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 MARCH 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number 1-31447

CENTERPOINT ENERGY, INC.

(Exact name of registrant as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)	74-0694415 (I.R.S. Employer Identification No.)
1111 LOUISIANA HOUSTON, TEXAS 77002 (Address and zip code of principal executive offices)	(713) 207-1111 (Registrant's telephone number, including area code)

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 by Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

As of May 2, 2003, CenterPoint Energy, Inc. had 305,480,329 shares of common stock outstanding, including 1,407,306 ESOP shares not deemed outstanding for financial statement purposes and excluding 166 shares held as treasury stock.

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CENTERPOINT ENERGY, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

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	THREE MONTHS ENDED MARCH 31, 2002	2003
REVENUES	$ 2,079,137	$ 2,902,302
EXPENSES:		
Fuel and cost of gas sold	1,042,562	1,859,145
Purchased power	48,469	11,994
Operation and maintenance	389,843	415,264
Depreciation and amortization	148,768	152,652
Taxes other than income taxes	98,502	103,209
Total	1,728,144	2,542,264
OPERATING INCOME	350,993	360,038
OTHER INCOME (EXPENSE):		
Loss on AOL Time Warner investment	(217,597)	(48,474)
Gain on indexed debt securities	203,233	42,703
Interest expense	(117,752)	(224,424)
Distribution on trust preferred securities	(13,899)	(13,898)
Other, net	7,135	3,187
Total	(138,880)	(240,906)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST, AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	212,113	119,132
Income Tax Expense	(67,718)	(40,260)
Minority Interest	241	2,066
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	144,636	80,938
(Loss) from Discontinued Operations of Reliant Resources, net of tax	(113,399)	--
Income from Discontinued Operations of Latin America, net of tax	368	80
Gain on Disposal of Discontinued Operations of Latin America, net of tax	--	7,342
Cumulative Effect of Accounting Change, net of minority interest and tax	--	80,072
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 31,605	$ 168,432
BASIC EARNINGS PER SHARE:		
Income from Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.49	$ 0.27
(Loss) from Discontinued Operations of Reliant Resources, net of tax	(0.38)	--
Income from Discontinued Operations of Latin America, net of tax	--	--
Gain on Disposal of Discontinued Operations of Latin America, net of tax	--	0.02
Cumulative Effect of Accounting Change, net of minority interest and tax	--	0.27
Net Income Attributable to Common Shareholders	$ 0.11	$ 0.56
DILUTED EARNINGS PER SHARE:		
Income from Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.49	$ 0.27
(Loss) from Discontinued Operations of Reliant Resources, net of tax	(0.38)	--
Income from Discontinued Operations of Latin America, net of tax	--	--
Gain on Disposal of Discontinued Operations of Latin America, net of tax	--	0.02
Cumulative Effect of Accounting Change, net of minority interest and tax	--	0.27
Net Income Attributable to Common Shareholders	$ 0.11	$ 0.56

See Notes to the Company's Interim Financial Statements

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

ASSETS

	DECEMBER 31, 2002	MARCH 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 305,420	$ 305,290
Investment in AOL Time Warner common stock	283,486	235,012
Accounts receivable, net	559,366	868,369
Accrued unbilled revenues	354,497	338,458
Fuel stock and petroleum products	166,742	111,334
Materials and supplies	185,074	181,009
Non-trading derivative assets	27,275	21,071
Taxes receivable	--	93,072
Current assets of discontinued operations	10,162	--
Prepaid expenses and other current assets	71,304	63,405
Total current assets	1,963,326	2,217,020
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	19,901,293	19,725,739
Less accumulated depreciation and amortization	(8,491,924)	(8,540,397)
Property, plant and equipment, net	11,409,369	11,185,342
OTHER ASSETS:		
Goodwill, net	1,740,510	1,740,510
Other intangibles, net	65,880	65,940
Regulatory assets	4,000,646	4,557,707
Non-trading derivative assets	3,866	5,376
Non-current assets of discontinued operations	4,997	--
Other	445,883	465,505
Total other assets	6,261,782	6,835,038
TOTAL ASSETS	$ 19,634,477	$ 20,237,400

