attainment of which will require a high degree of competence and diligence on the part of those Employees (including officers) of the Company or of its participating Subsidiaries selected to participate in the Plan, and which will be beneficial to the owners and customers of the Company.

2. DEFINITIONS: Unless the context otherwise clearly requires, the following definitions are applicable to the Plan:

AWARD: An incentive compensation award generally payable in cash granted to a Participant with respect to a particular Plan Year pursuant to any applicable terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

BOARD OF DIRECTORS or BOARD: The Board of Directors of the Company.

CODE: The Internal Revenue Code of 1986, as amended from time to time.

COMMITTEE: The Compensation Committee of the Board of Directors.

COMPANY: CenterPoint Energy, Inc. or any successor thereto.

COMPENSATION: Compensation or eligible earnings during the year means the actual base salary paid to a salaried exempt Participant during the Plan Year, including vacation, holiday and sick time. Eligible earnings exclude all special payments, bonuses, allowances, reimbursements, and payments in lieu of overtime. Compensation or eligible earnings during the year means the actual gross wages paid to a hourly or salaried non-exempt Participant during the Plan Year, including vacation, holiday and sick time. Eligible earnings exclude all special payments, bonuses, allowances, reimbursements, but include overtime pay in a manner consistent with the requirements of applicable labor law. Notwithstanding the foregoing, any Participant covered by the terms of a collective bargaining agreement shall have his Compensation calculated in the manner consistent with the collective bargaining agreement, if applicable.

EMPLOYEE: An employee of the Company or any of its Subsidiaries who is a regular full or part-time employee and who regularly works at least 20 hours per week.

EMPLOYER: The Company and each Subsidiary which is designated by the Committee as an Employer under this Plan.

PARTICIPANT: An Employee who is selected to participate in the Plan.

PERFORMANCE AWARD: An Award made to a Participant pursuant to this Plan that is subject to the attainment of one or more Performance Goals.

PERFORMANCE GOALS: The performance objectives of the Company, its Subsidiaries or its business units and/or individual Participants established for the purpose of determining the level of Awards, if any, earned during a Plan Year.

PLAN: This CenterPoint Energy, Inc. Short Term Incentive Plan, as amended from time to time.

PLAN YEAR: The calendar year.

RETIREMENT PLAN: The CenterPoint Energy, Inc. Retirement Plan, as amended and restated effective January 1, 1999, and as thereafter amended.

SAVINGS PLAN: The CenterPoint Energy, Inc. Savings Plan, as amended and restated effective April 1, 1999, and as thereafter amended.

SUBSIDIARY: A subsidiary corporation with respect to the Company as defined in Section 424(f) of the Code.

A pronoun or adjective in the masculine gender includes the feminine gender, and the singular includes the plural, unless the context clearly indicates otherwise.

3. PARTICIPATION: The Committee (or its appropriately designated delegate) shall select the Employees who will be Participants for each Plan Year. No Employee shall at any time have the right (a) to be selected as a Participant in the Plan for any Plan Year, (b) if so selected, to be entitled to an Award, or (c) if selected as a Participant in one Plan Year, to be selected as a Participant in any subsequent Plan Year. The terms and conditions under which a Participant may participate in the Plan shall be determined by the Committee (or its appropriately designated delegate) in its sole discretion.

4. ELIGIBILITY: Except as provided below, only Employees who (a) are employed at least 90 calendar days during the Plan Year, (b) are employed on the last day of the Plan Year, and (c) are employed on the Payment Date are eligible for the payment of an Award under the Plan. Days counted to meet the 90-day minimum need not be consecutive days as there may be a break in employment. Employees covered by a collective bargaining agreement providing for participation in this Plan are eligible for payments under this Plan only to the extent of the specific terms contained in the applicable collective bargaining agreement. Employees covered by a collective bargaining agreement that does not specifically provide for their participation in this Plan are not eligible for any payments under this Plan under any circumstances.

(1) Retirement, Death or Disability: If, during the Plan Year, a Participant retires on his Retirement Date as defined in the Retirement Plan, dies or terminates employment under circumstances establishing eligibility for disability benefits under the Company's long-term disability plan, then the Participant shall nonetheless receive payment of the Award the Participant would have received had the goals with respect to the Participant's Award been met at the target level based on his Compensation earned prior to the Participant's date of retirement, death or disability. Payments under this Section 4 (1) shall be made as soon as practicable following the date of the Participant's retirement, death or disability, but no later than 30 days after the date of the Participant's retirement, death or disability.

(2) Termination After Last Day of the Plan Year: If a Participant is an Employee on the last day of the Plan Year and was employed at least 90 days during the Plan Year, but is not an Employee on the Payment Date, then the Participant may receive on the Payment Date, an Award (if any) upon management's recommendation and approval by the Committee.

5. PLAN ADMINISTRATION: The Plan shall be administered by the Committee. All decisions of the Committee shall be binding and conclusive on the Participants. The Committee, on behalf of the Participants, 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 select the Participants;

(b) To interpret, construe, approve and adjust all terms, provisions, conditions and limitations of this Plan;

(c) To decide any questions arising as to the interpretation or application of any provision of the Plan;

(d) To prescribe forms and procedures to be followed by Employees for participation in the Plan, or for other occurrences in the administration of the Plan;

(e) To establish the terms and conditions of any Agreement under which an Award may be earned and paid; and

(f) In addition to all other powers granted herein, the Committee shall make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein.

No member of the Committee or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of Section 5 of this Plan shall be liable for anything done or omitted to be done by him, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his own willful misconduct or as expressly provided by statute.

6. DELEGATION OF AUTHORITY: The Committee may delegate to the Chief Executive Officer and to other senior officers of the Company its duties under this Plan (including, but not limited to, its authority to select Participants) pursuant to such conditions or limitations as the Committee may establish.

7. AWARDS: The Committee shall determine the terms and conditions of Awards to be made under this Plan and shall designate from time to time the individuals who are to be the recipients of Awards. Awards may also be made in combination or in tandem with, in replacement of, or as alternative to, grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. An Award may provide for the grant or issuance of additional, replacement or alternative Awards upon the occurrence of specified events. All or part of an Award may be subject to conditions established by the Committee, which may include, but are not limited to, continuous service with the Company and its Subsidiaries, achievement of specific individual and/or business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance. Unless

specified otherwise by the Committee, the amount payable pursuant to an Award shall be based on a percentage of the Participant's Compensation.

An Award may be in the form of a Performance Award. A Performance Award shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of such period of service to which the Performance Goal relates and (y) the lapse of 25% of such period of service (as scheduled in good faith at the time the goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. Such a Performance Goal may be based on one or more business criteria that apply to the individual, one or more business units of the Company, or the Company as a whole. Performance Goals shall be based upon targets established by the Committee with respect to one or more of the following financial or operational factors, as applied to the Company or a business unit, as applicable: earnings per share, earnings per share growth, total shareholder return, economic value added, cash return on capitalization, increased revenue, revenue ratios (per employee or per customer), net income, stock price, market share, return on equity, return on assets, return on capital, return on capital compared to cost of capital, shareholder value, net cash flow, operating income, earnings before interest and taxes, cash flow, cash flow from operations, cost reductions, cost ratios (per employee or per customer), proceeds from dispositions, project completion time and budget goals, net cash flow before financing activities, customer growth, total market value, customer satisfaction, and employee safety. Unless otherwise stated, a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria), and may also be based on performance relative to the S&P 500 Electric Utilities Panel or other designated peer group.

Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. The Committee in its sole discretion may decrease the amount payable pursuant to a Performance Award, but in no event shall the Committee have discretion to increase the amount payable pursuant to a Performance Award in a manner inconsistent with the requirements for qualified performance-based compensation under Code Section 162(m). In interpreting Plan provisions applicable to Performance Goals and Performance Awards, it is the intent of the Plan to conform with the standards of Code Section 162(m) applicable to qualified performance-based compensation, and the Committee in establishing such Performance Goals and interpreting the Plan shall be guided by such provisions. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards pursuant to this Plan shall be determined by the Committee. No Participant may be granted Performance Awards which will result in the payment of more than $3,500,000 per Plan Year.

8. PAYMENT OF AWARDS: The Committee has sole and absolute authority and discretion to determine the time and manner in which Awards, if any, shall be paid under this Plan. Generally, however, the following provisions may apply:

(a) FORM OF PAYMENT: Generally, payment of Awards shall be made in cash and may be subject to such restrictions as the Committee shall determine.

(b) DATE OF PAYMENT: Payment of Awards shall be made as soon as practicable (as determined by the Committee) following the close of the Plan Year (the "Payment Date"), unless otherwise provided in Section 4(1).

9. ASSIGNABILITY: Unless otherwise determined by the Committee and provided in the Agreement, no Award or any other benefit under this Plan shall be assignable or otherwise transferable, except by will or the laws of descent and distribution. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 9 shall be null and void.

10. TAX WITHHOLDING: The Company shall have the right to withhold applicable taxes from any Award payment and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

11. FINALITY OF DETERMINATIONS: Any determination by the Committee in carrying out or administering this Plan shall be final and binding for all purposes and upon all interested persons and their heirs, successors, and personal representatives.

12. EMPLOYEE RIGHTS UNDER THE PLAN: No Employee or other person shall have any claim or right to be granted an Award under this Plan. Neither the Plan nor any action taken thereunder shall be construed as giving an Employee any right to be retained in the employ of the Company or an Employer. No Participant shall have any lien on any assets of the Company or an Employer by reason of any Award made under this Plan.

13. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION: The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that (i) no amendment or alteration that would adversely affect the rights of any Participant under any Award previously granted to such Participant shall be made without the consent of such Participant and (ii) no amendment or alteration shall be effective prior to its approval by the stockholders of the Company; however clause (ii) shall only apply if, and to the extent, such approval is required by applicable legal requirements.

14. OTHER PLANS: The Award payments under this Plan shall be considered compensation under the Retirement Plan and the Savings Plan.

15. GOVERNING LAW: This Plan and all determinations made and actions taken pursuant hereto, shall be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has executed these presents as evidenced by the signature of its duly authorized officer, in a number of copies, all of which shall constitute but one and the same instrument, which may be sufficiently evidenced by any such executed copy hereof, this 19th day of June, 2003, but effective as of January 1, 2003.

CENTERPOINT ENERGY, INC.

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ Richard Dauphin
- ---
Assistant Secretary

Exhibit 10.4

CENTERPOINT ENERGY, INC.
EXECUTIVE BENEFITS PLAN
(AS AMENDED AND RESTATED EFFECTIVE JUNE 18, 2003)

RECITALS

WHEREAS, Reliant Energy, Incorporated (formerly, Houston Industries Incorporated), a Texas corporation ("REI"), established the Houston Industries Incorporated Executive Benefits Plan (the "Plan"), effective as of June 1, 1982; and

WHEREAS, the Plan was frozen to new participants effective as of July 1, 1996; and

WHEREAS, effective as of August 31, 2002, CenterPoint Energy, Inc., a Texas corporation (the "Company"), became the successor of REI; and further

WHEREAS, pursuant to Section 8.1 of the Plan, the Company desires to amend the Plan (1) to change the name of the Plan and Company and (2) to reflect the Plan's frozen status;

NOW, THEREFORE, in consideration of the premises and the covenants herein contained, the Plan is hereby amended and restated effective as of June 18, 2003, as follows:

ARTICLE I

PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company and its Affiliates in retaining qualified executive officers and to provide such eligible employees of the Company and its Affiliates with salary continuation benefits and supplemental retirement, death and/or disability benefits. The Plan was frozen as to new Participants, effective as of July 1, 1996.

ARTICLE II

DEFINITIONS

"Affiliate" means any corporation which has adopted this Plan and the shares of which are owned or controlled, directly or indirectly, by the Company representing eighty percent (80%) or more, of the voting power of the issued and outstanding capital stock of such corporation.

"Board" means the Board of Directors of the Company.

"Committee" means the Compensation Committee appointed by the Board, which shall administer the Plan.

"Company" means CenterPoint Energy, Inc., a Texas corporation, or any successor.

"Employee" means any active or retired officer of the Company or of an Affiliate, who is or has been compensated for such employment by a regular salary.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Executive Benefits Agreement" means a written agreement entered into by a Participant with the Company setting forth the terms, conditions and limitations of a Participant's benefits under the Plan.

"Participant" means an Employee of the Company or an Affiliate who is selected by the Committee to participate in the Plan and enters into an Executive Benefits Agreement with the Company prior to July 1, 1996.

"Plan" means the CenterPoint Energy, Inc. Executive Benefits Plan set forth herein, as amended and restated effective June 18, 2003, as the same may hereafter be amended from time to time.

ARTICLE III

ADMINISTRATION

3.1 Powers and Duties. The Committee shall perform all such duties as are necessary to supervise the administration of the Plan and to control its operation in accordance with the terms thereof, including, but not limited to, the following:

(a) To determine the eligibility of each Employee for participation in the Plan and to select Participants;

(b) To determine the type and level of benefits to be provided to each Participant under the Plan;

(c) To set down uniform and nondiscriminatory rules of interpretation and administration of the Plan which may be modified from time to time in the Committee's sole discretion;

(d) To publish and file or cause to be published and filed or disclosed all reports and disclosures required by federal or state law;

(e) To keep a record of all the Committee's proceedings and acts; and

(f) To keep all such books of account, records and other data as may be necessary for the proper administration of the Plan.

The Committee shall have all powers necessary or appropriate to carry out its duties, including the discretionary authority to determine eligibility or/and entitlement to benefits and the authority to interpret the provisions of the Plan and to determine the facts and circumstances of claims for benefits. Any action by the Committee with respect to the Plan (including, without limitation, the Committee's interpretation or administration of the Plan) shall be conclusive and binding upon any and all persons affected hereby, subject to the exclusive claims procedure set forth in Section 7.1.

Notwithstanding anything else to the contrary, benefits under this Plan will be paid only if the Committee decides in its discretion that the Participant is entitled to them.

3.2 Payment of Expenses. The Committee shall serve without compensation for its services as Plan administrator, but all expenses incurred in the administration of the Plan shall be paid by the Company.

3.3 Indemnities. The Company shall indemnify each member of the Committee or his or her agents against any and all claims, loss, damage, expense or liability arising from any action or failure to act, except when the same is determined to be due to the gross negligence or willful misconduct of any such person.

ARTICLE IV

PARTICIPATION IN THE PLAN

Prior to July 1, 1996, the Committee established from time to time such eligibility requirements for participation in the Plan as it deemed appropriate; provided, however, that only active or retired salaried officers of the Company and Affiliates were eligible to participate in the Plan. To be a Participant, each such eligible Employee chosen by the Committee to participate in the Plan must have entered into an Executive Benefits Agreement prior to July 1 1996. No Employee shall have any rights whatsoever under the Plan other than the rights and benefits granted to him or her under the Participant's Executive Benefits Agreement.

Notwithstanding any other provision of the Plan, no Employee shall be eligible to commence participation in the Plan from and after July 1, 1996.

ARTICLE V

BENEFITS

5.1 Salary Continuation Benefits. Each Participant shall receive salary continuation benefits in event of the Participant's death while in the employment of the Company or Affiliate, in accordance with, and subject to, the terms and conditions of the Participant's Executive Benefits Agreement.

5.2 Supplemental Benefits. Each Participant shall receive such supplemental benefits in event of the Participant's death, disability or retirement, if any, in accordance with, and subject to, the terms and conditions of the Participant's Executive Benefits Agreement.

5.3 Withholding of Taxes. The Company shall deduct from the amount of any benefits payable under an Executive Benefits Agreement entered into under this Plan any taxes required to be withheld by the federal or any state or local government.

ARTICLE VI

RIGHTS OF PARTICIPANTS

6.1 Limitation of Rights. Nothing in this Plan shall be construed to:

(a) Give any Employee of the Company or an Affiliate any right to participate in the Plan;

(b) Limit in any way the rights of the Company or any Affiliate to terminate a Participant's employment with the Company or any Affiliate at any time;

(c) Give a Participant or any spouse or other beneficiary of a deceased Participant any interest in any fund or in any specific asset or assets of the Company or any Affiliate; or

(d) Be evidence of any agreement or understanding, express or implied, that the Company or any Affiliate will employ a Participant in any particular position or at any particular rate of remuneration.

6.2 Nonassignment. No right or benefit under this Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same will be void. No right or benefit hereunder shall be in any manner payable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits.

6.3 Prerequisites. No Participant, or any person claiming through a Participant, shall have any right or interest in the Plan, or any benefits hereunder unless and until all the terms, conditions and provisions of the Plan which affect such Participant or such other person shall have been complied with as specified herein.

ARTICLE VII

CLAIMS PROCEDURE

7.1 Claims Procedure. An initial claim for benefit payment shall be considered filed when a written request is received by the Committee or its duly authorized designate (the "Claims Administrator"). Any Participant or authorized representative (for purposes of this Section 7.1, referred to as "Claimant") shall submit an application for Plan benefits to the Claims Administrator in writing. Such application shall set forth the nature of the claim and such other information as the Claims Administrator may request. The Committee shall establish administrative procedures and safeguards, to ensure that claims determinations are made in accordance with the Plan and have been applied consistently for similarly situated Claimants. No action at law or in equity may be brought to recover benefits under this Plan prior to the date

the Claimant has exhausted the administrative process of appeal available under the Plan. Claims shall be approved or denied in accordance with the terms of the Plan and the following claims procedures:

(a) Calculating Time Periods. The period of time within which a benefit determination is required to be made on a claim or an appeal shall begin at the time the claim or appeal is filed in accordance with the Plan procedures, without regard to whether all the information necessary to make a benefit determination accompanies the filing. In the event that a period of time is extended as permitted pursuant to Section 7.1(b) or 7.1(d) due to the failure of a Claimant to submit information necessary to decide the claim or appeal, the period for making the benefit determination shall commence from the date on which the notification of the extension is sent to the Claimant until the date on which the Claimant responds to the request for additional information.

(b) Notice of Denial. Any time a claim for benefits is wholly or partially denied, the Claimant shall be given written notice of such action within ninety (90) days after the claim is filed, unless the Claims Administrator determines that special circumstances require an extension of time for processing. If there is an extension, the Claimant shall be notified of the extension and the special circumstances requiring the extension within the initial ninety (90) day period. The extension shall not exceed one hundred eighty (180) days after the claim was originally filed.

The denial notice shall be written in a manner calculated to be understood by the Claimant and shall set forth (i) the specific reason(s) for denial, (ii) references to the specific provisions of the Plan on which the denial is based, (iii) a description of the claims appeal procedure set forth herein (including applicable time limits), (iv) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary, and (v) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on appeal.

Notwithstanding the foregoing, a claim regarding a disability determination must be decided within 45 days of the receipt of the claim. The Committee may request a 30 day extension in special circumstances if the claimant has been notified within the initial 45 day period. If a decision can not be reached within the 30 day extension, the Committee may request a second 30 day extension of the time needed to reach a claims decision.