See Notes to the Company's Interim Financial Statements

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 2002	MARCH 31, 2003
CURRENT LIABILITIES:		
Short-term borrowings	$ 347,000	$ --
Current portion of long-term debt	810,325	402,146
Indexed debt securities derivative	224,881	182,177
Accounts payable	623,317	838,450
Taxes accrued	120,865	113,124
Interest accrued	197,274	103,688
Non-trading derivative liabilities	26,387	18,815
Regulatory liabilities	168,173	172,169
Accumulated deferred income taxes, net	285,214	290,667
Other	286,750	204,345
Total current liabilities	3,090,186	2,325,581
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,449,206	2,605,604
Unamortized investment tax credits	230,037	225,695
Non-trading derivative liabilities	873	485
Benefit obligations	834,989	856,194
Regulatory liabilities	959,421	924,702
Other	747,063	790,722
Total other liabilities	5,221,589	5,403,402
LONG-TERM DEBT	9,194,320	10,223,299
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 12)		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	292	163,327
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	706,140	706,250
SHAREHOLDERS' EQUITY:		
Common stock (300,101,587 shares and 301,664,118 shares outstanding at December 31, 2002 and March 31, 2003, respectively)	3,050	3,054
Additional paid-in capital	3,046,043	2,886,669
Unearned ESOP stock	(78,049)	(59,885)
Retained deficit	(1,062,083)	(927,556)
Accumulated other comprehensive loss	(487,011)	(486,741)
Total shareholders' equity	1,421,950	1,415,541
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 19,634,477	$ 20,237,400

See Notes to the Company's Interim Financial Statements

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

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	THREE MONTHS ENDED MARCH 31,	
	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to common shareholders	$ 31,605	$ 168,432
Add: Loss (income) from discontinued operations, net of tax	113,031	(80)
Less: Gain on disposal of discontinued operations, net of tax	--	(7,342)
Less: Cumulative effect of accounting change, net of minority interest and tax	--	(80,072)
Income from continuing operations before cumulative effect of accounting change	144,636	80,938
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	148,768	152,652
Fuel-related amortization	6,706	6,535
Deferred income taxes	35,237	102,542
Investment tax credits	(4,614)	(4,342)
Loss on AOL Time Warner investment	217,597	48,474
Gain on indexed debt securities	(203,233)	(42,703)
Minority interest	(241)	(2,066)
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues, net	(288,650)	(292,621)
Inventory	95,555	59,473
Accounts payable	(68,716)	215,133
Fuel cost over recovery	98,381	7,904
Net non-trading derivative assets and liabilities	(11,327)	(3,826)
Interest and taxes accrued	(84,397)	(132,975)
Net regulatory assets and liabilities	(157,290)	(197,111)
Other current assets	3,937	7,899
Other current liabilities	(160,650)	(83,760)
Other assets	29,507	35,807
Other liabilities	(19,092)	44,128
Other, net	29,719	6,410
Net cash provided by (used in) operating activities	(188,167)	8,491
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(213,732)	(139,810)
Other, net	22,084	(6,831)
Net cash used in investing activities	(191,648)	(146,641)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	--	1,658,830
Increase (decrease) in short-term borrowing, net	497,281	(347,000)
Payments of long-term debt	(6,921)	(1,032,138)
Payment of common stock dividends	(110,936)	(30,507)
Payment of common stock dividends by subsidiary	--	(3,809)
Proceeds from issuance of common stock	4,076	--
Debt issuance costs	--	(124,893)
Other, net	2,590	(5,724)
Net cash provided by financing activities	386,090	114,759
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	9,760	23,261
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,035	(130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	18,440	305,420
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 34,475	$ 305,290
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest	$ 129,159	$ 192,317
Income taxes	166	793

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See Notes to the Company's Interim Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy, Inc. (CenterPoint Energy), together with its subsidiaries (collectively, the Company), are CenterPoint Energy'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 May 12, 2003 (May 12 Form 8-K). The May 12 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 May 12 Form 8-K.

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

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

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

o each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock.

On September 5, 2002, CenterPoint Energy announced that its board of directors had declared a distribution of all of the shares of Reliant Resources common stock owned by CenterPoint Energy to its common shareholders on a pro rata basis (the Reliant Resources Distribution). The Reliant Resources Distribution was made on September 30, 2002.