(c) Right to Appeal. Any Claimant who has had a claim for benefits denied by the Claims Administrator, shall have the right to request review by the Committee. Such request must be in writing, and must be made within sixty (60) days after the Claimant receives notice of the claim denial. If written request for review is not made within such sixty (60) day period, the Claimant shall forfeit his or her right to review, as well as the right to challenge the determination in court. The Claimant shall be provided the opportunity to submit written comments, documents, records and other information relating to the claim for benefits. The Claimant shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other

information relevant to the Claimant's claim for benefits. This includes any item that (i) was relied on in making the benefit determination; (ii) was submitted, considered or generated in the course of making the benefit determination, regardless of whether it was relied on; or (iii) demonstrates compliance with administrative processes and safeguards designed to ensure benefit determinations are appropriately made in accordance with Plan documents.

(d) Review of Claim. Upon receiving a request to review a claim (sometimes referred to as an "appeal"), the Committee shall review the claim. The review shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Committee shall provide the Claimant a written decision reaffirming, modifying or setting aside the claim denial within sixty (60) days after receipt of the written request for review (provided that this initial sixty (60) day period may be extended by up to an additional sixty (60) days if the Committee determines that special circumstances require an extension). The Claimant shall be notified in writing of any such extension within the initial sixty (60) days following the Committee's receipt of the request for review. The extension notice will indicate the special circumstances requiring the extension and the date by which the Committee expects to make the decision.

However, if the Committee holds regularly scheduled meetings at least quarterly, this paragraph shall apply and the preceding paragraph shall not apply. The Committee shall make a benefit determination no later than the date of the meeting of the Committee that immediately follows the Committee's receipt of the request for review, unless the request for review is filed within 30 days preceding the date of such meeting. In such case, a benefit determination shall be made no later than the date of the second meeting following the Committee's receipt of the request for review. If special circumstances require a further extension of time for processing, a benefit determination shall be rendered not later than the third meeting of the Committee following the Committee's receipt of the request for review. If such an extension of time for review is required because of special circumstances, the Committee shall provide the Claimant with written notice of the extension, describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. The Committee shall notify the Claimant of the benefit determination as soon as possible, but not later than 5 days after the benefit determination is made.

A decision denying a claim on appeal shall be written in a manner calculated to be understood by the Claimant and shall set forth (i) the specific reason(s) for the denial, (ii) references to the specific Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits, (iv) a statement describing any voluntary appeal procedures offered by the Plan and the Claimant's right to obtain the information about such procedures, and (v) a statement of the Claimant's right to bring an action under section 502(a) of ERISA.

Notwithstanding the foregoing, if an appeal is filed in regard to a disability determination, a final decision shall be made and communicated to the claimant within 45 days of receipt of the appeal by the Committee, unless special circumstances require an extension. Such extension cannot extend beyond 75 days after the receipt of the appeal by the Committee. In determining an appeal of a claim for disability determination, the Committee must provide for a review that does not provide deference to the initial adverse determination. The Appeal must be reviewed by members of the Committee who did not take part in the original determination, and if the determination is to be made based on a medical judgement, the Committee members must consult with a health care professional who has the appropriate training and experience in the field of medicine involved in the medical judgement. If a medical judgement is involved in the appeal, the appropriate health care professional consulted in the appeal must not be the same health care professional consulted during the initial claims review.

Notification of an adverse disability determination upon appeal must, in addition to the information that must be provided upon denial of a benefit appeal, also state whether any specific rule, guideline, protocol or similar criterion was relied upon in making the determination. If such internal procedures were used, the notice must either provide the rule, guideline, protocol, or similar criterion or state that it will be provided free of charge upon request of the claimant.

The decision of the Committee on appeal shall be final and binding upon the Claimant and the Committee and all other persons involved.

ARTICLE VIII

MISCELLANEOUS

8.1 Amendment or Termination. The Board may amend or terminate this Plan at any time. Any such amendment or termination shall not, however, adversely affect the rights of any Participant to the benefits provided under an executed Executive Benefits Agreement.

8.2 Applicable Laws. This Plan shall be governed by, and construed in accordance with, ERISA, and to the extent not preempted by ERISA, the laws of the State of Texas.

8.3 Unfunded Plan. All obligations of the Company under this Plan are purely contractual and shall not be funded or secured in any way. The Company shall not be required to exercise any option, election or right with respect to any Contract, or if it wishes to exercise any option, election or right under any Contract, it shall not be obligated to exercise such option, election or right in any particular manner. A life insurance or annuity contract (hereinafter referred to as a "Contract") may be applied for by the Company or an Affiliate on the life of each Participant. Such Contract, if purchased, shall be the sole, unrestricted property of the Company or an Affiliate and the Company or an Affiliate shall be designated the beneficiary thereof. Any Contract purchased hereunder shall not at any time either before or after a Participant's retirement, be held in trust but shall instead be part of the Company's unrestricted assets subject to the claims of its general creditors.

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has executed these presents as evidenced by the signature of its duly authorized officer, in a number of copies, all of which shall constitute but one and the same instrument, which may be sufficiently evidenced by any such executed copy hereof, this 19th day of June, 2003.

CENTERPOINT ENERGY, INC.

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ Richard Dauphin
- ---
Assistant Secretary

Exhibit 10.5

CENTERPOINT ENERGY, INC.
EXECUTIVE LIFE INSURANCE PLAN
(AS AMENDED AND RESTATED EFFECTIVE JUNE 18, 2003)

RECITALS

WHEREAS, Reliant Energy, Incorporated (formerly, Houston Industries Incorporated), a Texas corporation ("REI"), established the Houston Industries Incorporated Executive Life Insurance Plan, effective as of January 1, 1994; and

WHEREAS, effective as of August 31, 2002, CenterPoint Energy, Inc., a Texas corporation (the "Company"), became the successor of REI; and further

WHEREAS, pursuant to Section 6.1 of the Plan, the Company desires to amend the Plan (1) to change the name of the Plan and Company and (2) to cease the participation in the Plan by new participants;

NOW, THEREFORE, in consideration of the premises and the covenants herein contained, the Plan is hereby amended and restated, effective as of June 18, 2003, as follows:

ARTICLE I

PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company and its wholly owned subsidiaries in retaining qualified executive officers and directors and to provide such eligible employees and directors of the Company and its subsidiaries with death benefits during employment or affiliation with the Company and after retirement.

ARTICLE II

DEFINITIONS

"Annual Base Compensation" shall mean the basic annual rate of a Participant's compensation or salary (before making any reductions pursuant to a salary reduction agreement and which is not includable in the gross income of a Participant under Section 125 or under 402(g) of the Code), in effect for him or her on the later of the Entrance Date or the first day of the applicable Plan Year (which for Retired Participants shall be the Plan Year of retirement), but excluding bonuses, commissions and all other forms of compensation or benefits including additional compensation from this Plan and any amount contributed for him or her by the Company to any employee benefit plan. For purposes of the Plan, Annual Base Compensation of a Director shall be deemed to equal the annual retainer fee (which excludes Board and committee meeting fees and any supplemental or other special retainer fees) payable to a Director by the Company for the applicable Plan Year.

"Beneficiary" shall mean the individual or entity designated by the Benefit Owner to receive the death benefit payable under the Plan upon the Insured's death. If no such designation is made, or if every designated individual predeceases the Insured or the entity no longer exists, then the Beneficiary shall be the Participant's estate.

"Benefit Owner" shall mean that person or entity, who may or may not be the Participant, who executes the Split-Dollar Life Insurance Agreement as the Benefit Owner and shall have all rights under the Plan which do not accrue to the Company, except the right to additional compensation.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee appointed by the Board, which shall administer the Plan.

"Company" shall mean CenterPoint Energy, Inc., a Texas corporation, and any successor thereto.

"Director" shall mean a non-employee member of the Board who (1) was elected to the Board prior to January 1, 2001; (2) was not otherwise an Eligible Employee of the Company; and (3) submitted to the Insurer a properly completed application for life insurance under this Plan and such application was approved by the Insurer prior to December 31, 2001. A Director who is also an Eligible Employee shall be considered an Eligible Employee, and not a Director, for any and all purposes of the Plan. Any individual who is elected as a member of the Board after December 31, 2000, and/or whose application is not submitted and approved by the Insurer prior to December 31, 2001, shall not be a Director for purposes of the Plan.

"Effective Date" shall mean June 18, 2003 as to this amendment and restatement of the Plan.

"Eligible Employee" shall mean an individual who (1) was employed by the Company or one of its wholly-owned subsidiaries prior to January 1, 2002 (and was not on the payroll of NorAm Energy Corp. or any of its divisions or subsidiaries); (2) was (a) an officer of the Company or one of its wholly-owned subsidiaries at the level of Vice President or above or (b) a key executive of the Company or one of its wholly owned subsidiaries; (3) was designated by the Committee to participate in the Plan; and (4) submitted to the Insurer a properly completed application for life insurance under this Plan and such application was approved by the Insurer prior to December 31, 2001. Any individual who is hired or rehired by the Company or one of its wholly-owned subsidiaries after December 31, 2001, and/or whose application is not submitted and approved by the Insurer prior to December 31, 2001, shall not be an Eligible Employee for purposes of the Plan.

"Entrance Date" shall mean with respect to any Eligible Employee or Director the later of (1) the date of employment or affiliation with the Company and/or any of its wholly-owned subsidiaries as an Eligible Employee or Director or (2) the date of acceptance by the

Insurer of their application for life insurance under this Plan; provided, however, that such date was prior to December 31, 2001.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Insurance Contract" shall mean one or more contracts or policies of universal life insurance on the life of the Insured which is issued by an insurance company qualified to do business in the State of Texas and is specified in a Split-Dollar Life Insurance Agreement. If a Participant has entered into more than one Split-Dollar Life Insurance Agreement, the contract or contracts specified in each Split-Dollar Life Insurance Agreement shall be an Insurance Contract separate and distinct from the contract or contracts specified in the other Split-Dollar Life Insurance Agreements.

"Insured" shall mean the Participant or, collectively, the Participant and the Participant's spouse if "second-to-die" coverage is elected. Any reference to the death of the Insured shall mean the death of the second to die of the Participant and the Participant's spouse if "second-to-die" coverage is elected.

"Insurer" shall mean Metropolitan Life Insurance Company or other independent company from time to time issuing to the Company written life insurance policies on the Insured in accordance with the terms of the Plan.

"Participant" shall mean each Eligible Employee or Director on and after the Entrance Date and each Retired Participant who (1) executed a Split-Dollar Life Insurance Agreement with the Benefit Owner (if other than the Participant) and (2) had the Insurer approve the underlying Insurance Contract.

"Plan" shall mean the CenterPoint Energy, Inc. Executive Life Insurance Plan, as set forth herein, and as amended from time to time.

"Plan Year" shall mean the calendar year.

"Retired Participant" shall mean (1) each Participant who leaves the employ of the Company or one of its subsidiaries at a time when he or she is eligible to receive an immediate normal or postponed pension, or, upon attaining age 65, a disability pension from the Company's (or applicable subsidiary's) qualified pension plan; (2) any Participant who leaves the employment of the Company and all subsidiaries on or after age 55 but prior to age 65 and whose Insurance Contract and corresponding Split-Dollar Life Insurance Agreement has been continued by the Committee at its discretion; or (3) any Director who is a Participant and who retires from the Board.

"Split-Dollar Life Insurance Agreement" shall mean a written agreement setting forth the terms, conditions and limitations applicable to the Insurance Contract including, but not limited to the conditions on which a Participant's participation in, and a Benefit Owner's rights under, the Plan may be terminated.

ARTICLE III

PARTICIPATION IN THE PLAN

3.1 Upon becoming eligible to participate in the Plan, the Committee (or its delegate) shall give written notice to the Insurer specifying the name of the Participant and the face amount of the Insurance Contract which the Company shall purchase on the life of such Participant hereunder. The Committee may make more than one such designation with respect to any Eligible Employee. Separate Insurance Contracts shall be purchased and separate Split-Dollar Life Insurance Agreements shall be entered into upon each subsequent designation; provided, however, that if the Committee (or its delegate) so determines, additional insurance may be added to an existing Insurance Contract and such additional insurance shall be deemed to be the Insurance Contract relating to such designation and Split-Dollar Life Insurance Agreement.

3.2 Each Eligible Employee or Director eligible to participate in the Plan shall be offered a Split-Dollar Life Insurance Agreement setting forth the specific provisions which the Committee has determined to be appropriate for such Eligible Employee or Director. No Participant or Benefit Owner shall have any rights whatsoever under the Plan other than the rights and benefits so granted under the Split-Dollar Life Insurance Life Agreement with the Committee. The Committee may require the Insured to submit evidence of insurability. Each such Split-Dollar Life Insurance Agreement shall provide, among other things, that:

(a) The Participant agrees to participate in the Plan;

(b) The Split-Dollar Life Insurance Agreement shall incorporate the Plan by reference; and

(c) The Split-Dollar Life Insurance Agreement shall specify the Insurance Contract with respect to which such Split-Dollar Life Insurance Agreement is made.

3.3 An Insurance Contract shall be purchased on the life of the Insured in the face amount designated by the Committee in its sole discretion. The Insurance Contract shall be owned by the Company.

ARTICLE IV

PLAN BENEFITS

4.1 The death benefit payable to each Benefit Owner's Beneficiary under this Plan shall be provided in addition to any life insurance provided a Participant under a plan of group life insurance maintained by the Company or any subsidiary for its employees.

4.2 The Company shall purchase and have all ownership rights (except as otherwise provided under Section 4.4 of this Plan) to an Insurance Contract on the life of each Insured. Such Insurance Contract shall provide a death benefit equal to such amount (which may vary among classes of Participants). Unless a "second-to-die" contract has been issued, upon the death of a Participant, the death benefit under such Insurance Contract shall be paid by the

Insurer to the Benefit Owner's Beneficiary designated as provided in Section 4.4 of this Plan. If a "second-to-die" contract has been issued, then upon the death of the second to die of the Participant and his or her spouse, the death benefit under such Insurance Contract shall be paid by the Insurer to the Benefit Owner's Beneficiary designated in accordance with Section 4.4 of this Plan. Upon a Participant's attaining the status of a Retired Participant, the Benefit Owner's Beneficiary designation(s) made under Section 4.4 of this Plan shall remain in effect.

4.3 All premiums on each Insurance Contract described in Section 4.2 above shall be paid by the Company for the respective accounts of all Participants. The imputed income to the Insured shall be determined in accordance with Revenue Ruling 66-110, 1966-1 C.B.12, or applicable Federal tax laws, regulations or rulings which may be subsequently published relating to split-dollar life insurance programs. The Company will record this portion of the premium as taxable income to the Insured. Each year the Company may pay to the Participant (or the Participant's spouse, if "second-to-die" coverage is elected and the Participant is then deceased) an amount which equals the after-tax cost of the imputed income. The computation of the amount and date of payment of such amount shall be determined by the Committee in its sole discretion which determination shall be binding and conclusive on all parties.

4.4 The Benefit Owner shall have the right to designate the Beneficiary(ies) of the death benefit under the Insurance Contract on the Insured described in Section 4.2 by a signed writing delivered to the Committee and the right to change the Beneficiary designation at any time by a similar writing. Notwithstanding the foregoing, a Benefit Owner may irrevocably assign its right to designate and change Beneficiary(ies) under the Insurance Contract by a signed writing delivered to the Committee prior to the Insured's death. The "signed writing" as contemplated in this paragraph shall be in such form as may be prescribed by the Committee from time to time.

4.5 All benefits to the Benefit Owner under this Article IV shall cease upon (i) the termination of the Participant's employment with the Company and all subsidiaries for any reason other than death and prior to age 65 unless such termination is on or after age 55 and the Committee, in its sole discretion, elects to continue the coverage of the Participant or (ii) the Participant ceasing to be employed in an employment classification or capacity covered by the Plan. If the employment of a Participant with the Company and all subsidiaries is terminated prior to age 55 or on and after age 55 and prior to age 65 and the Committee does not elect to continue the coverage of the Participant or if the Participant is no longer employed in an employment classification or capacity covered by the Plan, the Company shall use reasonable efforts to have the Insurer offer to the Benefit Owner the opportunity to purchase for cash all ownership rights in the Insurance Contract on the Insured's life at the greater of (i) its cash surrender value or (ii) the aggregate of all premiums paid by the Company with respect to the Insurance Contract, such purchase price to be paid to the Company. Notwithstanding the foregoing, a Benefit Owner may irrevocably assign its right to purchase all ownership rights in the Insurance Contract pursuant to this Section 4.5 by a signed writing delivered to the Committee prior to the termination of the Participant's employment with the Company. The "signed writing" as contemplated in this paragraph shall be in such form as may be prescribed by the Committee from time to time.

ARTICLE V

ADMINISTRATION

5.1 The Committee shall be the fiduciary and, as such, shall have full responsibility and authority to interpret, control and administer the Plan and agreements entered into with Participants pursuant to the Plan, including the power to amend the Plan as provided in Section 6.2 hereof, the power to promulgate rules of Plan administration, the power to investigate and settle any disputes as to rights or benefits arising under the Plan and such agreements, the power to appoint agents, accountants and consultants, the power to delegate the Committee's duties, the power to issue instructions to the Insurer, and the power to make such other decisions or take such other actions as the Committee, in its sole discretion, deems necessary or advisable to aid in the proper administration of the Plan. Actions and determinations by the Committee shall be final, binding and conclusive for all purposes of this Plan.

5.2 Without limitation, the Company shall have the power and authority to transfer ownership of any Insurance Contract to a Benefit Owner when a Participant's employment is terminated, as provided in Section 4.5, or to a trust subject to the claims of the Company's general creditors.

5.3 An initial claim for benefit payment shall be considered filed when a written request is received by the Committee or its authorized designate (the "Claims Administrator"). Any Participant, Benefit Owner, Beneficiary or authorized representative (for purposes of this Section 5.3, referred to as "Claimant") shall submit an application for Plan benefits to the Claims Administrator in writing. Such application shall set forth the nature of the claim and such other information as the Claims Administrator may request. The Committee shall establish administrative procedures and safeguards, to ensure that claims determinations are made in accordance with the Plan and have been applied consistently for similarly situated Claimants. No action at law or in equity may be brought to recover benefits under this Plan prior to the date the Claimant has exhausted the administrative process of appeal available under the Plan. Claims shall be approved or denied in accordance with the terms of the Plan and the following claims procedures:

(a) Calculating Time Periods. The period of time within which a benefit determination is required to be made on a claim or an appeal shall begin at the time the claim or appeal is filed in accordance with the Plan procedures, without regard to whether all the information necessary to make a benefit determination accompanies the filing. In the event that a period of time is extended as permitted pursuant to Section 5.3(b) or 5.3(d) due to the failure of a Claimant to submit information necessary to decide the claim or appeal, the period for making the benefit determination shall commence from the date on which the notification of the extension is sent to the Claimant until the date on which the Claimant responds to the request for additional information.

(b) Notice of Denial. Any time a claim for benefits is wholly or partially denied, the Claimant shall be given written notice of such action within ninety (90) days after the claim is filed, unless the Claims Administrator determines that special

circumstances require an extension of time for processing. If there is an extension, the Claimant shall be notified of the extension and the special circumstances requiring the extension within the initial ninety (90) day period. The extension shall not exceed one hundred eighty (180) days after the claim was originally filed.

The denial notice shall be written in a manner calculated to be understood by the Claimant and shall set forth (i) the specific reason(s) for denial, (ii) references to the specific provisions of the Plan on which the denial is based, (iii) a description of the claims appeal procedure set forth herein (including applicable time limits), (iv) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary, and (v) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on appeal.

(c) Right to Appeal. Any Claimant who has had a claim for benefits denied by the Claims Administrator, shall have the right to request review by the Committee. Such request must be in writing, and must be made within sixty (60) days after the Claimant receives notice of the claim denial. If written request for review is not made within such sixty (60) day period, the Claimant shall forfeit his or her right to review, as well as the right to challenge the determination in court. The Claimant shall be provided the opportunity to submit written comments, documents, records and other information relating to the claim for benefits. The Claimant shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits. This includes any item that (i) was relied on in making the benefit determination; (ii) was submitted, considered or generated in the course of making the benefit determination, regardless of whether it was relied on; or (iii) demonstrates compliance with administrative processes and safeguards designed to ensure benefit determinations are appropriately made in accordance with Plan documents.

(d) Review of Claim. Upon receiving a request to review a claim (sometimes referred to as an "appeal"), the Committee shall review the claim. The review shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Committee shall provide the Claimant a written decision reaffirming, modifying or setting aside the claim denial within sixty (60) days after receipt of the written request for review (provided that this initial sixty (60) day period may be extended by up to an additional sixty (60) days if the Committee determines that special circumstances require an extension). The Claimant shall be notified in writing of any such extension within the initial sixty (60) days following the Committee's receipt of the request for review. The extension notice will indicate the special circumstances requiring the extension and the date by which the Committee expects to make the decision.

However, if the Committee holds regularly scheduled meetings at least quarterly, this paragraph shall apply and the preceding paragraph shall not apply. The Committee

shall make a benefit determination no later than the date of the meeting of the Committee that immediately follows the Committee's receipt of the request for review, unless the request for review is filed within 30 days preceding the date of such meeting. In such case, a benefit determination shall be made by no later than the date of the second meeting following the Committee's receipt of the request for review. If special circumstances require a further extension of time for processing, a benefit determination shall be rendered not later than the third meeting of the Committee following the Committee's receipt of the request for review. If such an extension of time for review is required because of special circumstances, the Committee shall provide the Claimant with written notice of the extension, describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. The Committee shall notify the Claimant of the benefit determination as soon as possible, but not later than 5 days after the benefit determination is made.

A decision denying a claim on appeal shall be written in a manner calculated to be understood by the Claimant and shall set forth (i) the specific reason(s) for the denial, (ii) references to the specific Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits, (iv) a statement describing any voluntary appeal procedures offered by the Plan and the Claimant's right to obtain the information about such procedures, and (v) a statement of the Claimant's right to bring an action under section 502(a) of ERISA.

The decision of the Committee on appeal shall be final and binding upon the Claimant and the Committee and all other persons involved.

If the benefit or claim under review arises under a life insurance policy issued by the Insurer, the Committee shall, as part of the review, obtain from the Insurer, a determination of the reason or reasons for the denial of the benefit or claim under the relevant Insurance Contract based upon all evidence available to the Committee and the Insurer. Claims for benefits under the Insurance Contract (including loans, withdrawals and payment of death benefits) must be submitted in writing to Metropolitan Life Insurance Company, 485-B U.S. Highway One South, Suite 420, Iselin, New Jersey 08830, ATTENTION: Specialized Benefit Resources.

ARTICLE VI

AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN

6.1 Subject to the provisions of Section 6.3, the Board may from time to time amend, suspend or terminate the Plan, in whole or in part.

6.2 The Committee also may from time to time amend the Plan as may be needed (a) to comply with applicable tax, welfare benefit plan or insurance laws, regulations or rulings related to split-dollar life insurance programs or otherwise or (b) to resolve ambiguities in the Plan or related documents, but no such amendment by the Committee shall alter, expand or contradict the intent of the authorizing resolutions adopted by the Board on October 6, 1993 or any subsequent resolutions of the Board affecting the Plan.

6.3 No amendment, suspension or termination of the Plan shall materially adversely affect (i) the payment of a death benefit already due under the Plan as the result of the death of the Insured prior to the date of adoption of such amendment, suspension or termination or (ii) the payment of a death benefit to become due under the Plan on behalf of a Retired Participant as the result of the death of the Insured who became a Retired Participant prior to the date of adoption of such amendment, suspension or termination.

ARTICLE VII

FUNDING

No promise of payment of benefits by the Company under this Plan shall be secured by any specific assets of the Company, nor shall any assets of the Company be designated as attributable or allocated to the satisfaction of such promise, except that the Company undertakes to purchase a split-dollar life insurance policy on the life of the Insured as described in Section 4.2, subject to acceptance by the Insurer.

ARTICLE VIII

GENERAL PROVISIONS

8.1 Except as provided in Sections 4.4 and 4.5 of this Plan, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, except by will, or the laws of descent and distribution, and any attempt to do so shall be void. No such benefit shall, prior to receipt thereof, be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of any Participant, Benefit Owner, or Beneficiary.

8.2 This Plan shall inure to the benefit of, and be binding upon, the Company, each Benefit Owner and each Participant, and upon the successors and assigns of the Company, each Benefit Owner and each Participant.

8.3 The Company or the Insurer shall deduct from the amount of any payments hereunder all taxes required to be withheld by applicable laws.

8.4 This Plan shall be governed by, and construed in accordance with, the laws of the State of Texas and ERISA.

8.5 The Insurer selected by the Committee shall be a reputable insurance company in good standing and authorized to issue split-dollar life insurance policies under the laws of the State of Texas, but the Company does not guarantee the payment or performance by the Insurer of the Insurer's obligations under any life insurance policies issued by it.

8.6 Each Plan Year shall begin on January 1 of one calendar year and end on December 31 of the same calendar year.

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has executed these presents as evidenced by the signature of its duly authorized officer, in a number of copies, all of which shall constitute but one and the same instrument, which may be sufficiently evidenced by any such executed copy hereof, this 19th day of June, 2003.

CENTERPOINT ENERGY, INC.

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ Richard Dauphin
- ---
Assistant Secretary

Exhibit 10.6

CENTERPOINT ENERGY, INC.
OUTSIDE DIRECTOR BENEFITS PLAN
(AS AMENDED AND RESTATED EFFECTIVE JUNE 18, 2003)

RECITALS

WHEREAS, Reliant Energy, Incorporated (formerly, Houston Industries Incorporated), a Texas corporation ("REI"), established the Houston Industries Incorporated Director Benefits Plan, effective as of January 1, 1992; and

WHEREAS, effective as of August 31, 2002, CenterPoint Energy, Inc., a Texas corporation (the "Company"), became the successor of REI; and further

WHEREAS, pursuant to Section 7.1 of the Plan, the Company desires to amend the Plan (1) to change the name of the Plan and Company and (2) to incorporate prior amendments;

NOW, THEREFORE, in consideration of the premises and the covenants herein contained, the Plan is hereby amended and restated, effective as of June 18, 2003, as follows:

ARTICLE I

PURPOSE

The purpose of the Plan is to enhance the Company's ability to maintain a competitive position in attracting and retaining qualified Outside Directors who contribute, and are expected to contribute, materially to the success of the Company and its subsidiaries by providing retainer continuation benefits for the Outside Directors.

ARTICLE II

DEFINITIONS

For purposes of the Plan, the terms set forth below shall have the following meanings:

"ANNUAL RETAINER FEE" means annual fee paid to the Outside Director for his or her service on the Board exclusive of Board and committee meeting fees and any other supplemental or special retainer fees.

"BOARD" means the Board of Directors of the Company.

"COMPANY" means CenterPoint Energy, Inc., a Texas corporation, or any successor thereto.

A "FULL YEAR OF SERVICE" means the completion of service in the capacity of an Outside Director from one annual meeting of shareholders of the Company to the next following the annual meeting of shareholders of the Company, with such calculation including (1) any such service as an Outside Director prior to January 1, 1992, the original effective date of the Plan, and (2) service as a member of the board of director of NorAm Energy Corp., any predecessor thereto, or any division or subsidiary of NorAm Energy Corp., or service as a director of any "advisory board" of NorAm Energy Corp. or its subsidiaries or divisions.

"OUTSIDE DIRECTOR" means a person who is a member of the Board and who is not a current employee of the Company or a subsidiary.

"PLAN" means the CenterPoint Energy, Inc. Outside Director Benefits Plan set forth herein, as amended and restated effective June 18, 2003, and as the same may hereafter be amended from time to time.

ARTICLE III

ADMINISTRATION

3.1 Plan Administrator: This Plan shall be administered by the Board.

3.2 Powers and Duties: Subject to the provisions hereof, the Board shall have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Board shall also have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Board may correct any defect or supply any omission or reconcile any inconsistency in this Plan in the manner and to the extent the Board deems necessary or desirable. Any decision of the Board in the interpretation and administration of this Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Board may engage in or authorize the engagement of a third party administrator to carry out administrative functions under the Plan.

The Board shall publish and file or cause to be published and filed or disclosed all reports and disclosures required by federal or state law. The Board shall keep all such books of accounts, records and other data as may be necessary for the proper administration of the Plan.

3.3 Payment of Expenses: Each member of the Board shall serve without compensation for his or her services as Plan administrator, but all expenses incurred in administration of the Plan shall be paid by the Company.

3.4 Indemnities: No member of the Board or officer of the Company or a subsidiary of the Company to whom the Board has delegated authority in accordance with the provisions of this Section shall be liable for anything done or omitted to be done by him or her, by any member of the Board or by any officer of the Company or Company subsidiary in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

ARTICLE IV

PARTICIPATION IN PLAN

All Outside Directors serving in such capacity on or after January 1, 1992 shall be eligible to participate in the Plan. Any Outside Director whose service on the Board terminated prior to January 1, 1992 shall not be eligible to participate in the Plan.

ARTICLE V

BENEFITS

5.1 Retainer Continuation Benefits: Each Outside Director who has served for at least one Full Year of Service shall receive an annual benefit in cash equal to the amount of the Annual Retainer Fee payable to an Outside Director for the year in which the Outside Director terminates service as an Outside Director, payable for a period certain equal to the number of Full Years of Service. Such annual amounts shall commence the January next following the later of (a) the Outside Director's termination of service as an Outside Director for any reason or (b) the Outside Director's attainment of age sixty-five (65).

5.2 Death of Outside Director: Upon the death of an Outside Director before commencement of, or receipt of all, payments payable under the Plan, the Outside Director's beneficiary or beneficiaries, designated under rules and procedures established by the Board, or in the absence of such beneficiary, the Outside Director's surviving spouse, or if there is no surviving spouse, the personal representative of such Outside Director's estate, shall be entitled to receive the cash payment or payments to which the Outside Director was entitled. In the event of the subsequent death of the beneficiary (as determined in the preceding sentence), any payments remaining under the Plan shall be paid to the personal representative of the beneficiary's estate. Any payments made to an estate shall be paid in a discounted lump-sum, employing reasonable assumptions as determined in the sole discretion of the Board.

5.3 Withholding of Taxes: Unless otherwise required by applicable federal or state laws or regulations, the Company shall not withhold or otherwise pay on behalf of any Outside Director any federal, state, local or other taxes arising in connection with the payment of any benefits under this Plan. The payment of any such taxes shall be the sole responsibility of each Outside Director.

5.4 Benefit Offset: Notwithstanding any provision hereto to the contrary, the annual benefit amount payable to an Outside Director calculated under Section 5.1 hereof shall be reduced by the amount of any annual benefit that the Outside Director receives under the NorAm Energy Corp. Directors' Retirement Plan.

ARTICLE VI

RIGHTS OF OUTSIDE DIRECTORS

6.1 No Assignment or Transfer: No right or benefit under this Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same will be void. No right or benefit hereunder shall be in any manner payable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits.

6.2 Prerequisites: No Outside Director, or any person claiming through an Outside Director, shall have any right or interest in the Plan or any benefits hereunder, unless and until all terms, conditions and provisions of the Plan which affect such Outside Director or such other person shall have been complied with as specified herein.

ARTICLE VII

MISCELLANEOUS

7.1 Amendment, Modification, Suspension or Termination: The Board may amend, modify, suspend or terminate this Plan in whole or in part at any time. Any such amendment, modification, suspension or termination shall not, however, adversely affect the rights of any Outside Director to any accrued benefits under the Plan.

7.2 Applicable Laws: This Plan and all determinations made and actions taken pursuant hereto shall be governed by the internal laws of the State of Texas, except as federal law may apply.

7.3 Unfunded Status of Plan: This Plan shall be an unfunded plan. The annual benefit amount payable under this Plan shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the unfunded and unsecured right to receive the amount, which right shall be subject to the terms, conditions and restrictions set forth in the Plan. Such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to establish any special or separate fund or reserve or to make any other segregation of assets to assure the payment of the annual benefit amount under this Plan. Neither the Company nor the Board shall be required to give any security or bond for the performance of any obligation that may be created by this Plan.

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has executed these presents as evidenced by the signature of its duly authorized officer, in a number of copies, all of which shall constitute but one and the same instrument, which may be sufficiently evidenced by any such executed copy hereof, this 19th day of June, 2003.

CENTERPOINT ENERGY, INC.

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

ATTEST:

/s/ Richard Dauphin
- ---
Assistant Secretary

EXHIBIT 10.7

FIRST AMENDMENT TO CREDIT AGREEMENT

FIRST AMENDMENT, dated as of September 2, 2003 (this "Amendment"), to the $1,310,000,000 Credit Agreement, dated as of November 12, 2002 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a Texas limited liability company ("Borrower"), the banks and other lenders from time to time parties thereto (the "Banks"), and CREDIT SUISSE FIRST BOSTON acting through its Cayman Islands Branch, as administrative agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H :

WHEREAS, Borrower, the Banks, and the Administrative Agent are parties to the Credit Agreement; and

WHEREAS, Borrower has requested that the Supermajority Banks agree to amend certain provisions contained in the Credit Agreement, and the Supermajority 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. Amendments to Definition of Excluded Transactions in Section 1.1 of the Credit Agreement. The definition of "Excluded Transactions" in Section 1.1 of the Credit Agreement is hereby amended as follows:

(a) Each word "Indebtedness" therein is hereby deleted and replaced with the phrase "Indebtedness for Borrowed Money";

(b) Clause (a) thereof is hereby deleted and replaced with new clause (a) as follows:

"(a) Indebtedness for Borrowed Money in respect of any refinancing, refundings, renewals or extensions (on or prior to the maturity thereof) of Indebtedness for Borrowed Money outstanding on the Closing Date (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 to a date earlier than the earlier of (i) the maturity date thereof in effect on the effective date of the First Amendment to this Agreement and (ii) November 11, 2007);"

(c) The phrase "$300,000,000" in clause (k) thereof is hereby deleted and replaced with the phrase "$800,000,000".

3. Amendment to Definition of Net Cash Proceeds in Section 1.1. of the Credit Agreement. The definition of "Net Cash Proceeds" in Section 1.1 of the Credit Agreement is hereby amended by deleting clause (b) thereof in its entirety and replacing it with 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) attorney's 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 refunded as described in clause (a) of the definition of Excluded Transactions or otherwise paid with all of part of the proceeds thereof."

4. Amendment to Section 5.6(a) of the Credit Agreement. Section 5.6(a) of the Credit Agreement is hereby amended by deleting the word "Indebtedness" therein and replacing it with the phrase "Indebtedness for Borrowed Money".

5. Addition of New Section 5.9 to the Credit Agreement. A new Section 5.9 is hereby added to the Credit Agreement as follows:

"Section 5.9. Borrower's Option to Effect Defeasance or Covenant Defeasance.

The Borrower may elect, at its option at any time, to have Section 5.9(b)or (c) applied to the Notes, upon compliance with the conditions set forth below in this Section 5.9. Any such election shall be evidenced by delivery by the Borrower to the Administrative Agent of a certificate stating that the Borrower has made such election.

(b) Defeasance and Discharge. Upon the Borrower's exercise of its option to have this Section 5.9(b) applied to the Notes, the Borrower shall be deemed to have been discharged from its obligations with respect to such Notes as provided in this Section 5.9(b) on and after the date the conditions set forth in Section 5.9(d) are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Borrower shall be deemed to have paid and discharged the entire indebtedness represented by such Notes and to have satisfied all its other obligations under such Notes, this Agreement and the other Loan Documents insofar as such Notes are concerned (and the Administrative Agent, at the expense of the Borrower, shall execute proper instruments acknowledging the same, including without limitation, a discharge of the Pledge Agreement), subject to the following which shall survive until otherwise terminated or discharged hereunder: (i) the rights of the Banks to receive, solely from the trust fund described in Section 5.9(d) and as more fully set forth in such Section 5.9(d), payments in respect of the principal of and any premium and interest on their Notes when

payments are due, (ii) the rights, powers, trusts, duties and immunities of the Administrative Agent and the Collateral Trustee hereunder and (iii) this Section 5.9. Subject to compliance with this Section 5.9, the Borrower may exercise its option to have this Section 5.9(b) applied to the Notes notwithstanding the prior exercise of its option to have Section 5.9(c) applied to such Notes.

(c) Covenant Defeasance. Upon the Borrower's exercise of its option to have this Section 5.9(c) applied to the Notes, (i) the Borrower shall be released from its obligations under any covenants under Article V (other than Section 5.9) and Articles VII and VIII and (ii) the occurrence of any event specified in Article 9, shall be deemed not to be or result in an Event of Default on and after the date the conditions set forth in Section 5.9(d) are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that the Borrower may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section, whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document, but the remainder of this Agreement and such Notes shall be unaffected thereby.

(d) Conditions to Defeasance or Covenant Defeasance. The following shall be the conditions to the application of Section 5.9(b) or Section 5.9(c) to the Notes:

(i) The Borrower shall irrevocably have deposited or caused to be deposited in a segregated trust account for the exclusive benefit of the Banks with a nationally recognized trust company, bank or financial institution selected by the Borrower having at least $10 billion in trust assets at the time of such deposit, that agrees to comply with the provisions of this Section 5.9 applicable to it (the "Collateral Trustee") as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefits of the Banks holding the Notes, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case sufficient, in the opinion of a nationally recognized firm of independent certified public accountants expressed in a written certification thereof delivered to the Administrative Agent, to pay and discharge, and which shall be applied by the Collateral Trustee to pay and discharge, the principal of and any premium and interest on the Notes on the respective stated maturities, in accordance with the terms of this Agreement and such Notes. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled

or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933 as amended) as custodian with respect to any U.S. Government Obligation which is specified in clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(ii) In the event of an election to have Section 5.9(b) apply to the Notes, the Borrower shall have delivered to the Administrative Agent an opinion of its counsel stating that (A) the Borrower has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Banks holding the Notes will not recognize gain or loss for federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Notes and will be subject to federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(iii) In the event of an election to have Section 5.9(c) apply to the Notes, the Borrower shall have delivered to the Administrative Agent an opinion of counsel to the effect that the Banks holding the Notes will not recognize gain or loss for federal income tax purposes as a result of the deposit and Covenant Defeasance to be effected with respect to the Notes and will be subject to federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(iv) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to the Notes shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 9.1(g) and

(h), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(v) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Borrower is a party or by which it is bound.