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. The Company is subject to regulation as a "registered holding company" under the Public Utility Holding Company Act of 1935 (1935 Act). As of March 31, 2003, the Company's indirect wholly owned subsidiaries include:

o 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

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

The Company 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. The Company distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to the Company's shareholders on January 6, 2003. As a result of the distribution of

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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 March 31, 2003. This impairment charge represents the excess of the carrying value of CenterPoint Energy's net investment in Texas Genco over the market value of the Texas Genco common stock that was distributed. The financial impact of this impairment was offset by recording a $396 million regulatory asset reflecting the Company'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.

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 Income 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). Accordingly, the Interim Financial Statements reflect these operations as discontinued operations for the three months ended March 31, 2002 and 2003.

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. Accordingly, the Interim Financial Statements reflect these operations as discontinued operations for the three months ended March 31, 2002.

The following notes to the consolidated financial statements in the May 12 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.

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(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.

Revenues related to the Company's Latin America operations included in discontinued operations for the three months ended March 31, 2002 and 2003 were $4.5 million and $1.7 million, respectively. Income from these discontinued operations for the three months ended March 31, 2002 and 2003 is reported net of income tax expense of $3.2 million and $0 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 ended March 31, 2002 were $1.8 billion, as reported in Reliant Resources' Annual Report on Form 10-K/A, Amendment No. 1, filed with the SEC on April 30, 2003. Income from these discontinued operations for the three months ended March 31, 2002 is reported net of income tax expense of $43 million. 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" during the third quarter of 2002.

(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 Jewett 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 Jewett 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 calculated because the assets associated with the retirement obligations have an indeterminate life.

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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 three months ended March 31, 2003:

	BALANCE, JANUARY 1, 2003	LIABILITIES INCURRED	LIABILITIES SETTLED	ACCRETION	CASH FLOW REVISIONS	BALANCE, MARCH 31, 2003
			(IN MILLIONS)			
Nuclear decommissioning	$ 186.7	--	--	$ 2.2	--	$ 188.9
Jewett lignite mine	3.8	--	--	0.1	--	3.9
	$ 190.5	--	--	$ 2.3	--	$ 192.8

The following represents the pro-forma effect on the Company's net income for the three months ended March 31, 2002, as if the Company had adopted SFAS No. 143 as of January 1, 2002:

	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)
Income from continuing operations before cumulative effect of accounting change as reported	$ 144,636
Pro-forma income from continuing operations before cumulative effect of accounting change	152,371
Net income as reported	31,605
Pro-forma net income	39,340
DILUTED EARNINGS PER SHARE:	
Income from continuing operations before cumulative effect of accounting change as reported	$ 0.49
Pro-forma income from continuing operations before cumulative effect of accounting change	0.51
Net income as reported	0.11
Pro-forma net income	0.13

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
Jewett lignite mine	39.7	3.8
Total	$ 179.4	$ 190.5

The Company's rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with

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regulatory treatment. As of March 31, 2003, these previously recognized removal costs of $639 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. The Company's non-rate regulated businesses have also previously recognized removal costs as component of depreciation expense. The Company 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 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

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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 will be reclassified. No such reclassification was required in the three month period ended March 31, 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.

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 will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 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. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not expect the adoption of FIN 46 to have a material impact on its results of operations or financial condition.

(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 March 2003, it conducted auctions, as required by the Public Utility Commission of Texas (Texas Utility Commission) and by the Company's master separation agreement with Reliant Resources. Texas Genco will conduct the final auction mandated by the Texas Utility Commission for the purposes of the ECOM True-Up in July 2003.

The capacity auctions continue to be 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 (2004 True-Up Proceeding) of any difference between market power prices and the earlier estimates of those market prices by the Texas Utility Commission, using the prices received in the auctions required by the Texas Utility Commission as the measure of

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market prices (ECOM True-Up). For the three months ended March 31, 2002 and 2003, CenterPoint Energy recorded approximately $141 million and $132 million, respectively, 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, 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 March 31, 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 between now and 2004. 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 March 31, 2003, the recorded book value was $518 million in excess of the regulatory book value. This amount declines as the recorded book value is depreciated and increases by the amount of non-environmental capital expenditures incurred 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 March 31, 2003, in contemplation of the 2004 True-Up Proceeding, CenterPoint Houston has recorded a regulatory asset of $2.5 billion representing the estimated future recovery of previously incurred stranded costs. This 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) and redirected depreciation of $841 million, both reversed in 2001 as well as $396 million related to the Texas Genco distribution as discussed in Note 1. Offsetting this regulatory asset is a $932 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 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.