(vi) The Borrower shall have delivered to the Administrative Agent an officers' certificate and an opinion of counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with, and such opinion shall state, subject to customary exceptions, that the deposit made pursuant to Section 5.9(d)(i) shall have created in favor of the Collateral Trustee for the benefit of the Banks a first priority perfected security interest in such deposit to secure the Notes.

(e) Discharge of Pledged Bond and Pledge Agreement and Acknowledgment of Discharge By Administrative Agent. Subject to Section 5.9(g) below and after the Borrower has delivered to the Administrative Agent an officers' certificate and an opinion of counsel, each stating that all conditions precedent referred to in Section 5.9(d) relating to the defeasance or satisfaction and discharge, as the case may be, of this Agreement have been complied with, the Pledged Bond and the Pledge Agreement shall be automatically discharged notwithstanding anything to the contrary contained therein (including Section 12 of the Pledge Agreement) or in the documents executed in connection therewith and the Administrative Agent shall notify the Trustee (as defined in the Pledge Agreement) of such discharge and upon request of the Borrower shall acknowledge in writing the defeasance or the satisfaction and discharge, as the case may be, of this Agreement and the discharge of the Borrower's obligations under this Agreement and the other Loan Documents and the Administrative Agent shall return the Pledged Bond to the Borrower and execute and deliver any instruments reasonably requested by the Borrower to evidence the discharge of the Pledged Bonds and the Pledge Agreement.

(f) Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions. All money and U.S. Government Obligations (including the proceeds thereof) deposited with the Collateral Trustee pursuant to Section 5.9(d) in respect of the Notes shall be held in trust and applied by the Collateral Trustee, in accordance with the provisions of the Notes and this Agreement, to the payment, either directly or through any such agent as the Collateral Trustee may determine, to the Banks holding such Notes, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Borrower shall pay and indemnify the Collateral Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 5.9(d) or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the holders of outstanding Notes.

Anything in this Section 5.9 to the contrary notwithstanding, the Collateral Trustee shall deliver or pay to the Borrower from time to time upon Borrower's request any money or U.S. Government Obligations held by it as provided in Section 5.9(d) with respect to the Notes which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Collateral Trustee, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Notes.

Any money deposited with the Administrative Agent, in trust for the payment of the principal of or any premium or interest on the Note and remaining unclaimed for two years after such principal, premium or interest has become due and payable may be paid to the Borrower on Borrower's request, or (if then held by the Borrower) shall be discharged from such trust; and the holder of such Note shall thereafter, as an unsecured general creditor, look only to the Borrower for payment thereof, and all liability of the Collateral Trustee with respect to such trust money, and all liability of the Borrower as trustee thereof, shall thereupon cease; provided, however, that the Collateral Trustee, before being required to make any such repayment, may at the expense of the Borrower cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Borrower.

(g) Reinstatement. If the Collateral Trustee is unable to apply any money in accordance with this Section 5.9 with respect to any Notes by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Agreement and such Notes from which the Borrower has been discharged or released pursuant to Section 5.9(b) or 5.9(c) shall be revived and reinstated as though no deposit had occurred pursuant to this Section 5.9 with respect to such Notes, until such time as the Collateral Trustee is permitted to apply all money held in trust pursuant to Section 5.9(f) with respect to such Notes in accordance with this Section 5.9; provided, however, that if the Borrower makes any payment of principal of or any premium or interest on any such Note following such reinstatement of its obligations, the Borrower shall be subrogated to the rights (if any) of the Banks holding such Notes to receive such payment from the money so held in trust."

6. Addition of a New Section 5.10 to the Credit Agreement. A new Section 5.10 is hereby added to the Credit Agreement as follows:

"The Borrower shall not, without the prior consent of the Majority Bank, prepay any Indebtedness for Borrowed Money issued after the effective date of the First Amendment to this Agreement and secured pursuant to Section 8.2(b)(iv) other than in connection with a refinancing, refunding, renewal or extension thereof described in clause (a) of the definition of Excluded Transactions."

7. Amendment to Section 8.2(b)(iv) of the Credit Agreement. Section 8.2(b)(iv) of the Credit Agreement is hereby amended by deleting the phrase "$300,000,000" in such Section and replacing such phrase with the phrase "$800,000,000".

8. 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 Supermajority Banks in accordance with Section 11.1 of the Credit Agreement;

(b) The Borrower shall have paid fees to the Banks executing this Amendment as previously agreed between the Borrower and Banks;

(c) The Administrative Agent shall have received an opinion of Baker Botts LLP and Rufus S. Scott, Deputy General Counsel of the Borrower, addressing the Borrower's existence, the due execution and delivery by the Borrower of this Amendment, the enforceability against the Borrower of its obligations thereunder and absence of conflicts with this Amendment with the charter documents and material agreements of the Borrower;

(d) The Administrative Agent shall have received a certificate of the Borrower stating that 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 as if made as the date hereof (except to the extent such representations and warranties are limited to a prior date); and

(e) 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.

9. 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 8 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.

10. Representations and Warranties. Borrower, as of the date hereof and after giving effect to the amendment contained herein, hereby represents and warrants that no Default or Event of Default has occurred and is continuing and 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 as if made as the date hereof (except to the extent such representations and warranties are limited to a prior date); 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.

11. 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.

12. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

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 HOUSTON
ELECTRIC, LLC

By: /s/ Gary L. Whitlock

Name: Gary L. Whitlock
Title: Executive Vice President and Chief
Financial Officer

CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands Branch, as Administrative Agent

By: /s/ S. WILLIAM FOX

Name: S. WILLIAM FOX
Title: DIRECTOR

By: /s/ BILL O'DALY

Name: BILL O'DALY
Title: DIRECTOR

CREDIT SUISSE FIRST BOSTON, as a Bank

By: /s/ ROBERT FRANZ

Name: ROBERT FRANZ
Title: DIRECTOR

By: /s/ [Illegible]

Name: [Illegible]
Title: Director

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

GENERAL REINSURANCE CORPORATION, as
a Bank

By: /s/ [Illegible]

Name:
Title:

EXHIBIT 10.8

CREDIT AGREEMENT

Dated as of October 7, 2003

Among

CENTERPOINT ENERGY, INC.,

as Borrower,

THE BANKS PARTIES HERETO,

CITIBANK, N.A.,
as Syndication Agent,

DEUTSCHE BANK AG, NEW YORK BRANCH,
CREDIT SUISSE FIRST BOSTON,
and
BANK OF AMERICA, N.A.,
as Co-Documentation Agents
and

JPMORGAN CHASE BANK,
as Administrative Agent

J.P. MORGAN SECURITIES INC. and
CITIGROUP GLOBAL MARKETS INC.,

as Sole Lead Arrangers and Bookrunners

TABLE OF CONTENTS

Schedules

Exhibits

This Credit Agreement (this "Agreement"), dated as of October 7, 2003, among CenterPoint Energy, Inc., a Texas corporation ("CenterPoint" or the "Borrower"), the banks and other financial institutions from time to time parties hereto (individually, a "Bank" and, collectively, the "Banks"), Citibank, N.A., as syndication agent (in such capacity, the "Syndication Agent"), Deutsche Bank AG, New York Branch, Credit Suisse First Boston and Bank of America, N.A., as co-documentation agents (in such capacities, the "Documentation Agents") and JPMorgan Chase Bank, as administrative agent (in such capacity, together with any successors thereto in such capacity, the "Administrative Agent").

The parties hereto hereby 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" means for any day, a rate per annum (rounded upwards, if necessary, to the next 1/64 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 oF 1%. For purposes hereof, "Prime Rate" means the rate of per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City (the Prime Rate not being intended to be the lowest rate of interest charged by JPMorgan Chase Bank in connection with extensions of credit to debtors). 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 opening of business on 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 3.3(a).

"Adjusted Interest Expense" means, for any period, the difference between (a) total interest expense (including that attributable to Capital Lease obligations and capitalized interest) determined in accordance with GAAP of the Borrower and its Subsidiaries for such period with respect to all outstanding Indebtedness of the Borrower and its Subsidiaries (including all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financings and net costs under Swap Agreements in respect of interest rates to the extent such net costs are allocable to such period in accordance with GAAP) less (b) the sum of the following for such period (i) total interest income determined in accordance with GAAP and (ii) but only to the extent included in the amount calculated pursuant to clause (a) above, (x) interest expense on Hybrid Preferred Securities, (y) interest expense in respect of the securitization programs of the Borrower and its Subsidiaries set forth on Schedule 1.1(B) and in respect of any other Securitization Securities and (z) amortization of settlement payments previously made on forward-starting Swap Agreements and of any upfront fees and other costs associated with financings for the Borrower and its Subsidiaries.

"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.

"Agents" means the collective reference to the Syndication Agent, the Documentation Agents and the Administrative Agent.

"Aggregate Outstanding Extensions of Credit" means, as to any Bank at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans made by such Bank then outstanding and (b) such Bank's Revolving Percentage of the L/C Obligations then outstanding.

"AOL Stock" means shares of common stock of AOL Time Warner Inc. (and its successors).

"Applicable Margin" means (x) 2.50% per annum in the case of any Term Loan which is an ABR Loan, (y) 3.50% per annum, in the case any of Term Loan which is a LIBOR Loan and (z) 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, in the case of any Revolving Loan:

DESIGNATED RATING	LIBOR RATE MARGIN FOR REVOLVING LOANS	ABR MARGIN FOR REVOLVING LOANS
BBB- and Baa3 or higher	2.500%	1.500%
Lower than BBB- and Baa3 (or unrated)	3.000%	2.000%

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".

"Application" means an application, in such form as the Issuing Bank may specify from time to time, requesting the Issuing Bank to issue a Letter of Credit.

"Assignment and Acceptance" has the meaning specified in Section 10.6(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 such Bank, an Affiliate of such Bank or 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.

"Borrowing" means a borrowing consisting of Term Loans under Section 2.1 or Revolving Loans under Section 2.4, as the case may be, of the same Type, and having, in the case of LIBOR Rate Loans, the same Interest Period, made on the same day by the Banks. The term "Committed Borrowing" as used herein shall not include any conversion or continuation of a Loan under Section 3.6.

"Borrowing Date" means any Business Day specified by the Borrower as a date on which the Borrower requests the relevant Banks to make Loans hereunder.

"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 270 days 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 270 days 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 270 days 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.

"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.

"CenterPoint Electric" means CenterPoint Energy Houston Electric, LLC, a Texas limited liability company formerly known as Reliant Energy, Incorporated.

"Change in Control" means, with respect to the Borrower, 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 the Borrower, 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 the Borrower. 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 October 15, 2003, 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 specified in the Pledge Agreement.

"Commitment" means, as to any Bank, the sum of the Term Commitment and the Revolving Commitment of such Bank; and "Commitments" shall be the collective reference to the Commitments of all of the Banks.

"Commitment Fee" has the meaning specified in Section 3.2(a).

"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 August, 2003.

"Consolidated EBITDA" means, for any twelve-month period ending on the date of determination, Consolidated Net Income for such period plus, without duplication and to the extent reflected as a charge in the statement of such Consolidated Net Income for such period, the sum of (a) income tax expense, (b) interest expense, distributions on Hybrid Preferred Securities (to the extent not included in interest expense and to the extent deducted to arrive at Consolidated Net Income), amortization or writeoff of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with Indebtedness (including the Loans) and amortization of settlement payments previously made on forward-starting Swap Agreements, (c) depreciation and amortization expense, (d) amortization of intangibles (including, but not limited to, goodwill) and organization costs, (e) any extraordinary, unusual or non-recurring expenses or losses (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, losses on sales of assets outside of the ordinary course of business), (f) any other non-cash charges and (g) Pre-Tax ECOM, and minus, to the extent included as income in the statement of such Consolidated Net Income for such period, the sum of (a) interest income, (b) any extraordinary, unusual or non-recurring income or gains (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, gains on the sales of assets outside of the ordinary course of business), (c) any other non-cash income, (d) Pre-Tax Securitization Principal and Interest, (e) Pre-

Tax Excess Mitigation Credit and Pre-Tax ECOM, all as determined on a consolidated basis. For purposes of this definition, any results of operations classified as "discontinued operations" in accordance with GAAP will be included in the manner set forth above.

"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, less

(iii) the amount of Indebtedness described in clause (i) attributable to amounts then outstanding under receivables facilities or arrangements to the extent that such amounts would not have been shown as Indebtedness on a balance sheet prepared in accordance with GAAP prior to January 1, 1997, less

(iv) the aggregate amount of liabilities in respect of any Indexed Debt Securities as shown on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, less

(v) the present value of the projected recovery, pursuant to applicable legislation and agreement, of (a) the net amount of stranded costs, (b) the Market Value of Generating Assets, provided that at any time after expiration of the RRI Option without exercise thereof, the market value of generating assets shall only be subtracted for purposes of this definition for dates of determination occurring until the earliest of: (x) March 30, 2005, unless at such time the Borrower and/or its Subsidiaries have entered into a binding agreement for the sale of all or substantially all of the Texas Genco Stock or all or substantially all of the assets of the Texas Genco Entities, in which case such date shall be extended to December 31, 2005, (y) consummation of the sale of all or substantially all of the Texas Genco Stock or all or substantially all of the assets of the Texas Genco Entities and (z) the consummation of the Stranded Cost Securitization for Net Cash Proceeds of at least $3,000,000,000 and (c) certain power market price and fuel cost recovery true-ups, determined in a manner substantially consistent with the calculations set forth on Schedule 1.1(C), less

(vi) the greater of (x) until the date that is six months after the receipt thereof, cash and Cash Equivalents of the Borrower and its Subsidiaries on such date of determination constituting Net Cash Proceeds of the Stranded Cost Securitization and (y) until the date of the final scheduled maturity of the CEHE Credit Agreement, the lesser of (A) the aggregate amount of cash and Cash Equivalents of the Borrower and its Subsidiaries on such date of determination constituting Net Cash Proceeds of the Stranded Cost Securitization and (B) the

aggregate principal amount outstanding on such date under the CEHE Credit Agreement.

"Consolidated Net Income" means, for any period, the consolidated net income (or loss) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of the Borrower or is merged into or consolidated with the Borrower or any of its Subsidiaries and (b) the income (or deficit) of any Person (other than a Subsidiary of the Borrower) in which the Borrower or any of its Subsidiaries has an ownership interest, except to the extent that any such income is actually received by the Borrower or such Subsidiary in the form of dividends or similar distributions.

"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 3.3, 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, Commitment Fees or other amounts payable hereunder, the sum of the ABR in effect at such time plus 2%.

"Designated Rating" means (a) at any time that the Long-Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, and (b) if clause (a) does not apply, the lower of such ratings issued by S&P or Moody's. Any change in the calculation of the Applicable Margin with respect to Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business

of rating corporate debt obligations, the Borrower and the Administrative Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"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 outside the ordinary course of business. The terms "Dispose" and "Disposed of" shall have correlative meanings.

"Dollars" and the symbol "$" mean the lawful currency of the United States.

"Early Funding ABR Loan" has the meaning specified in Section 2.5(a).

"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 8.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Credit Agreement" means the $3,850,000,000 Credit Agreement, dated as of October 10, 2002, (as heretofore amended, modified or supplemented) among the Borrower, the Administrative Agent and other financial institutions parties thereto.

"Existing Credit Facility" means the credit facility provided under the Existing Credit Agreement.

"Existing Issuing Banks" means each of JPMorgan Chase Bank and Citibank, N.A., in their respective capacities as issuers of the Existing Letters of Credit.

"Existing Letters of Credit" means the letters of credit described on Schedule 1.1(D).

"Facility" means each of the Term Facility and the Revolving Facility.

"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.

"Funding Office" means the office of the Administrative Agent specified in Section 10.2 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, if applicable.

"Hybrid Preferred Securities" means preferred securities 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 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 or its Subsidiaries of payments with respect to any Hybrid Preferred Securities, (iii) any Securitization Securities or (iv) Hybrid Preferred Securities.

"Indexed Debt Securities" means (i) the ZENS and (ii) any other security issued by the Borrower or any Consolidated Subsidiary of the Borrower that (a) in accordance with GAAP, is shown on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as Indebtedness or a liability and (b) the obligations at maturity of which may under certain circumstances be satisfied completely by the delivery of, or the amount of such obligations are determined by reference to, (1) an equity security owned by the Borrower or any of its Consolidated Subsidiaries which is issued by an issuer other than the Borrower or any such Consolidated Subsidiary or (2) an underlying commodity or security owned by the Borrower or any of its Consolidated Subsidiaries.

"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 comprising part of the same Borrowing, 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, 2.5 or 3.6, 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 3.6. The duration of each such Interest Period shall be one, two, three, six or, if available to all Banks under the applicable Facility, nine or twelve months or periods shorter than one month, as Borrower may select by notice pursuant to Section 2.2, 2.5 or 3.6 hereof, provided, however, that:

(i) any Interest Period in respect of a Loan that would otherwise extend beyond the Termination Date shall end on the Termination 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 7.2(g).

"Issuing Bank" means (i) the Existing Issuing Banks and (ii) JPMorgan Chase Bank, in its capacity as issuer of any Letter of Credit, and (iii) any other Bank, in such capacity, selected by the Borrower with the consent of the Administrative Agent, which shall not be unreasonably withheld, and such Bank to be an Issuing Bank. Any reference to "the Issuing Bank" herein means the applicable institution issuing the applicable Letter of Credit.

"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.

"L/C Commitment" means the amount of $200,000,000.

"L/C Fee Payment Date" means the last day of each March, June, September and December and the Termination Date.

"L/C Obligations" means, at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired face amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 2.7.

"L/C Participants" means the collective reference to all the Revolving Banks other than the Issuing Bank in their respective capacities as participants in L/C Obligations.

"Lead Arrangers" means J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., in their capacities as sole lead arrangers and bookrunners.

"Letters of Credit" has the meaning assigned to such term in Section 2.7(a)(ii).

"LIBOR Rate" means, with respect to each day during each Interest Period pertaining to a LIBOR Rate Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first days of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the "LIBOR Rate" shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

"LIBOR Rate Loan" means a Loan that bears interest at the LIBOR Rate as provided in Section 3.3(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, any Notes, the Pledge Agreement 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 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 sum of (i) the aggregate unpaid principal amount of the Term Loans then outstanding, and (ii) the Total Revolving Commitments then in effect or, if the Revolving Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"Mandatory Payment Preferred Stock" means any preference or preferred stock of the Borrower or of any Consolidated Subsidiary (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.

"Market Value of Generating Assets" means at any date of determination, the market value of the Borrower's direct or indirect interest in the generating assets; provided that (a) at any time before the consummation of the exercise of the RRI Option, such market value shall be 110% of the current floor price calculated in accordance with the RRI Option, and (b) at any time after the RRI Option expires without the exercise thereof, such market value shall be the product of (i) the average closing price of a share of common stock of Texas Genco for the last five trading days of the most recently completed calendar quarter and (ii) the number of shares of common stock of Texas Genco owned directly or indirectly by the Borrower as of the most recently completed calendar quarter; provided further that at any time the market value is calculated pursuant to clause (b) above, such value shall be no less than an amount equal to the product of (x) the present value, discounted at a rate equal to 7%, of a perpetual stream of payments equal to the product of (i) the amount of the quarterly distribution paid in the most recently completed fiscal quarter on a share of common stock of Texas Genco and (ii) four, and (y) the number of shares of common stock of Texas Genco owned directly or indirectly by the Borrower at the end of the most recently completed fiscal quarter.

"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, or (b) the legality, validity or enforceability of the Loan Documents.

"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 CenterPoint Electric to South Texas Commercial National Bank of Houston, as Trustee (JPMorgan Chase Bank, successor Trustee), as amended and supplemented from time to time.

"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 Disposition (other than the Stranded Cost Securitization) 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 Disposition 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 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 Disposition or Recovery Event 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 Disposition or Recovery Event, 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 Disposition or Recovery Event and (b) in connection with any Stranded Cost Securitization, the cash proceeds received from such securitization, 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 repaid under the CEHE Credit Agreement in connection therewith.

"Note" means the collective reference to any promissory note evidencing Loans.

"Notice of Borrowing" has the meaning specified in Section 2.2.

"Notice of Interest Conversion/Continuation" has the meaning specified in Section 3.6(a).

"Other Taxes" has the meaning specified in Section 4.3(b).

"Participant" has the meaning specified in Section 10.6(b).

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

"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 7.1(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 or if overdue, that are being contested in good faith by appropriate proceedings, provided, however, that, subject to Section 7.1(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 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 7.1(d) and 8.1(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 non-material Liens or encumbrances none of which secures Indebtedness for 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 and exceptions to title existing or 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 twelve 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 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 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, substantially in the form of Exhibit A, as amended, modified or supplemented from time to time, or a pledge agreement delivered pursuant to Section 7.2(c).

"Pre-Tax ECOM" means the amount recorded as income/expense on the consolidated income statement of the Borrower and its Consolidated Subsidiaries to reflect the difference between the market price of power established through the electric

generation capacity auctions mandated by the Texas Electric Choice Act and the power cost projections that were employed for the same time period in the computer model used by the Public Utility Commission of Texas in the proceeding under PURA section 39.201 to estimate the stranded costs associated with electric generation assets.

"Pre-Tax Excess Mitigation Credit" means the amount of the credit, if any, provided to retail electric customers under order of the Public Utility Commission of Texas to reflect the refund of an amount equal to estimated cumulative excess earnings applicable to the years 1998 through 2001 which were used to accelerate depreciation on electric generation assets in order to reduce or mitigate exposure to stranded costs associated with electric generation assets.

"Pre-Tax Securitization Principal and Interest" means the non-bypassable transition charges billed to customers taking electric delivery service from a direct or indirect Subsidiary of the Borrower for payment of debt service on Securitization Securities.

"Pro Rata Percentage" means, as to any Bank at any time, a fraction (expressed as a percentage) the numerator of which is the sum of (a) the aggregate amount of outstanding Term Loans made by such Bank and (b) the amount of such Bank's Revolving Commitment or, if the Revolving Commitments shall have terminated, the Revolving Extensions of Credit of such Bank then outstanding, and the denominator of which is the sum of (x) the aggregate amount of outstanding Term Loans made by all of the Banks and (y) the Total Revolving Commitments then in effect or, if the Revolving Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"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.

"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 10.6(c).

"Rating Agencies" means (a) S&P and (b) Moody's.

"Recovery Event" means any settlement of or payment in respect of any material Property of any Texas Genco Entity or casualty insurance claim or any condemnation proceeding for any material asset or related assets of any Texas Genco Entity that yields Net Cash Proceeds to the Borrower or any of its Subsidiaries.

"Register" has the meaning specified in Section 10.6(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.

"Reimbursement Obligation" means the obligation of the Borrower to reimburse the Issuing Bank pursuant to Section 2.7(e) for amounts drawn under Letters of Credit.

"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 Term Loans or reduce the Revolving Commitments pursuant to Section 4.7(c) as a result of the delivery of a Reinvestment Notice.

"Reinvestment Event" means any 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 or any of its Subsidiaries intends to use all or a specified portion of the Net Cash Proceeds of a Recovery Event to repair or replace the affected Property.

"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 repair or replace assets subject of a Recovery Event.

"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 any of its Subsidiaries shall have determined not to, or shall have otherwise ceased to, replace or repair assets subject of the applicable Recovery Event 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 PBGC Reg. Section 4043 or other regulations, notices or rulings issued by the PBGC.

"Requirement of Law" means, as to any Person, any law, statute, ordinance, decree, requirement, order, judgment, rule or regulation of any Governmental Authority.

"Resources" means CenterPoint Energy Resources Corp., a Delaware corporation formerly known as "Reliant Energy Resources Corp." and "NorAm Energy Corp.", and a Subsidiary of the Borrower.

"Responsible Officer" means, with respect to any Person, its chief financial officer, chief accounting officer, assistant treasurer, treasurer or controller 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.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any common Capital Stock in the Borrower, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Capital Stock in the Borrower or any option, warrant or other right to acquire any such Capital Stock in the Borrower.

"Revolving Bank" means each Bank that has a Revolving Commitment or that holds Revolving Loans.

"Revolving Borrowing" means a borrowing consisting of Revolving Loans under Section 2.4.

"Revolving Commitment" means, as to any Revolving Bank, the obligation of such Bank, if any, to make Revolving Loans and participate in Letters of Credit in an aggregate principal and/or face amount not to exceed the amount set forth under the heading "Revolving Commitment" opposite such Bank's name on Schedule 1.1(A) or in the Assignment and Acceptance pursuant to which such Bank became a party hereto, as the same may be changed from time to time pursuant to the terms hereof. The original amount of the Total Revolving Commitments is $1,425,000,000.

"Revolving Extensions of Credit" means, as to any Revolving Bank at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans held by such Bank then outstanding and (b) such Bank's Revolving Percentage of the L/C Obligations then outstanding.

"Revolving Facility" means the Revolving Commitments and the extensions of credit made thereunder.

"Revolving Loan Maturity Date" means October 7, 2006.

"Revolving Loans" has the meaning specified in Section 2.4(a).

"Revolving Percentage" means, as to any Revolving Bank at any time, a fraction (expressed as a percentage) the numerator of which is the amount of such Bank's Revolving Commitment or, if the Revolving Commitments shall have terminated, the Revolving Extensions of Credit of such Bank then outstanding, and the denominator of which is the Total Revolving Commitments then in effect or, if the Revolving Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"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.

"S&P" means Standard & Poor's Ratings Group and any successor rating agency.

"SEC" means the Securities and Exchange Commission and any successor thereto.

"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.

"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 8.1(f), (g), (h), (i) and (j), a Subsidiary of the Borrower (other than a Project Financing Subsidiary) 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 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 for the Borrower's most recently completed fiscal year and identified in the certificate most recently delivered pursuant to Section 7.1(a)(iv)(C); provided 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 6.1(r), 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.

"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.

"Stranded Cost Securitization" means a sale or contribution of assets to a Securitization Subsidiary or series of such transactions, together with the issuance of Securitization Securities.

"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 Facility Banks" means, with respect to any Facility, the holders of more than 66-2/3% of the aggregate unpaid principal amount of the Term Loans or the Total Revolving Extensions of Credit, as the case may be, outstanding under such Facility (or, in the case of the Revolving Facility, prior to any termination of the Revolving Commitments, the holders of more than 66-2/3% of the Total Revolving Commitments).

"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 4.3(a).

"Term Banks" means each Bank that has a Term Commitment or that holds a Term Loan.

"Term Commitment" means as to any Term Bank, the obligation of such Bank, if any, to make a Term Loan to the Borrower in a principal amount not to exceed the amount set forth under the heading "Term Commitment" opposite such Bank's name on Schedule 1.1(A). The original aggregate amount of the Term Commitment of all Term Banks is $925,000,000.

"Term Facility" means the Term Commitments and the Term Loans made thereunder.

"Term Loan" has the meaning specified in Section 2.1.

"Term Percentage" means as to any Term Bank at any time, a fraction (expressed as a percentage) the numerator of which is the aggregate principal amount of such Bank's Term Loans then outstanding, and the denominator of which is the aggregate principal amount of the Term Loans of all Term Banks then outstanding.

"Termination Date" means the Revolving Loan Maturity Date, the final scheduled maturity date of the Term Loans or any earlier date on which (a) the Commitments have been terminated in accordance with this Agreement or (b) all unpaid principal amounts of the Loans hereunder have been declared due and payable in accordance with this Agreement.

"Texas Genco" means Texas Genco Holdings, Inc.

"Texas Genco Entities" has the meaning specified in Section 7.2(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.

"Total Aggregate Outstanding Extensions of Credit" means, at any time, the aggregate amount of Aggregate Outstanding Extensions of Credit of all Revolving Banks outstanding at such time.

"Total Revolving Commitments" means, at any time, the aggregate amount of the Revolving Commitments of all Revolving Banks then in effect.

"Total Revolving Extensions of Credit" means, at any time, the aggregate amount of the Revolving Extensions of Credit of all Revolving Banks outstanding at such time.

"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 10.6(f).

"Transfer Effective Date" has the meaning specified in Section 10.6(c).

"Triggering Event" has the meaning specified in Section 4.9(b).

"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).

"Uniform Customs" means the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

"United States" means the United States of America.

"Utility Holding, LLC" means Utility Holding, LLC, a Delaware limited liability company and the direct parent of Texas Genco.

"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.

"ZENS" means the 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 issued pursuant to the ZENS Indenture by CenterPoint in an initial aggregate face amount of $999,999,943.25 and the obligations at maturity of which may be determined by reference to shares of AOL Stock.

"ZENS Indenture" means the Indenture entered into by CenterPoint in connection with the issuance of the ZENS, together with all instruments and other agreements entered into by CenterPoint in connection therewith.

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 AND LETTERS OF CREDIT

SECTION 2.1. Term Commitments. Subject to the terms and conditions hereof, each Term Bank severally agrees to make a term loan (a "Term Loan") to the Borrower on the Closing Date in an amount not to exceed the amount of the Term Commitment of such Bank. The Term 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 3.6.

SECTION 2.2. Procedure for Term Loan Borrowing. The Borrower shall give the Administrative Agent irrevocable notice (which notice shall on the Closing Date be deemed to have been submitted by the Borrower for ABR Loans in the full amount of the Term Commitments of all the Banks, and the Borrower shall have been deemed to have made the representations and warranties contained in the Notice of Borrowing) requesting that the Term Banks make the Term Loans on the Closing Date and specifying the amount to be borrowed. With respect to any oral notice of borrowing given by the Borrower, the Borrower shall promptly thereafter confirm such notice in writing. Each written notice of borrowing and each confirmation of an oral notice of borrowing shall be in substantially the form of Exhibit B hereto ("Notice of Borrowing") which shall be signed by the Borrower and shall specify therein the requested (i) date of such Borrowing, (ii) Type of Loans comprising such Borrowing, (iii) aggregate amount of such Borrowing and (iv) with respect to any LIBOR Rate Loan, the Interest Period for each such Loan. Upon receipt of a Notice of Borrowing the Administrative Agent shall promptly notify each Term Bank thereof. Not later than 1:00 P.M., (New York City time), on the Closing Date each Term Bank shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Term Loan or Term

Loans 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 Term Banks in immediately available funds.

SECTION 2.3. Repayment of Term Loans. The Term Loan of each Term Bank shall mature in nine installments, each of which shall be in an amount equal to such Bank's Term Percentage multiplied by the amount set forth below opposite such installment:

Installment	Principal Amount
December 31, 2003	$ 2,500,000
March 31, 2004	$ 2,500,000
June 30, 2004	$ 2,500,000
September 30, 2004	$ 2,500,000
December 31, 2004	$ 2,500,000
March 31, 2005	$ 2,500,000
June 30, 2005	$ 2,500,000
September 30, 2005	$ 2,500,000
October 7, 2006	Balance

SECTION 2.4. The Revolving Commitments. (a) Each Revolving Bank severally agrees, on the terms and subject to the conditions hereinafter set forth, to make revolving credit Loans (the "Revolving Loans") to the Borrower from time to time on any Business Day during the period from the Closing Date until the Termination Date in an aggregate principal amount outstanding, which, when added to such Bank's Revolving Percentage of the then outstanding L/C Obligations, does not exceed at any time such Bank's Revolving Commitment; provided that no Revolving Loan shall be made as a LIBOR Rate Loan with an Interest Period ending after the Termination Date; and provided, further, that in no event shall the Total Aggregate Outstanding Extensions of Credit at any time exceed the Total Revolving Commitments at such time.

(b) Each Revolving Borrowing by the Borrower shall be in an aggregate principal amount not less than $10,000,000 (in the case of LIBOR Rate Loans) or $5,000,000 (in the case of ABR Loans), or an integral multiple of $1,000,000 in excess thereof and shall consist of Loans of the same Type made on the same day by the Banks ratably according to their respective Revolving Percentages. Within the limits of the applicable Revolving Commitments, the Borrower may borrow, prepay pursuant to Section 4.6 and reborrow under this Section 2.4. The principal amount outstanding on the Revolving Loans shall be due and payable on the Termination Date, together with accrued and unpaid interest thereon.

SECTION 2.5. Procedure for Revolving Loan Borrowing. (a) The Borrower may borrow under the Revolving Commitments during the period from and including the Closing Date to and excluding the Termination Date on any Business Day, provided that the Borrower shall give the Administrative Agent irrevocable oral notice or written notice pursuant to a Notice of Borrowing :

(i) not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Borrowing in the case of a LIBOR Rate Loan;

(ii) not later than 11:00 A.M. (New York City time) on the Business Day immediately preceding the date of the proposed Revolving Borrowing in the case of an Early Funding ABR Loan; and

(iii) not later than 11:00 A.M. (New York City time) on the same Business Day of the proposed Revolving Borrowing in the case of any other ABR Loan.

With respect to any oral notice of borrowing given by the Borrower, the Borrower shall promptly thereafter confirm such notice in writing pursuant to a Notice of Borrowing. Upon receipt of any such notice, the Administrative Agent shall promptly notify each Revolving Bank thereof. Each Revolving Bank shall, before 1:00 P.M. (New York City time) on the date of such Revolving Borrowing, make available to the Administrative Agent at the Funding Office, in immediately available funds, such Bank's applicable Revolving Percentage of such Revolving Borrowing; provided, however, that, in the event of a requested ABR Loan with respect to which the Borrower has delivered its Notice of Borrowing on the Business Day immediately preceding the requested Borrowing Date (an "Early Funding ABR Loan"), each Revolving Bank shall make its applicable Revolving Percentage of such Revolving Borrowing before 10:00 A.M. (New York City time) on the requested Borrowing Date. The Administrative Agent shall, no later than 2:00 P.M. (New York City time) on such date (or no later than 11:00 A.M. (New York City time), in the case of an Early Funding ABR Loan), make available to the Borrower the proceeds of the Revolving Loans received by the Administrative Agent hereunder by crediting such account of the Borrower which the Administrative Agent and the Borrower shall from time to time designate. Each Notice of Borrowing shall be irrevocable and binding on the Borrower.

(b) Unless the Administrative Agent shall have received notice from a Revolving Bank at least two hours prior to the applicable time described in clause (a) above by which such Bank is required to deliver its funds to the Administrative Agent with respect to any Revolving Borrowing that such Bank will not make available to the Administrative Agent such Bank's applicable Revolving Percentage of such Revolving Borrowing, the Administrative Agent may assume that such Bank has made such portion available to the Administrative Agent on the date of such Revolving Borrowing in accordance with Section 2.5(a) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If such amount is made available to the Administrative Agent on a date after such date of Revolving Borrowing, such 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 amount of such Bank's applicable Revolving Percentage of such Revolving Borrowing, times (iii) a fraction, the numerator of which is the number of days that elapse from and including such date of Revolving Borrowing to the date on which such

Bank's applicable Revolving Percentage of such Revolving Borrowing shall have become immediately available to the Administrative Agent and the denominator of which is 360. A certificate of the Administrative Agent submitted to any Bank with respect to any amounts owing under this Section 2.5(b) shall be conclusive in the absence of manifest error. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan as part of such Revolving Borrowing for purposes of this Agreement. If such Bank's applicable Revolving Percentage of such Revolving Borrowing is not in fact made available to the Administrative Agent by such Bank within one (1) Business Day of such date of Revolving Borrowing, the Administrative Agent shall be entitled to recover such amount with interest thereon at the rate per annum, equal to (i) the ABR (in the case of ABR Loans) or (ii) the Federal Funds Effective Rate (in the case of LIBOR Rate Loans), on demand, from the Borrower.

(c) The failure of any Revolving Bank to make the Loan to be made by it as part of any Revolving Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its Revolving Loan on the date of such Revolving Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the Revolving Loan to be made by such other Bank on the date of any Revolving Borrowing.

SECTION 2.6. Minimum 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, 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.

SECTION 2.7. Letters of Credit. (a) L/C Commitment.

(i) Prior to the Closing Date, the Existing Issuing Banks have issued the Existing Letters of Credit which from and after the Closing Date shall constitute Letters of Credit hereunder.

(ii) Subject to the terms and conditions hereof, the Issuing Bank, in reliance on the agreements of the other Banks set forth in Section 2.7(d), agrees to issue letters of credit (together with the Existing Letters of Credit, the "Letters of Credit") for the account of the Borrower in support of obligations (including, without limitation, performance, bid and similar bonding obligations and credit enhancement) of the Borrower and its Affiliates on any Business Day on or after the Closing Date and prior to the Termination Date in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (A) the L/C Obligations would exceed the L/C Commitment or (B) the Total Aggregate Outstanding Extensions of Credit then outstanding would exceed the Total Revolving Commitments then in effect.

(iii) Each Letter of Credit shall be denominated in Dollars and shall be a standby letter of credit issued to support obligations of the Borrower or any of its Affiliates, contingent or otherwise, and expire no later than the Revolving Loan Maturity Date.

(iv) Each Letter of Credit shall be subject to the Uniform Customs and, to the extent not inconsistent therewith, the laws of the State of New York.

(v) The Issuing Bank shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed on such Issuing Bank by, any applicable Requirement of Law.

(b) Procedure for Issuance of Letters of Credit. The Borrower may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, completed to the satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may reasonably request. Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than two Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit in a form satisfactory to the Borrower to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and Borrower. The Issuing Bank shall furnish a copy of such Letter of Credit to the Borrower promptly following the issuance thereof and notify the Banks of the amount thereof.

(c) Fees, Commissions and Other Charges.