(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 would be written off during the fourth quarter of 2002 and items totaling $203 million would be carried forward for resolution by the Texas Utility Commission in late 2003 or early 2004.

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(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 three months ended March 31, 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 three months ended March 31, 2003, there was no effect on earnings as a result of the discontinuance of cash flow hedges. As of March 31, 2003, the Company expects $2.3 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

Interest Rate Swaps. As of March 31, 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, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income.

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 as a result of interest payments it believes are no longer probable of occurring for certain periods including the first three months of 2003. The remaining $120 million in other comprehensive income will be amortized into interest expense in the same period during which the forecasted payments affect earnings. No amortization of this amount was recognized in the first three months of 2003. Based on the expected timing of the forecasted transactions hedged by the forward-starting interest rate swaps, amortization of amounts deferred in accumulated other comprehensive income will be amortized into earnings beginning in April 2003 and are expected to amount to $11.9 million in 2003.

(6) GOODWILL AND INTANGIBLES

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

	DECEMBER 31, 2002		MARCH 31, 2003	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(IN MILLIONS)			
Land use rights	$ 61	$ (12)	$ 61	$ (12)
Other	19	(2)	20	(3)
Total	$ 80	$ (14)	$ 81	$ (15)

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 March 31, 2003. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 40 to 75 years for land use rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for the three months ended March 31, 2002 and 2003 was $0.4 million and $0.5 million, respectively. Estimated amortization expense for the remainder of 2003 and the five succeeding fiscal years is as follows (in millions):

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2003..... $
1.6
2004.....
2.4
2005.....
2.6
2006.....
2.8
2007.....
3.0
2008.....
3.3

Total..... $
15.7

=========

Goodwill as of December 31, 2002 and March 31, 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

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(7) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Net income attributable to common shareholders	$ 32	$ 168
Other comprehensive income:		
Net deferred gain (loss) from cash flow hedges	47	(1)
Reclassification of deferred loss from cash flow hedges realized in net income	4	1
Other comprehensive income from discontinued operations	124	1
Other comprehensive income	175	1
Comprehensive income	$ 207	$ 169

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(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 March 31, 2003, 305,436,836 shares of CenterPoint Energy common stock were issued and 301,664,118 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 3,772,552 at December 31, 2002 and March 31, 2003, respectively) and (b) treasury shares (166 at both December 31, 2002 and March 31, 2003). Reliant Energy declared a dividend of $0.375 per share in the first quarter of 2002 and CenterPoint Energy declared a dividend of $0.10 per share in the first quarter of 2003.

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

(a) Short-term Borrowings.

Credit Facilities. As of March 31, 2003, a subsidiary of CenterPoint Energy had credit facilities that provided for an aggregate of $200 million in committed credit that is classified as short-term. As of March 31, 2003, such credit facilities were not utilized. As of March 31, 2003, cash aggregating $279 million was invested in a money market fund.

On February 28, 2003, the Company's $3.85 billion bank facility was amended and extended to June 2005 as discussed below in " -- Long-term Debt." Loans under this facility are recorded as long-term debt in the Consolidated Balance Sheets at both December 31, 2002 and March 31, 2003.

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On March 25, 2003, CERC obtained a $200 million revolving credit facility referenced above that terminates on March 23, 2004. Rates for borrowings under this facility, including the facility fee, are LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid. There were no amounts outstanding under this facility as of March 31, 2003.

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

(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 (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 in 2003 (including $600 million due on February 28, 2003) were eliminated. At the time of the Second Amendment, the facility consisted of a $2.35 billion term loan and a $1.5 billion revolver. In March 2003, a $50 million repayment of the term loan reduced the term loan to $2.30 billion. At March 31, 2003, the revolver was fully utilized. Borrowings bear interest based on LIBOR rates under a pricing grid tied to the Company's credit rating. At the Company's current credit ratings, the pricing for loans remains the same. The drawn cost for the facility at the Company's 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 rate will be increased by 25 basis points beginning May 28, 2003 if the Company does not grant the banks a security interest in its 81% stock ownership of Texas Genco. Granting the security interest in the stock of Texas Genco requires approval from the SEC under the 1935 Act, which is currently being sought. That security interest would be released at the time of a sale of Texas Genco, which may occur as early as 2004. Proceeds from any sale will be used to reduce the bank facility.