(i) The Borrower shall pay to the Administrative Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission fee with respect to each Letter of Credit, computed for the period from the last L/C Fee Payment Date (or, if later, the date of issuance thereof) to the date upon which such payment is due hereunder at the rate per annum equal to the Applicable Margin for LIBOR Rate Loans that are Revolving Loans then in effect, calculated on the basis of a 365- (or 366-, as the case may be) day year, of the aggregate amount available to be drawn under such Letter of Credit on the date on which such fee is calculated. The Borrower shall pay to the Administrative Agent, for the account of the Issuing Bank, a fronting fee with respect to each Letter of Credit, computed for the period from the last L/C Fee Payment Date to the date upon which such payment is due hereunder at the rate per annum equal to 0.125%, calculated on the basis of a 365- (or 366-, as the case may be) day year, of the aggregate amount available to be drawn under such Letter of Credit on the date on which such fee is calculated. Such commissions and fronting fees shall be payable in arrears on each L/C Fee Payment Date and shall be nonrefundable.

(ii) In addition to the foregoing fees and commissions, the Borrower shall pay or reimburse the Issuing Bank for such normal and customary costs and reasonable expenses as are incurred or charged by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

(iii) The Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Bank and the L/C Participants all fees and commissions received by the Administrative Agent for their respective accounts pursuant to this subsection.

(d) L/C Participations.

(i) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Revolving Percentage in the Issuing Bank's obligations and rights under each Letter of Credit issued hereunder and the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 2.7(e). Each L/C Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid under any Letter of Credit for which the Issuing Bank is not reimbursed in full by the Borrower in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Bank upon demand at the Issuing Bank's address for notices specified herein an amount equal to such L/C Participant's Revolving Percentage of the amount of such draft, or any part thereof, which is not so reimbursed. Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(ii) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to Section 2.7(d)(i) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit is not paid to the Issuing Bank within one Business Day after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (A) such amount, times (B) the daily average Federal Funds Effective Rate as quoted by the Issuing Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (C) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to Section 2.7(d)(i) is not in fact made available to the Issuing Bank by such L/C Participant within three (3) Business Days after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the ABR. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(iii) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with Section 2.7(d)(i), the Issuing Bank receives any payment

related to such Letter of Credit (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it.

(e) Reimbursement Obligation of the Borrower. (i) The Borrower shall reimburse the Issuing Bank for any payment that the Issuing Bank makes under a Letter of Credit on or before the date of such payment if the Borrower receives notice of such payment on or before 10:00 a.m. (New York City time) on the date such payment is made by the Issuing Bank; provided, however, that, if the Borrower does not receive timely notice or reimburse the Issuing Bank under this Section 2.7(e)(i), then Section 2.7(e)(ii) shall apply. Each such payment shall be made to the Issuing Bank at its address for notices specified herein in Dollars and in immediately available funds.

(ii) Notwithstanding Section 5.2, each drawing under any Letter of Credit shall be deemed to constitute a Borrowing of ABR Loans in the amount of such drawing unless Borrower has reimbursed the Issuing Bank under Section 2.7(e)(i). The Borrowing Date with respect to each such borrowing shall be deemed to be the date of such drawing.

(f) Obligations Absolute.

(i) The Borrower's payment obligations under Section 2.7(e) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment that the Borrower may have or have had against the Issuing Bank or any beneficiary of a Letter of Credit other than a defense based upon the gross negligence or willful misconduct of the Issuing Bank or violation of the standards of care specified in the Uniform Commercial Code of the State of New York.

(ii) The Borrower also agrees with the Issuing Bank that the Issuing Bank shall not be responsible for, and the Borrower's Reimbursement Obligations under Section 2.7(e) shall not be affected by, among other things, (i) the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, (ii) any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or (iii) any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee.

(iii) The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Bank's gross negligence or willful misconduct or in violation of the standards of care specified in the Uniform Commercial Code of the State of New York.

(iv) The Borrower agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Borrower and shall not result in any liability of the Issuing Bank to the Borrower.

(g) Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Bank shall promptly notify the Borrower by telephone (confirmed by facsimile) of the date and amount thereof and whether the Issuing Bank has made or will make a payment thereunder. The responsibility of the Issuing Bank to the Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are in conformity with such Letter of Credit.

(h) Application. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 2.7, the provisions of this Section 2.7 shall control.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Banks of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.7(c). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

ARTICLE III

PROVISIONS RELATING TO ALL LOANS

SECTION 3.1. Evidence of 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 10.6(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 3.1(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 3.2. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Bank a commitment fee (the "Commitment Fee") on the aggregate amount of such Bank's unused Revolving Commitment, from the Closing Date until such date that the Loans and other obligations under this Agreement have been paid in full, payable quarterly in arrears on the last day of each March, June, September and December until such date that the Loans and other obligations under this Agreement have been paid in full and on such date of payment in full, commencing on the first such date to occur after the Closing Date, at a rate per annum of 0.500%.

(b) The fees payable under Section 3.2(a) 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 for which such fee is payable.

(c) 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 3.3. 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 the Applicable Margin and (ii) the Highest Lawful Rate, payable quarterly in arrears on the last day of each March, June, September and December and on the Termination Date.

(b) LIBOR Rate Loans. Each LIBOR Rate Loan shall bear interest at a rate per annum equal at all times to, in the case of each LIBOR Rate Loan, the lesser of (A) the sum of the LIBOR Rate for the applicable Interest Period for such Loan plus the Applicable Margin 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, on the ninetieth (90th) day after the commencement of the Interest Period and on each succeeding ninetieth (90th) day during such Interest Period, and on the Termination Date.

(c) Calculations. Interest that is determined by reference to the ABR 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 Commitment Fee or 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 (as well after 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 quotations used by the Administrative Agent in determining the LIBOR Rate.

SECTION 3.4. Reserve Requirements. (a) The Borrower agrees to pay to each Bank that requests compensation under this Section 3.4 in accordance with the provisions set forth in Section 4.9(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 4.9(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 4.9(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;

(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 3.4 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 3.4 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 3.5. Interest Rate Determination and Protection. (a) The rate of interest for each LIBOR Rate Loan shall be determined by the Administrative Agent two 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 3.3(a) and (b) hereof.

(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 3.6. 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, and (C) no Loan may be converted into or continued as a LIBOR Rate Loan if after giving effect thereto, Section

2.6 would be contravened. With respect to any oral notice of interest conversion/continuation given by the Borrower under this Section 3.6(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 3.6(a) and each confirmation of an oral notice of interest conversion/continuation given by the Borrower under this Section 3.6(a) shall be in substantially the form of Exhibit C 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 3.6(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 3.6(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 3.7. 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 3.8) on a day that is not the scheduled maturity date with respect thereto, 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 3.7(a) shall be made pursuant to the method described in Section 4.9(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 3.7(a).

(b) The agreements in this Section 3.7 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 3.7 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 3.8. 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; (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 3.7(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 3.8, if such designation will avoid the illegality described in this Section 3.8 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 3.8, 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 IV

INCREASED COSTS, TAXES, PAYMENTS

AND PREPAYMENTS

SECTION 4.1. 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 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 3.4 or any other Section hereof); or

(ii) 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 issuing or participating in Letters of Credit 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 4.9(b), any additional amounts, computed by such Bank in accordance with Section 4.9(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 4.1(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 4.9(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 or under any Letter of Credit, 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 4.9(b), additional amounts, computed by such Bank in accordance with Section 4.9(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 4.1 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 4.1 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 4.2. Pro Rata Treatment and Payments and Computations. (a) Each Borrowing of Revolving Loans by the Borrower from the Banks hereunder, each payment by the Borrower on account of any commitment fee, any reduction of the Revolving Commitments of the Banks and any prepayment on account of principal and interest on the Revolving Loans shall be made pro rata according to the respective Revolving Percentages of the relevant Banks.

(b) Each Borrowing of Term Loans by the Borrower from the Banks hereunder and each payment (including each prepayment) by the Borrower on account of principal of and interest on the Term Loans shall be made pro rata according to the respective Term Percentages of the relevant Banks. The amount of each principal prepayment of the Term Loans shall be applied to reduce the then remaining installments of the Term Loans in direct order of maturity. Amounts repaid or prepaid on account of the Term Loans may not be reborrowed.

(c) The Borrower shall make each payment (including each 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, interest, Letter of Credit fees or commitment fees (to the extent received by the Administrative Agent) ratably to the Banks according to the amounts of their respective Loans, L/C Obligations and Commitments 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.

(d) 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.

(e) 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 amount of such Bank's Revolving Percentage or Term Percentage, as the case may be, 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 Revolving Percentage or Term Percentage of such payment shall have become immediately available to the Administrative Agent and the denominator of which is 360.

SECTION 4.3. Taxes. (a) Any and all payments by the Borrower hereunder or under the Loan Documents shall be made 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, branch profits taxes and franchise taxes imposed on it as a result of a present or former connection between the jurisdiction (or political subdivision

thereof) 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 4.3) 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 4.3(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 (or maintains a lending office), 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 4.3. Whenever any Taxes or Other Taxes (as defined in Section 4.3(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 4.3) 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, W-8ECI W-8EXP

or W-8IMY (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, W-8ECI, W-8EXP, or W-8IMY 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 or certification 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, W-8ECI, W-8EXP, or W-8IMY that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, subject to notification to the Borrower otherwise pursuant to this Section 4.3(d). In the event that any such Bank fails to deliver any forms required under this Section 4.3(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 reasonable 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 4.3, 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 4.3 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 4.3 for any period before the date that is 120 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 4.3 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 4.4. Sharing of Payments, Etc. If any Bank (a "Benefitted Bank") shall at any time receive any payment (other than pursuant to Section 3.4, 3.7, 4.1 or 4.3) of all or part of

its Loans, Reimbursement Obligations owing to it 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 8.1(g) or 8.1(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, Reimbursement Obligations owing to it, respectively, 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 Reimbursement Obligations owing to it, respectively, 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 4.4 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 4.5. Optional Termination or Reduction of the Commitments. (a) Unless previously terminated, the Commitments of the Banks to make Revolving Credit Loans shall terminate on the Revolving Loan Maturity Date.

(b) The Borrower shall have the right, without penalty or premium, upon at least three (3) Business Days' irrevocable written notice to the Administrative Agent (which shall give prompt notice to each Bank), to terminate in whole the Revolving Commitments or permanently, from time to time, to reduce ratably in part the unused portion of the Revolving Commitments, provided that (i) each partial reduction shall be in the aggregate principal amount of $5,000,000 or an integral multiple of $1,000,000 in excess thereof and (ii) no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments made under Section 4.6 by the Borrower on the effective date thereof, the Total Aggregate Outstanding Extensions of Credit then outstanding would exceed the Total Revolving Commitments then in effect.

Each reduction of Revolving Commitments pursuant to this Section 4.5 shall be applied pro rata to the Revolving Commitments of each Bank. If at any time, including after giving effect to any reduction of Revolving Commitments pursuant to this Section 4.5, the Total Aggregate Outstanding Extensions of Credit exceed the Total Revolving Commitments, the Borrower shall be obligated, first, to prepay the Revolving Loans in the amount of such excess, second, to cash collateralize 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.

SECTION 4.6. Voluntary Prepayments. Subject to payment of amounts due under Section 4.7, the Borrower may, upon written notice delivered to the Administrative Agent not later than 11:00 A.M. (New York City time) one (1) Business Day (or in the case of LIBOR Rate Loans, three (3) Business Days) prior to the date of prepayment stating the aggregate principal amount of the prepayment and the Loans to be prepaid, prepay the outstanding principal amounts of such 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 if all of the Term Loans shall be prepaid pursuant to this Section 4.6 with the proceeds of a substantially concurrent incurrence of Indebtedness for Borrowed Money on or prior to the second anniversary of the Closing Date, such prepayment shall be accompanied by a premium in an amount equal to (i) 2% of the principal amount of such prepayment if such prepayment occurs on or prior to the first anniversary of the Closing Date or (ii) 1% of the principal amount of such prepayment if such prepayment occurs subsequent to the first anniversary of the Closing Date but on or prior to the second anniversary of the Closing Date; and provided further that losses incurred by any Bank under Section 3.7 shall be payable with respect to each such prepayment in the manner set forth in Section 3.7. Any such notice provided pursuant to this Section 4.6 shall be irrevocable, and the payment amount specified in such notice shall be due and payable on the prepayment date described in such notice, together with accrued and unpaid interest on the amount prepaid. Partial prepayments pursuant to this Section 4.6 with respect to any Tranche of LIBOR Rate Loans shall be in an aggregate principal amount equal to the lesser of (a) $10,000,000 or an integral multiple of $1,000,000 in excess thereof and (b) the aggregate principal amount of such Tranche of LIBOR Rate Loans then outstanding, as the case may be; provided that no partial prepayment of any Tranche of LIBOR Rate Loans may be made if, after giving effect thereto, Section 2.6 would be contravened. Partial prepayments with respect to the ABR Loans shall be made in an aggregate principal amount equal to the lesser of (i) $5,000,000 or an integral multiple of $1,000,000 in excess thereof or (ii) the aggregate principal amount of ABR Loans then outstanding, as the case may be.

SECTION 4.7. Mandatory Repayments and Prepayments and Commitment Reductions. (a) Subject to Section 4.7(b) and (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 Business Day after the receipt thereof (or in the case of clause (ii) only, within one Business Day after compliance with applicable laws and stock exchange regulations relating to the declaration and payment of dividends), the Borrower shall, or shall cause the applicable Subsidiary to, apply, subject, in the case of clause (ii) only, to any mandatory prepayment required pursuant to the terms of any Indebtedness incurred by Texas Genco and/or its Subsidiaries in accordance with Section 7.2(h), such Net Cash Proceeds toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 4.7(d); 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.

(b) If the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from the Stranded Cost Securitization, within one Business Day after receipt thereof or, with respect to any such Net Cash Proceeds required to be applied as described in the proviso below, after compliance with such requirements (including, if applicable, by virtue of waiver or amendment thereto), 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 4.7(d); 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 4.7(b), to repay the obligations under the CEHE Facility pursuant to the terms of the CEHE Credit Agreement.

(c) If the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, within one Business Day after the receipt thereof (or, in the case of any Texas Genco Entity, within one Business Day after compliance with applicable laws and stock exchange regulations relating to the declaration and payment of dividends), the Borrower shall, or shall cause the applicable Subsidiary to, apply, subject to any mandatory prepayment required pursuant to the terms of any Indebtedness incurred by Texas Genco and/or its Subsidiaries in accordance with Section 7.2(h), such Net Cash Proceeds toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 4.7(d); provided that, in the case of any such Recovery Event, 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 or the terms of any Indebtedness incurred by Texas Genco and/or its Subsidiaries in accordance with Section 7.2(h); provided further that notwithstanding the foregoing, 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 4.7(d).

(d) Amounts to be applied in connection with prepayments and Commitment reductions made pursuant to this Section 4.7 shall be applied, first, to the prepayment of the Term Loans in accordance with Section 4.2(b) and, second, to reduce permanently the aggregate Revolving Commitments to an aggregate amount no less than $750,000,000. 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 4.7 shall be made, first, to ABR Loans and, second, to LIBOR Rate Loans. Each prepayment of the Loans under this Section 4.7 shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.

SECTION 4.8. Mitigation of Losses and Costs. Any Bank claiming reimbursement from the Borrower under any of Sections 3.4, 3.7, 4.1 and 4.3 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 (i) any economic disadvantage for which such Bank does not receive full indemnity from the Borrower under this Agreement or (ii) any legal or regulatory disadvantage.

SECTION 4.9. Determination and Notice of Additional Costs and Other Amounts. (a)In determining the amount of any claim for reimbursement or compensation under Sections 3.4, 3.7 and 4.1, 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 4.3, 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 4.9(b), a "Triggering Event") will entitle such Bank or the Administrative Agent, as the case may be, to compensation pursuant to Section 3.4, 3.7, 4.1 or 4.3, 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 3.4, 3.7, 4.1 or 4.3, 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 Business Days after its receipt of the same.

ARTICLE V

CONDITIONS OF LENDING

SECTION 5.1. Conditions Precedent to Loans and Letters of Credit. The agreement of each Bank to make the initial 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 duly executed by the Borrower and each Bank, (ii) the Pledge Agreement, duly executed by Utility Holding LLC and (iii) an acknowledgement and consent, in the form attached to the Pledge Agreement, duly executed by Texas Genco.

(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 each of the Borrower and Utility Holding LLC certifying (i) the names and true signatures of the Responsible Officers of the Borrower or Utility Holding, LLC, as the case may be, authorized to sign each Loan Document to which the Borrower or Utility Holding, LLC, as the case may be, is a party and the notices and other documents to be delivered by the Borrower or Utility Holding, LLC, as the case may be, pursuant to any such Loan Document; (ii) the bylaws and articles of incorporation or formation of the Borrower or Utility Holding, LLC, as the case may be, as in effect on the date of such certification; (iii) the resolutions of the Board of Directors or equivalent thereof of the Borrower or Utility Holding, LLC, as the case may be, approving and authorizing the execution, delivery and performance by the Borrower or Utility Holding, LLC, as the case may be, of

each Loan Document to which it is a party and, in the case of the Borrower only, any Notes from time to time issued hereunder and, in the case of the Borrower only, 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 shall have received an executed legal opinion, dated the Closing Date, of (i) Baker Botts LLP, special counsel to the Borrower and (ii) Rufus Scott, Esq., deputy general counsel of the Borrower. Such legal opinions 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.

(d) The Administrative Agent (or its counsel) shall have received certificates dated on or about the Closing Date of (A) the Secretary of State of the State of Texas as to the existence and good standing of the Borrower and (B) the Secretary of State of Delaware as to the existence and good standing of Utility Holding LLC.

(e) The Administrative Agent shall have received satisfactory evidence that the Existing Credit Agreement shall concurrently be terminated and all amounts owing thereunder shall concurrently be paid or refinanced in full, and the Borrower shall have delivered such documentation with respect thereto as the Administrative Agent shall reasonably request.

(f) The Administrative Agent shall have received certificates representing the Texas Genco Stock, together with corresponding undated stock powers executed in blank.

(g) 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 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 7.2(b), shall be in proper form for filing, registration or recordation.

(h) The Administrative Agent shall have received the results of a recent lien search in each of the States of Delaware and Texas, and such search shall reveal no liens on the Texas Genco Stock except for Liens discharged on or prior to the Closing Date pursuant to documentation satisfactory to the Administrative Agent.

(i) All governmental and third-party approvals necessary in connection with (i) the execution, delivery and performance by the Borrower of this Agreement shall have been obtained and be in full force and effect and (ii) the execution, delivery and performance by Utility Holding, LLC, including without limitation receipt of an order from the SEC.

(j) The Banks shall have received (i) the pro forma consolidated balance sheet of the Borrower and its Subsidiaries after giving effect to the transaction contemplated to occur on or before the Closing Date, (ii) audited consolidated financial statements of the Borrower and its Subsidiaries for the 2002 fiscal year and (iii) unaudited interim consolidated financial statements of the Borrower and its Subsidiaries for each fiscal quarter ended after the date of the financial statements delivered pursuant to clause (ii) of this paragraph as to which such financial statements are available, 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.