Also under the Second Amendment, on or before May 28, 2003, the Company agreed to grant to the banks warrants to purchase up to 10%, on a fully diluted basis, of its common stock at a price equal to the greater of $6.56 per share or 110% of the closing price on the New York Stock Exchange on the date the warrants are issued. The warrants would not be exercisable for a year after issuance but would remain outstanding for four years; provided, that if the Company reduces the term loans owed under the bank facility during 2003 by specified amounts, the warrants will be extinguished. To the extent that the Company reduces the term loans owed under 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. At March 31, 2003, the Company had reduced the term loans owed under the bank facility by $50 million. 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 term loans owed under 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, 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 based upon 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

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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, certain permitted refinancings of existing debt and other limited exceptions) to repay bank loans and permanently 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 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 repay $150 million aggregate principal amount of medium-term notes maturing on April 21, 2003, to redeem approximately $312.3 million aggregate principal amount of CenterPoint Houston's first mortgage bonds and to repay $279 million of a $537 million intercompany note payable to CenterPoint Energy by CenterPoint Houston. Proceeds from the note repayment were ultimately used by CenterPoint Energy to repay borrowings under CenterPoint Energy's $3.85 billion credit facility and to permanently reduce the term loan component of the credit facility by $50 million.

On March 25 and April 14, 2003, CERC issued $650 million and $112 million, respectively, aggregate principal amount of 7.875% senior unsecured notes due in 2013. A portion of the proceeds were 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 borrowings under CERC's $350 million revolving credit facility prior to its expiration on March 31, 2003. The remaining $140 million aggregate principal amount of TERM Notes are due to be refinanced or remarketed in November 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.

(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. As of December 31, 2002 and March 31, 2003, CERC had utilized $107 million and $150 million of its receivables facility, respectively.

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(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 MARCH 31, 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.

(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 March 31, 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.

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(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 ended March 31, 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 MARCH 31,	
	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
Net Income:		
As reported	$ 32	$ 168
Total stock-based employee compensation determined under the fair value based method	(3)	(3)
Pro forma	$ 29	$ 165
Basic Earnings Per Share:		
As reported	$ 0.11	$ 0.56
Pro forma	$ 0.10	$ 0.55
Diluted Earnings Per Share:		
As reported	$ 0.11	$ 0.56
Pro forma	$ 0.10	$ 0.54

(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 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," "Gas Trading 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 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. 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 has entered a briefing schedule that could result in oral arguments by summer of

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2003 and 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 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 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.

In all of these cases pending 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. The Reliant defendants intend to file motions to dismiss on grounds that the claims are barred by federal preemption and the filed rate doctrine.

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 Reliant defendants intend to deny both their alleged violation of any laws and their alleged participation in any conspiracy.

Gas Trading Class Action. The Company, Reliant Resources and Reliant Energy, have been named as defendants in a lawsuit filed in April 2003 in state court in Los Angeles County, California on behalf

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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. The complaint is based on certain conclusions in a report by the staff of the Federal Energy Regulatory Commission that has not been subject to procedures designed to allow parties to either discover or test the basis for the conclusions. 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. 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. Further, neither the Company nor any of its current subsidiaries has ever engaged in gas trading in California.

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 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. 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 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 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 initial public offering (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.

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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. On March 13, 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on the Company before filing suit. On March 26, 2003, the plaintiff sent another demand asserting the same claims.

The Company's board of directors is investigating that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a Company shareholder. The latter 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 Board is reviewing the demands made by the shareholders 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 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

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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. On April 10, 2003, the judge denied the plaintiffs' motion to certify the requested class. Plaintiffs have requested and secured 30 days to amend their petition and may seek to redefine the class to comply with the judge's findings. The action is currently pending in state court in Stevens County, Kansas.

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 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. 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.