(k) A detailed consolidated budget through the 2007 fiscal year of the Borrower (including a projected consolidated balance sheet of the Borrower and its Subsidiaries as of the each such fiscal year, the related consolidated statements of projected cash flow, projected changes in financial position and projected income and a description of the underlying assumptions applicable thereto) in each case to the extent provided in the Confidential Information Memorandum;

(l) The Administrative Agent shall have received all fees required to be paid on or before the Closing Date.

(m) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Facility shall be in form and substance reasonably satisfactory to the Administrative Agent.

(n) 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.

The Administrative Agent shall notify the Borrower and the Banks of the Closing Date, and such notice shall be conclusive and binding.

SECTION 5.2. Conditions Precedent to Each Borrowing. The obligation of each Bank to make each extension of credit (including, to the extent relevant, the initial Loans hereunder and any issuance of a Letter of Credit) is subject to the satisfaction of the following conditions precedent:

(a) On or prior to the date of such extension of credit, the Administrative Agent shall have received from the Borrower a Notice of Borrowing or an Application, as the case may be, in accordance with the terms of this Agreement,

or, in the case of the issuance, extension or increase of any Letter of Credit, the instruments required under Section 2.7 in respect thereof; provided that on the Closing Date, the Borrower shall have been deemed to have submitted a Notice of Borrowing for ABR Loans in the full amount of the Term Commitments of all the Banks (unless the Borrower shall have notified the Administrative Agent in accordance with Section 2.2 that it is requesting that the Term Loans be made on the Closing Date as LIBOR Loans), and the Borrower shall have been deemed to have made the representations and warranties contained in the Notice of Borrowing.

(b) The representations and warranties of the Borrower contained in Section 6.1 of this Agreement and in the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit (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 and, except in the case of a Revolving Borrowing the proceeds of which are used solely to refund commercial paper maturing at the time of such Revolving Borrowing, the representations and warranties contained in Sections 6.1(j) and (k)), before and after giving effect to such extension of credit, and to the application of the proceeds therefrom, as though made on and as of such date.

(c) No Default or Event of Default shall have occurred and be continuing or would result from such Borrowing or issuance, increase or extension.

(d) Each of the giving of any applicable Notice of Borrowing or Application, as the case may be, the acceptance by the Borrower of the proceeds of each Borrowing, and each Letter of Credit issued on behalf of the Borrower, shall constitute a representation and warranty by the Borrower that on the date of such extension of credit that the conditions contained in this Section 5.2 have been satisfied.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

SECTION 6.1. 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 corporation and in good standing under the laws of its jurisdiction of incorporation; (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 power and authority to conduct its business, as presently conducted.

(b) 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 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 do not and will not (i) violate any law, any order to which the Borrower or any Subsidiary of the Borrower 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 the Borrower or any Subsidiary of the Borrower; (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 the Borrower or any Subsidiary of the Borrower is a party or by which the Borrower or any Subsidiary of the Borrower, 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 other than pursuant to the Pledge Agreement.

(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, except those that have been obtained.

(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 Term Loans will be used by the Borrower to refinance certain obligations under, or for which credit support is provided by, the Existing Credit Facility. 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 Facility, (ii) to support commercial paper issued by the Borrower, and (iii) 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, except for the Liens of the Administrative Agent and the Banks pursuant to the Pledge Agreement or under the RRI Option. In addition, each of the Borrower and each Significant Subsidiary has good title to the Properties reflected in the financial statements referred to in Section 6.1(m) and in any financial statements delivered pursuant to Section 7.1(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 or that have been disposed of pursuant to Section 7.2(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 CenterPoint Electric, the Mortgage and Liens permitted by the Mortgage and other Permitted Liens; (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. Since December 31, 2002, there has been no event, development or circumstance that has or would reasonably be expected to have a Material Adverse Effect.

(k) Litigation. There is no litigation, action, suit, investigation 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 under any other Loan Document 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 Significant Subsidiary 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 6.1(l), is likely to result in a material liability or deficiency of the Borrower or any Significant Subsidiary. As used in this Section 6.1(1), 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 6.1(1) at any one time outstanding, individually and in the aggregate, is less than $50,000,000.

(m) Financial Statements. The consolidated financial statements of the Borrower as of and for the six months ended June 30, 2003 filed with the SEC with the Borrower's 10-Q for the period then ended, 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, 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 or the other Loan Documents 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 6.1(p) attached hereto sets forth each Significant Subsidiary as of the Closing Date. Except as disclosed on Schedule 6.1(p), as of the Closing Date the Borrower owns, directly or indirectly through one or more of its Subsidiaries, (i) all of the outstanding Capital Stock of each Significant Subsidiary other than the Texas Genco Entities and (ii) the percentage of the outstanding Capital Stock of the Texas Genco Entities as set forth in Schedule 6.1(p), in each case free and clear of any Liens.

(q) Senior Indebtedness. The obligations under this Agreement and the other Loan Documents constitute "Senior Debt" of the Borrower under and as defined in the ZENS Indenture.

(r) Solvency. On and as of each Borrowing Date, after giving effect to the Borrowings of Loans on such Borrowing Date and the other transactions contemplated hereby and thereby, the Borrower will be Solvent.

(s) 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).

(t) Pledge Agreement. 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 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.

ARTICLE VII

AFFIRMATIVE AND NEGATIVE COVENANTS

SECTION 7.1. Affirmative Covenants. The Borrower covenants that, as long as any amount is owing hereunder or under any other Loan Documents, any Letter of Credit 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 2003), 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 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, 2003), 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 7.2(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 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) Business 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 Subsidiary of the Borrower that would have a Material Adverse Effect, or (z) the incurrence by the Borrower or any Significant Subsidiary of a material liability or deficiency, or the existence of an event that could

reasonably be expected to result in 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 $50,000,000; (C) with each set of statements delivered pursuant to Section 7.1(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 7.1(a)(i), (ii), and (iv)(A) shall be deemed to have been delivered on the date on which 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 7.1(a)(iii) and (ii) 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 or Letter of Credit made or issued by the Banks or the Issuing Bank to it for the purposes set forth in Section 6.1(g), and it will not use the proceeds of any Loan or Letter of Credit made or issued by the Banks or the Issuing Bank for any purpose that would violate the provisions of the margin regulations of the Board. 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 7.2(c) or 7.2(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 Significant Subsidiary 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 7.1(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), 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 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 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 any 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, and the issuance by an additional Rating Agency of a Long-Term Debt Rating, promptly upon the effectiveness of such change or issuance.

SECTION 7.2. Negative Covenants. The Borrower covenants that, so long as any amount is owing to the Banks hereunder or under any other Loan Documents to which it is a party or any Letter of Credit is outstanding under this Agreement, the Borrower will not:

(a) Financial Ratios. Permit at any time (i) the ratio of Consolidated Indebtedness for Borrowed Money at such time to Consolidated EBITDA for the most recently ended twelve-month period to exceed 3.75:1.00 or (ii) the ratio of Consolidated EBITDA for the most recently ended twelve-month period to Adjusted Interest Expense for such period to be less than 1.75:1.00.

(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) (A) any Lien in existence on the date hereof securing Indebtedness outstanding in the aggregate principal amount of less than $25,000,000 and (B) any Lien in existence on the date hereof securing Indebtedness outstanding in the aggregate principal amount of $25,000,000 or more and listed on Schedule 7.2(b); provided that no such Lien described in this clause (ii) encumbers any additional Property after the Closing Date and that the principal amount of Indebtedness secured thereby is not increased;

(iii) Liens securing first mortgage bonds pursuant to the Mortgage (or second or subordinated Liens in lieu thereof) issued after the Closing Date;

(iv) Liens required to be granted pursuant to "equal and ratable" clauses under Contractual Obligations of the Borrower and the Significant Subsidiaries existing on the Closing Date;

(v) Liens arising in connection with the securitization of accounts receivable of Resources and its Subsidiaries or any Securitization Subsidiary, in the case of Resources and its Subsidiaries, to the extent affecting only the accounts receivable of Resources and its Subsidiaries and assets customarily related thereto;

(vi) 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;

(vii) Liens on office buildings, parking and related real estate owned by CenterPoint Energy Properties, Inc. to secure new financing based thereon;

(viii) Liens on fixed or capital assets and related inventory and intangible assets acquired, constructed, improved, altered or repaired by the Borrower or any Significant Subsidiary; 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);

(ix) 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 Significant Subsidiary 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);

(x) 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;

(xi) 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;

(xii) Liens on Property of the Borrower or any of its Subsidiaries securing non-recourse Indebtedness of the Borrower or any such Subsidiary;

(xiii) Liens on the stock or assets of Securitization Subsidiaries;

(xiv) any extension, renewal or refunding of any Lien permitted by clauses (i) through (xiii) 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 under Section 7.2(a);

(xv) 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;

(xvi) Liens not otherwise permitted by this Section 7.2(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) $50,000,000 at such time;

(xvii) 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

(xviii) Liens created pursuant to the Pledge Agreement.

(c) Consolidation, Merger or Disposal of Assets. And will not permit any Significant Subsidiary to, (i) consolidate with, or merge into or amalgamate with or into, any other Person; (ii) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or (iii) convey, sell, transfer, lease or otherwise dispose of all or substantially all of its Properties to any Person; provided, however, that nothing contained in this Section 7.2(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 or any Wholly-Owned Subsidiary of the Borrower 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 any Wholly-Owned Subsidiary of the Borrower or, in the case of any other Significant Subsidiary, the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower; (C) the Disposition of the Texas Genco Stock as permitted under Section 7.2 (e) or 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 4.7), 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; 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; provided further that prior to any Texas Genco Entity being merged with and into any Wholly-Owned Subsidiary of the Borrower that is not a Texas Genco Entity as permitted under this paragraph (c), (x) all of the Capital Stock of such Wholly-Owned Subsidiary shall have been pledged to the Administrative Agent, for the benefit of the Banks, pursuant to a pledge agreement, substantially in the form of Exhibit A, (y) to the extent such shares are certificated, the shares of Capital Stock pledged pursuant thereto shall have been delivered to the Administrative Agent and (z) any and all other documents as may reasonably be requested by the

Administrative Agent to effect such pledge shall have been executed and delivered by the relevant Subsidiary.

(d) Takeover Bids. 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 Subsidiary to sell, assign, transfer or otherwise dispose of any of the Capital Stock of any Significant Subsidiary. Notwithstanding the foregoing provisions of Section 7.2(c) or this Section 7.2(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 and (ii) the Texas Genco Stock; provided that (A) the Borrower complies with Section 4.7 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 exchange for 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.

(f) Dividends. And will not permit any Significant Subsidiary to (x) enter into, incur or permit to exist any agreement or other arrangement that explicitly prohibits or restricts the payment by any Significant Subsidiary 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 and (y) at any time prior to consummation of the Stranded Cost Securitization for Net Cash Proceeds of at least $3,000,000,000, make, or agree to pay or make, directly or indirectly, any Restricted Payment, except (a) the Borrower may pay dividends with respect to its common Capital Stock payable solely in additional shares of its common stock, (b) the Borrower may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management, officers, directors or employees of the

Borrower and (c) the Borrower may pay dividends in an amount with respect to any fiscal quarter of the Borrower not to exceed $0.10 per share of common Capital Stock of the Borrower.

(g) Certain Investments, Loans, Advances, Guarantees and Acquisitions. And will not permit any of its Subsidiaries to, at any time prior to consummation of Stranded Cost Securitization for Net Cash Proceeds of at least $3,000,000,000, 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 and Texas Genco and its Subsidiaries; (c) in pollution control bonds which are the obligation of the Borrower in connection with and until the remarketing of such bonds and (d) otherwise if, after giving effect thereto, the Borrower would be in compliance with its covenants contained in Section 7.2(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) 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) 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.

(j) Indebtedness of Holding Companies. Permit Utility Holding LLC and any other of its Subsidiaries that directly or indirectly own CenterPoint Electric or Resources and which do not conduct, transact or otherwise engage in any business or operations other than those incidental to their ownership of the Capital Stock of CenterPoint Electric or Resources to incur, create, assume or suffer to exist any Indebtedness for Borrowed Money, except (i) Indebtedness for Borrowed Money owed to the Borrower or any other Subsidiary of the Borrower, (ii) Guarantees of Indebtedness for Borrowed Money owed by the Borrower or any other Subsidiary of the Borrower and (iii) Indebtedness for Borrowed Money owed by such Subsidiary on the Closing Date and any refinancings, refundings, renewals or extensions thereof (without any increase in the principal amount thereof).

SECTION 7.3. 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 VIII

EVENTS OF DEFAULT

SECTION 8.1. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default":

(a) Non-Payment of Principal, Interest and Commitment Fee. The Borrower fails to pay, in the manner provided in this Agreement, (i) any principal or Reimbursement Obligations payable by it hereunder when due or (ii) any interest payment, the Commitment Fee or the Letter of Credit fee 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 8.1(a) above) payable by it hereunder within ten 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 6.1, in any other Loan Document or in any certificate, document or instrument delivered by the Borrower 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. Borrower fails to perform or comply with any one or more of its obligations under Section 7.1(a)(iv)(B)(x) or 7.2 or Utility Holding, LLC fails to perform or comply with any one or more of its obligations under Section 4 of the Pledge Agreement; or

(e) Breach of Other Obligations. 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 8.1(a), (b) or (d) above) or under any other Loan Document 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 Significant Subsidiary 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 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 or Junior Subordinated Debt of the Borrower or any Significant Subsidiary (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 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 Significant Subsidiary any case, proceeding or other action (A) seeking a decree or order for relief in respect of the Borrower or any Significant Subsidiary under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, (B) seeking a decree or order adjudging the Borrower or any Significant Subsidiary a bankrupt or insolvent, (C) except as permitted by Sections 7.2(c)(ii), seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief of or in respect of the Borrower or any Significant Subsidiary 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 Significant Subsidiary 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 Significant Subsidiary 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 Significant Subsidiary 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 Significant Subsidiary of any substantial part of its Properties; or (ii) the making by the Borrower or any Significant Subsidiary of a general assignment for the benefit of creditors; or (iii) the Borrower or any Significant Subsidiary 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 8.1(g); or (iv) the admission by the Borrower or any Significant Subsidiary in writing of its inability to pay its debts generally as they become due or the failure by the Borrower or any Significant Subsidiary generally to pay its debts as such debts become due; or

(i) Enforcement Proceedings. A final judgment or decree for the payment of money (not paid or fully covered by insurance as to which the relevant insurance company has acknowledged coverage) which, together with all other such judgments or decrees against the Borrower or any Significant Subsidiary then outstanding and unsatisfied, exceeds $50,000,000 in aggregate amount shall be rendered against the Borrower or any Significant Subsidiary 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. 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 which would reasonably be expected 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 would reasonably be expected to result in a material liability or deficiency of the Borrower or any Significant Subsidiary; provided, however, that for purposes of this Section 8.1(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 8.1(j) at any one time outstanding, individually and in the aggregate, is less than $50,000,000; or

(k) Change in Control. A Change in Control shall have occurred; or

(l) (i) 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).

SECTION 8.2. 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 8.1(g) or 8.1(h) occurs with respect to the Borrower, then automatically:

(i) the Commitments shall immediately be cancelled; and

(ii) all Loans made hereunder, all amounts of L/C Obligations (whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required for draws thereunder), all unpaid accrued interest or fees and any other sum payable under this Agreement or any other Loan Document shall become immediately due and payable; or

(b) any other Event of Default specified in Section 8.1 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:

(i) the Commitments shall immediately be cancelled; and/or

(ii) either (A) all Loans made hereunder, all amounts of L/C Obligations (whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required for draws thereunder), all unpaid accrued interest or fees and any other sum payable under this Agreement or any other Loan Document shall become immediately due and payable or (B) all Loans made hereunder, all amounts of L/C Obligations (whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required for draws thereunder), all unpaid accrued interest or fees and any other sum payable under this Agreement or any other Loan Document shall become due and payable at any time thereafter immediately on demand by the Administrative Agent (acting on the instructions of the Majority Banks).

With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to the preceding paragraph or on the Termination Date, the Borrower shall at such time deposit in a cash collateral account opened by the Administrative Agent cash or cash equivalents in an amount equal to the aggregate then undrawn and unexpired face amount of such Letters of Credit. The Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Bank and the L/C Participants, a security interest in such cash collateral to secure all obligations of the Borrower under this Agreement and the other Loan Documents. Interest shall accrue on such account for the benefit of the Borrower at a rate equal to the Federal Funds Effective Rate. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Borrower hereunder and under the Notes. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrower hereunder and under the Notes shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower. The Borrower shall execute and deliver to the Administrative Agent, for the account of the Issuing Bank and the L/C Participants, such further documents and instruments as the Administrative Agent may reasonably request to evidence the creation and perfection of the within security interest in such cash collateral account.

Except as expressly provided above in this Section 8.2, 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 IX

THE ADMINISTRATIVE AGENT

SECTION 9.1. Appointment. Each Bank hereby irrevocably designates and appoints JPMorgan Chase Bank as the Administrative Agent of such Bank under this Agreement and the other Loan Documents, and each such Bank irrevocably authorizes JPMorgan Chase Bank, 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, (a) 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) the other Agents and the Lead Arrangers shall not 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 other Agents or the Lead Arrangers.

SECTION 9.2. 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 9.3. Exculpatory Provisions. Neither any Agent or any of their respective 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 or any other 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 Note or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agents 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 9.4. 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 9.5. 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 9.6. Non-Reliance on Administrative Agent and Other Banks. Each Bank expressly acknowledges that neither the Agents nor any of their respective officers, directors, employees, agents, attorneys-in-fact or Affiliates have made any representations or warranties to it and that no act by any Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by any Agent to any Bank. Each Bank represents to the Agents that it has, independently and without reliance upon any 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 any 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 Agent, attorneys-in-fact or Affiliates.

SECTION 9.7. Indemnification. The Banks agree to indemnify the Agents and the Lead Arrangers 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 9.7, 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 and the termination of the Commitments) be imposed on, incurred by or asserted against the Agents or the Lead Arrangers, 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 Agents or the Lead Arrangers, 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 resulting from the Agents' or the Lead Arrangers', as the case may be, gross negligence or willful misconduct. The agreements in this Section 9.7 shall survive the payment of all amounts payable hereunder.

SECTION 9.8. Agent in Its Individual Capacity. Each Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though such Agent were not an Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it, any Letter of Credit issued or participated in by it and its Commitment hereunder, each 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 an Agent, and the terms "Bank" and "Banks" shall include the each Agent in its individual capacity.

SECTION 9.9. 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.