Supplier Suits. Texas Genco is currently engaged in a dispute with its fuel supplier at its Limestone electric generation facility over the terms and pricing for fuel supplied to that facility under a 1999 settlement agreement between the parties and under ancillary obligations. On May 6, 2003, Texas Genco filed suit for a declaratory judgment against the supplier, Northwestern Resources Co. (NWR), in Harris County, Texas, and NWR filed similar claims for a declaratory judgment in an action previously filed against Reliant Energy in Limestone County, Texas. NWR claims Texas Genco has breached its obligations by modifying its 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 coal from the Powder River Basin. NWR also contends that Texas Genco is not entitled to certain production royalties. In its suit, Texas Genco seeks rulings that it has not breached its obligations regarding the modification of its facilities and the burning of Powder River Basin coal but that, instead, NWR has breached its

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obligations by failing to pay production royalties and in other respects. The ultimate outcome of this dispute cannot be determined at this time.

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 March 31, 2003, the Company has invested $582 million for NOx emission control, and plans to make expenditures of up to approximately $200 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. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company (REGT), Reliant Energy Pipeline Services, Inc., RERC Corp., RES, 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 May 1, 2003, there were 572 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 March 31, 2003, CERC had accrued $19 million for remediation of the Minnesota sites. At March 31, 2003, the estimated range of possible remediation costs was $8 million to $44 million based on remediation continuing for

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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 $12.2 million at March 31, 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. Recently, the Company was informed that CERC has been named as a defendant in a third party complaint in the U.S. District Court for Maine under which contribution is sought for the cost to remediate a former MGP site in Bangor, Maine. The claim is based on the previous ownership of the site by a former affiliate of one of CERC's divisions. CERC has not been served with the complaint and presently is not aware of details regarding the site, the extent of any legal obligation to contribute to site remediation or the estimated cost of remediation. 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.

(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.

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(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 $9.3 billion as of March 31, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

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. Additionally, 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 $158 million as of March 31, 2003, of which approximately 48% were fixed-rate debt securities and the remaining 52% 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 true-up provides for a clawback of "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by a non-affiliated retail electric provider by January 1, 2004. Pursuant to the Texas electric

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restructuring law and the master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources is obligated to pay CenterPoint Houston for the clawback component of the true-up. The clawback may not exceed $150 times the number of customers served by the affiliated retail electric provider in the transmission and distribution utility's service territory, less the number of customers served by the affiliated retail electric provider outside the transmission and distribution utility's service territory, on January 1, 2004.

(13) EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)	
Basic EPS Calculation:		
Income from continuing operations before cumulative effect of accounting change	$ 145	$ 81
Loss from discontinued operations of Reliant Resources, net of tax	(113)	--
Gain on disposal of discontinued operations of Latin America, net of tax	--	7
Cumulative effect of accounting change, net of minority interest and tax	--	80
Net income attributable to common shareholders	$ 32	$ 168
Weighted average shares outstanding	296,222,000	301,664,000
Basic EPS:		
Income from continuing operations before cumulative effect of accounting change	$ 0.49	$ 0.27
Loss from discontinued operations of Reliant Resources, net of tax	(0.38)	--
Gain on disposal of discontinued operations of Latin America, net of tax	--	0.02
Cumulative effect of accounting change, net of minority interest and tax	--	0.27
Net income attributable to common shareholders	$ 0.11	$ 0.56
Diluted EPS Calculation:		
Net income attributable to common shareholders	$ 32	$ 168
Plus: Income impact of assumed conversions:		
Interest on 6 1/4% convertible trust preferred securities	--	--
Total earnings effect assuming dilution	$ 32	$ 168
Weighted average shares outstanding	296,222,000	301,664,000
Plus: Incremental shares from assumed conversions (1):		
Stock options	403,000	258,000
Restricted stock	528,000	1,338,000
6 1/4% convertible trust preferred securities	13,000	18,000
Weighted average shares assuming dilution	297,166,000	303,278,000
Diluted EPS:		
Income from continuing operations before cumulative effect of accounting change	$ 0.49	$ 0.27
Loss from discontinued operations of Reliant Resources, net of tax	(0.38)	--
Gain on disposal of discontinued operations of Latin America, net of tax	--	0.02
Cumulative effect of accounting change, net of minority interest and tax	--	0.27
Net income attributable to common shareholders	$ 0.11	$ 0.56

(1) For the three months ended March 31, 2002 and 2003, the computation of diluted EPS excludes 5,595,200 and 10,249,849 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $24.38 to $50.00 per share and $7.86 to $34.17 per share for the first quarter of 2002 and 2003, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

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(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, 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.

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2002			AS OF DECEMBER 31, 2002
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	EBIT	TOTAL ASSETS
		(IN MILLIONS)		
Electric Transmission & Distribution (1)	$ 568(2)	$ --	$ 259	$ 9,098
Electric Generation	266(3)	60	(52)	4,416
Natural Gas Distribution	1,180	--	110	4,051
Pipelines and Gathering	62	30	38	2,481
Other Operations	3	6	(8)	1,393
Discontinued Operations	--	--	--	15
Eliminations	--	(96)	(3)	(1,820)
Consolidated	$ 2,079	$ --	$ 344	$ 19,634

	FOR THE THREE MONTHS ENDED MARCH 31, 2003			AS OF MARCH 31, 2003
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	EBIT	TOTAL ASSETS
		(IN MILLIONS)		
Electric Transmission & Distribution	$ 448(2)	$ --	$ 214	$ 9,556
Electric Generation	359(3)	--	(17)	4,587
Natural Gas Distribution	2,028	17	134	4,406
Pipelines and Gathering	61	48	45	2,477
Other Operations	6	5	(5)	1,060
Eliminations	--	(70)	(14)	(1,849)
Consolidated	$ 2,902	$ --	$ 357	$ 20,237

(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

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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 March 31, 2002 and 2003 represented approximately $117 million and $212 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 March 31, 2002 and 2003 represented approximately 53% and 68%, respectively, of Texas Genco's total revenues. Sales to BP Energy for the three months ended March 31, 2003 represented approximately 10% of Texas Genco's total revenues.

Reconciliation of Operating Income to EBIT and EBIT to Net Income Attributable to Common Shareholders:

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Operating income	$ 351	$ 360
Loss on AOL Time Warner investment	(217)	(49)
Gain on indexed debt securities	203	43
Other income, net	7	3
EBIT	344	357
Interest expense	(118)	(224)
Distribution on trust preferred securities	(14)	(14)
Income tax expense	(67)	(40)
Minority interest	--	2
Income from continuing operations before cumulative effect of accounting change	145	81
Loss from discontinued operations of Reliant Resources, net of tax	(113)	--
Gain on disposal of discontinued operations of Latin America, net of tax	--	7
Cumulative effect of accounting change, net of minority interest and tax	--	80
Net income attributable to common shareholders	$ 32	$ 168

(15) GUARANTOR DISCLOSURES

CenterPoint Energy has entered standard indemnification agreements with various surety companies to support the issuance of surety bonds on behalf of CenterPoint Energy and its subsidiaries. These indemnification agreements vary in duration to coincide with the term of the bonds issued. As of March 31, 2003, these agreements covered surety bonds in the aggregate amount of $14.1 million. In addition, CenterPoint Energy has provided $9.6 million in cash deposits to secure its indemnity to one surety company.

(16) SUBSEQUENT EVENT

During a routine refueling and maintenance outage in early April 2003, engineers found a small quantity of residue from reactor cooling water in the South Texas Project Unit 1 reactor containment building. No other residue was found in Unit 1 or in the plant's twin Unit 2 reactor when it was inspected during a refueling outage in the fall of 2002. Upon discovery of the residue, South Texas Project officials immediately reported their findings to the NRC. The South Texas Project's managers and engineers are conferring with industry experts to develop a corrective action plan. The NRC must approve any corrective action plan before it is implemented.

Although Unit 1 was originally scheduled to be returned to service by May 2003, it will remain shut down until any necessary corrective action is completed. While the unit remains out of service, Texas Genco will meet its existing power sales obligations from other generating units and/or from purchases from third parties. A protracted outage at Unit 1 would adversely affect Texas Genco's operating results. Until inspections are completed and an acceptable corrective action plan has been developed, Texas Genco is unable to predict the extent of the economic impact of this outage and when the unit will be returned to service. Texas Genco does not expect Unit 1 will return to service before late summer of 2003.

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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 Form 10-Q.

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 subject to regulation as a "registered holding company" under the Public Utility Holding Company Act of 1935 (1935 Act). Our indirect wholly owned subsidiaries include:

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

o 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 our 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:

o Electric Transmission & Distribution;

o Electric Generation;

o Natural Gas Distribution;

o Pipelines and Gathering; and

o 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.