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 X

MISCELLANEOUS

SECTION 10.1. 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 10.1. 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 (including the prepayment premium provided for in Section 4.6) 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, or modify the application of proceeds from the disposition of Collateral contained in any Pledge Agreement, in each case without the consent of each Bank directly affected thereby;

(ii) amend, modify or waive any provision of this Section or of Section 4.2 in a manner that would alter the pro rata sharing of payments required thereby, or reduce the percentage specified in the definitions of Majority 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 all or substantially all of the Collateral (other than in accordance with the terms of the Pledge Agreement), or permit any Lien on the Collateral senior to or pari passu with the Lien of the Administrative Agent and the Banks under the Pledge Agreement, in each case without the written consent of all the Banks;

(iii) amend, modify or waive any provision of Section 4.7, in each case without the written consent of the Supermajority Facility Banks adversely affected thereby;

(iv) reduce the percentage specified in the definition of Supermajority Facility Banks with respect to either Facility, without the consent of all the Banks in such Facility;

(v) amend, modify or waive any provision of Article IX without the written consent of the then Administrative Agent; or

(vi) amend, modify or waive any provision of Section 2.7 in a manner that adversely affects any Issuing Bank without the written consent of the then Issuing Bank or Issuing Banks.

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 Issuing Bank or Issuing Banks, the Administrative Agent and all future holders of the amounts payable hereunder. In the case of any waiver, the Borrower, the Banks, the Issuing Bank or Issuing 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 10.2. 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(A) 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 Houston, Texas 77002
Attention:	Linda Geiger Assistant Treasurer
Telecopy:	(713) 207-3301
With a copy to:	Marc Kilbride Treasurer
Telecopy:	(713) 207-3301
The Administrative Agent:	JPMorgan Chase Bank Loan and Agency Services Group 1111 Fannin Street Houston, Texas 77002
Attention:	Karla Contreras
Telecopy:	(713) 427-6307
With a copy to:	JP Morgan Chase Bank 600 Travis, 20th Floor Houston, Texas 77002
Attention:	Robert Traband
Telecopy:	(713) 216-8870

provided that any notice, request or demand to or upon the Administrative Agent or the Banks shall not be effective until received.

SECTION 10.3. 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 10.4. 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 10.5. Payment of Expenses and Taxes; Indemnity. The Borrower agrees (a) to pay or reimburse the Administrative Agent and its Affiliates for all its 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 Simpson Thacher & Bartlett LLP, special counsel to the Administrative Agent (but excluding the fees or expenses of any other counsel), (b) to pay or reimburse 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 special counsel to the Administrative Agent, (c) to pay or reimburse each Bank for all its costs and expenses incurred in connection with the enforcement, or at any time after the occurrence and during the continuance of a Default or an Event of Default the 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 counsel to such Bank, (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 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 (e) 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, trustees, advisors 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 (including without limitation, all fees and

expenses of counsel to any indemnified person) with respect to the execution, delivery, enforcement, performance and administration of this Agreement, any Notes or the other Loan Documents, the transactions contemplated by this Agreement, any Notes or the other Loan Documents, or the use, or proposed use, of proceeds of the Loans (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 arising 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 10.5 shall survive repayment of the Loans and all other amounts payable hereunder.

SECTION 10.6. 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 Issuing Bank, 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 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 10.1, 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 3.4, 3.7, 4.1 and 4.3 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided that (i) 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 and (ii) each such sale of participating interests shall be to a "qualified purchaser", as such term is defined under the Investment Company Act of 1940. Except as expressly provided in this Section 10.6(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 business and in accordance with applicable law, at any time sell to any Bank or Bank Affiliate and, with the consent of the Borrower and the Administrative Agent (which in each case shall not be unreasonably withheld

and, in the case of the Borrower, shall not be required (x) if an Event of Default exists and (y) in the case of an assignment by JPMorgan Chase Bank or Citibank, N.A. in connection with the syndication of the Facilities, prior to the date that is 45 days after the Closing Date), to one or more additional banks or financial institutions ("Purchasing Banks") all or any part of its rights and obligations under this Agreement pursuant to a Assignment and Acceptance, substantially in the form of Exhibit D (a "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 or Bank Affiliate, by the Borrower and the Administrative Agent) and delivered to the Administrative Agent for its acceptance and recording in the Register; provided that (i) such Purchasing Bank is a "qualified purchaser" as defined under the Investment Company Act of 1940, (ii) each such sale shall be of a uniform, and not a varying, percentage of all rights and obligations under and in respect of the Commitment of such Bank, (iii) each such sale that is not to an existing Bank or Bank Affiliate hereunder shall be in an aggregate amount of not less than $5,000,000; in the case of Revolving Loans, and $1,000,000, in the case of Term Loans (or such lesser amount that represents the entire Commitment of such Bank), and (iv) after giving effect to such sale, the transferor Bank shall (to the extent that it continues to have any Commitment hereunder) have a Commitment of not less than $5,000,000, in the case of Revolving Loans, and $1,000,000, in the case of Term Loans, provided that such amounts shall be aggregated in respect of each Bank and its Bank Affiliates, if any. Upon such execution, delivery, acceptance and recording, from and after the effective 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 a 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 3.1 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 10.2 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 a 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 Borrower and 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 Banks and 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 10.6(f) to keep, any information delivered or made available by the Borrower to it (including any information obtained pursuant to Section 7.1), 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 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, Purchasing Bank or pledgee (each, a "Transferee") that has agreed in writing to be bound by the provisions of this Section 10.6(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 10.6(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. Notwithstanding anything

herein to the contrary, any party subject to confidentiality obligations hereunder or under any other related document (and any employee, representative or other agent of such party) may disclose to any and all persons without limitation of any kind, such party's U.S. federal income tax treatment and the U.S. federal income tax structure of the transactions contemplated by this Agreement relating to such party and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure. However, no such party shall disclose any information relating to such tax treatment or tax structure to the extent nondisclosure is reasonably necessary in order to comply with applicable securities laws. The Borrower does not intend to treat the Loans as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4) or a "tax shelter" (within the meaning of Section 6111 of the Code). In the event that the Borrower determines to take any action inconsistent with its intention not to treat the Loans as being a "reportable transaction" (within the meaning of Treasury Regulation Section 1.6011-4) or a "tax shelter" (within the meaning of Section 6111 of the Code), the Borrower will promptly notify the other parties to the Agreement thereof in writing.

(g) If, pursuant to this Section, any interest in this Agreement or any Loan or L/C Obligation 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 Borrower) a new Form duly executed and completed W-8BEN or 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) Any Bank may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Bank, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Bank from any of its obligations hereunder or substitute any such pledgee or Purchasing Bank for such Bank as a party hereto. 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 E or Exhibit F, as the case may be, evidencing the Term Loans, Revolving Loans or L/C Obligations, as the case may be, owing to such Bank.

SECTION 10.7. 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 10.8. 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 Borrower and the Administrative Agent.

SECTION 10.9. 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 10.10. 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 10.11. 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 10.11(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 the 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 10.12. 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 10.2 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 any special, exemplary, punitive or consequential damages.

SECTION 10.13. 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 10.14. 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 10.14 shall control and supersede every other provision of all Loan Documents.

SECTION 10.15. Removal of Bank. Notwithstanding anything herein to the contrary, Borrower may, at any time in its sole discretion, remove any Bank upon 15 Business Days' written notice to such Bank and the Agent (the contents of which notice shall be promptly communicated by the Agent to each other Bank), such removal to be effective at the expiration of such 15-day notice period; provided, however, that no Bank may be removed hereunder at a time when an Event of Default shall have occurred and be continuing. Each notice by Borrower under this Section 10.15 shall constitute a representation by Borrower that the removal described in such notice is permitted under this Section 10.15. Concurrently with such removal, Borrower shall pay to such removed Bank all amounts owing to such Bank hereunder and under any other Loan Document in immediately available funds. Upon full and final payment hereunder of all amounts owing to such removed Bank, such Bank shall make appropriate entries in its accounts evidencing payment of all Loans hereunder and releasing Borrower from all obligations owing to

the removed Bank in respect of the Loans hereunder and surrender to the Agent for return to Borrower any Notes of Borrower then held by it. Effective immediately upon such full and final payment, such removed Bank will not be considered to be a "Bank" for purposes of this Agreement except for the purposes of any provision hereof that by its terms survives the termination of this Agreement and the payment of the amounts payable hereunder. Effective immediately upon such removal, the Commitments of such removed Bank shall immediately terminate and such Bank's participation share in any outstanding Letters of Credit shall immediately terminate and such participation share shall be divided among the remaining Revolving Banks according to their Revolving Percentages. Such removal will not, however, affect the Commitments of any other Bank hereunder.

SECTION 10.16. Officer's Certificates. It is not intended that any certificate of any officer of the Borrower delivered to the Administrative Agent or any Bank pursuant to this Agreement shall give rise to any personal liability on the part of such officer.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

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/ Robert W. Traband

Name: ROBERT W. TRABAND
Title: VICE PRESIDENT

CITIBANK, N.A.,
as Syndication Agent and as a Bank

By: /s/ Anita J. Brickell

Name: ANITA J. BRICKELL
Title: Vice President

DEUTSCHE BANK AG
NEW YORK BRANCH, as Co-Documentation
Agent and as a Bank

By: /s/ [Illegible]

    Name: [Illegible]
    Title: Director

By: /s/ Joel Makowsky

    Name: Joel Makowsky
    Title: Director

CREDIT SUISSE FIRST BOSTON, acting
through its Cayman Islands Branch, as
Co-Documentation Agent and as a Bank

By: /s/ S. William Fox

Name: S. WILLIAM FOX
Title: DIRECTOR

By: /s/ David J. Dodd

Name: DAVID J. DODD
Title: ASSOCIATE

BANK OF AMERICA, N.A., as Co-Documentation Agent and as a Bank

By: /s/ Richard L. Stein

Name: Richard L. Stein
Title: Principal

Wachovia Bank, National Association

By: /s/ D. Mitch Wilson

Name: D. Mitch Wilson
Title: Vice President

Bank One, NA
(Name of Bank)

By: /s/ Jane Bek Keil

Name: Jane Bek Keil
Title: Director

BARCLAYS BANK PLC

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis
Title: Director

ABN AMRO, N.V.

By: /s/ Frank R. Russo, Jr.

Name: Frank R. Russo, Jr.
Title: Vice President

By: /s/ John Reed

Name: John Reed
Title: Vice President

COMMERZBANK AG, NEW YORK AND
GRAND CAYMAN BRANCHES

By: /s/ Harry P. Yergey

Name: HARRY P. YERGEY
Title: SENIOR VICE PRESIDENT
AND MANAGER

COMMERZBANK AG, NEW YORK AND
GRAND CAYMAN BRANCHES

By: /s/ Subash R. Viswanathan

Name: Subash R. Viswanathan
Title: Senior Vice President

Merrill Lynch Capital Corporation

By: /s/ Carol J.E. Feeley

Name: Carol J.E. Feeley
Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ Denis O'Meara

Name: Denis O'Meara
Title: Managing Director

Erste Bank Der Oesterreichischen
Sparkassen AG

By: /s/ Bryan J. Lynch

Name: BRYAN J. LYNCH
Title: FIRST VICE PRESIDENT

By: /s/ Patrick W. Kunkel

Name: PATRICK W. KUNKEL
Title: VICE PRESIDENT
ERSTE BANK NEW YORK BRANCH

KZH CYPRESSTREE-1 LLC

By: /s/ Dorian Herrera

Name: DORIAN HERRERA
Title: AUTHORIZED AGENT

KZH ING-2 LLC

By: /s/ Dorian Herrera

Name: DORIAN HERRERA
Title: AUTHORIZED AGENT

KZH Sterling LLC

By: /s/ Dorian Herrera

Name: DORIAN HERRERA
Title: AUTHORIZED AGENT

Bank of Communications, New York Branch

(Name of Bank)

By: /s/ De Cai Li

Name: De Cai Li
Title: General Manager

]

KZH Waterside LLC

By: /s/ Dorian Herrera

Name: DORIAN HERRERA
Title: AUTHORIZED AGENT

KZH Highland-2 LLC

By: /s/ Dorian Herrera

Name: DORIAN HERRERA
Title: AUTHORIZED AGENT

KZH Pondview LLC

By: /s/ Dorian Herrera

Name: DORIAN HERRERA
Title: AUTHORIZED AGENT

EXHIBIT 10.9

==========

PLEDGE AGREEMENT

made by

UTILITY HOLDING, LLC

in favor of

JPMORGAN CHASE BANK,

as Administrative Agent

Dated as of October 7, 2003

==========

TABLE OF CONTENTS

SCHEDULES

PLEDGE AGREEMENT

PLEDGE AGREEMENT, dated as of October 7, 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 7, 2003 (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, among others.

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 Credit Agreement, 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 Credit Agreement 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 Credit Agreement 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 subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws relating to or affecting creditors' rights generally and subject to general principles of equity, whether considered at law or equity, 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 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 certificate of formation 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 reasonably 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 (other than Persons having a claim or demand related to a Permitted Lien). 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 to any Collateral.

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 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 substantially all 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 not prohibited 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 as set forth in Section 5.3, 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 shall 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 the following order:

First, to pay incurred and unpaid fees and expenses of the Administrative Agent under the Loan Documents;

Second, to the Administrative Agent, for application by it towards payment of amounts then remaining unpaid in respect of the Credit Agreement Obligations (including towards the cash collateralization of Letters of Credit in the manner set forth in Section 8.2), pro rata among the Banks according to the amounts of the Credit Agreement Obligations then remaining unpaid to the Banks; and

Third, 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. To the extent not prohibited by law, 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 after the occurrence and during the continuance of an Event of Default:

(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 10.1 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 10.2 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 (i) to pay or reimburse 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 the Administrative Agent, and (ii) to pay or reimburse each Bank for all its costs and expenses incurred in connection with the enforcement, or at any time after the occurrence and during the continuance of a Default or an Event of Default the preservation, of 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) of such Bank.

(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 10.5 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 not prohibited 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.

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, LLC

By: /s/ Patricia F. Genzel

Name: Patricia F. Genzel
Title: President and Secretary

Acknowledged and Agreed to as of the date hereof:

CENTERPOINT ENERGY, INC.

By: /s/ Gary L. Whitlock

Name: Gary L. Whitlock
Title: Executive Vice President and Chief Financial Officer

Schedule 1

NOTICE ADDRESS OF GRANTOR

200 West Ninth Street Plaza
Suite 411
Wilmington, Delaware 19801

Attention: Patricia F. Genzel
President and Secretary
(302) 655-8894

With a copy to: Marc Kilbride
Vice President and Treasurer
Texas Genco Holdings, Inc.
(713) 207-5782

Schedule 2

DESCRIPTION OF PLEDGED STOCK

Issuer	Class of Stock	Stock Certificate No.	No. of Shares
Texas Genco Holdings, Inc.	Common Stock	TG14348	64,764,240

Schedule 3

LOCATION OF JURISDICTION OF ORGANIZATION AND CHIEF EXECUTIVE OFFICE

Jurisdiction of Organization	Location of Chief Executive Office
Delaware	200 West Ninth Street Plaza Suite 411 Wilmington, Delaware 19801

ACKNOWLEDGEMENT AND CONSENT

The undersigned hereby acknowledges receipt of a copy of the Pledge Agreement dated as of October 7, 2003 (the "Agreement"), made by the Grantor for the benefit of JPMorgan Chase Bank, 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: /s/ Marc Kilbride

Name: Marc Kilbride
Title: Vice President and Treasurer

Address for Notices:

1111 Louisiana, 44th Floor
Houston, Texas 77002
Fax: (713) 207-3301

EXHIBIT 12.1

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(THOUSANDS OF DOLLARS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2003
Income from continuing operations	$ 392,899	$ 347,471
Income taxes for continuing operations	206,748	196,254
Capitalized interest	(9,326)	(6,045)
	590,321	537,680
Fixed charges, as defined:		
Interest and distribution on trust preferred securities	469,517	703,835
Capitalized interest	9,326	6,045
Interest component of rentals charged to operating expense	10,602	10,307
Total fixed charges	489,445	720,187
Earnings, as defined	$ 1,079,766	$ 1,257,867
Ratio of earnings to fixed charges	2.21	1.75

EXHIBIT 31.1

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350,
CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), I, David M. McClanahan, President and Chief Executive Officer of CenterPoint Energy, Inc. (the "Company"), hereby certify, to the best of my knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2003

/s/ David M. McClanahan

David M. McClanahan
President and
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350,
CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), I, Gary L. Whitlock, Executive Vice President and Chief Financial Officer of CenterPoint Energy, Inc. (the "Company"), hereby certify, to the best of my knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2003

/s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and
Chief Financial Officer

ITEM 1. BUSINESS

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND SELECTED FINANCIAL DATA

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."

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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	99	446
Total		19,279	19,853
Accumulated depreciation and amortization		(8,123)	(8,488)
Property, plant and equipment, net		$11,156	$11,365

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 cumulative effect of accounting change	$ 245	$ 499	$ 369
Add: Goodwill amortization, net of tax	50	49	--
Adjusted income from continuing operations before cumulative effect of accounting change	$ 295	$ 548	$ 369
Basic Earnings Per Share: Reported income from continuing operations before cumulative effect of accounting change	$0.86	$1.72	$1.24
Add: Goodwill amortization, net of tax	0.18	0.17	--
Adjusted income from continuing operations before cumulative effect of accounting change	$1.04	$1.89	$1.24
Diluted Earnings Per Share: Reported income from continuing operations before cumulative effect of accounting change	$0.85	$1.71	$1.23
Add: Goodwill amortization, net of tax	0.18	0.17	--
Adjusted income from continuing operations before cumulative effect of accounting change	$1.03	$1.88	$1.23

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

DECEMBER 31, 2001		DECEMBER 31, 2002	
CARRYING	ACCUMULATED	CARRYING	

	ACCUMULATED AMORTIZATION	AMOUNT	AMORTIZATION
		(IN MILLIONS)	
Land Use Rights	$(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).

(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.

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

- ---

(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.

(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

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

(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 $14.24 1.02 Reliant Resources common stock	
	December 21, 2002	Distribution of Texas $14.24 1.11 Genco common stock	

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, 2001 AND 2002 (IN MILLIONS)	DISTRIBUTION RATE/ MATURITY DATE	REDEMPTION DATE/ TRUST 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 SHARES	PERFORMANCE-BASED RESTRICTED SHARES
Outstanding at December 31, 1999	--	928,467	270,623
Granted	--	394,942	206,395
Canceled	--	(81,541)	(13,060)
Released to participants	--	(174,001)	(5,346)
Outstanding at December 31, 2000	--	1,067,867	458,612
Granted	83,670	--	2,623
Canceled	--	(17,154)	(2,778)
Released to participants	--	(424,623)	(249,895)
Outstanding at December 31, 2001	83,670	626,090	208,562
Granted	--	451,050	--
Canceled	--	(5,625)	(176,258)
Released to participants	(41,892)	(120)	(447,060)
Outstanding at December 31, 2002	77,925	453,822	87,902
Weighted average fair value granted for 2000	$ 25.19	$ 28.03	
Weighted average fair value granted for 2001	$ --	$ 38.13	
Weighted average fair value granted for 2002	$ 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
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 CONTRACTUAL LIFE	AVERAGE OPTIONS OUTSTANDING	AVERAGE EXERCISE PRICE
	(YEARS)		
Ranges of Exercise Prices:			
$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 EXERCISABLE	AVERAGE 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	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.

(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).