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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). Accordingly, the Interim Financial Statements reflect these operations as discontinued operations for the three months ended March 31, 2002 and 2003.

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. Accordingly, the Interim Financial Statements include the necessary reclassifications to reflect these operations as discontinued operations for the three months ended March 31, 2002.

RECENT DEVELOPMENTS

During a routine refueling and maintenance outage in early April 2003, engineers found a small quantity of residue from reactor cooling water in the South Texas Project Electric Generating Station (South Texas Project) Unit 1 reactor containment building. No other residue was found in Unit 1 or in the plant's twin Unit 2 reactor when it was inspected during a refueling outage in the fall of 2002. Upon discovery of the residue, South Texas Project officials immediately reported their findings to the Nuclear Regulatory Commission (NRC). The South Texas Project's managers and engineers are conferring with industry experts to develop a corrective action plan. The NRC must approve any corrective action plan before it is implemented.

Although Unit 1 was originally scheduled to be returned to service by May 2003, it will remain shut down until any necessary corrective action is completed. While the unit remains out of service, Texas Genco will meet its existing power sales obligations from other generating units and/or from purchases from third parties. A protracted outage at Unit 1 would adversely affect Texas Genco's operating results. Until inspections are completed and an acceptable corrective action plan has been developed, Texas Genco is unable to predict the extent of the economic impact of this outage and when the unit will be returned to service. Texas Genco does not expect Unit 1 (Texas Genco's share is 385 MW) will return to service before late summer of 2003. In order to mitigate the financial impact of forced outages at its generating units, Texas Genco does not auction 750 MW of coal and lignite base-load capacity and 500 MW of gas-fired capacity. However, nuclear generation from the South Texas Project is Texas Genco's least expensive source of power because the cost of nuclear fuel is substantially less than that of coal, lignite or natural gas. Accordingly, while Unit 1 is shut down, Texas Genco will be required to satisfy capacity entitlements with significantly more expensive power and its ability to make opportunity sales and serve gas auction entitlements from South Texas Project production will be reduced. For example, Texas Genco's base-load capacity generally operates at an approximate energy cost of between $16/Mwh and $17/Mwh and gas fired capacity ranges between $55/Mwh and $60/Mwh based on current natural gas prices, while its nuclear generation capacity generally operates at an approximate energy cost of between $4/Mwh and $5/Mwh.

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CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS, EXCEPT PER SHARE DATA)	
Revenues	$ 2,079	$ 2,902
Operating Expenses	(1,728)	(2,542)
Operating Income	351	360
Loss on AOL Time Warner Investment	(217)	(49)
Gain on Indexed Debt Securities	203	43
Other Income, net	7	3
Earnings Before Interest and Taxes	344	357
Interest Expense	(118)	(224)
Distribution on Trust Preferred Securities	(14)	(14)
Income Tax Expense	(67)	(40)
Minority Interest	--	2
Income From Continuing Operations Before Cumulative Effect of Accounting Change	145	81
Loss From Discontinued Operations of Reliant Resources, net of tax	(113)	--
Gain on Disposal of Discontinued Operations of Latin America, net of tax	--	7
Cumulative Effect of Accounting Change, net of minority interest and tax	--	80
Net Income Attributable to Common Shareholders	$ 32	$ 168
BASIC EARNINGS PER SHARE:		
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.49	$ 0.27
Loss From Discontinued Operations of Reliant Resources, net of tax	(0.38)	--
Gain on Disposal of Discontinued Operations of Latin America, net of tax	--	0.02
Cumulative Effect of Accounting Change, net of minority interest and tax	--	0.27
Net Income Attributable to Common Shareholders	$ 0.11	$ 0.56
DILUTED EARNINGS PER SHARE:		
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.49	$ 0.27
Loss From Discontinued Operations of Reliant Resources, net of tax	(0.38)	--
Gain on Disposal of Discontinued Operations of Latin America, net of tax	--	0.02
Cumulative Effect of Accounting Change, net of minority interest and tax	--	0.27
Net Income Attributable to Common Shareholders	$ 0.11	$ 0.56

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

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	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
RECONCILIATION OF OPERATING INCOME TO EBIT AND EBIT TO NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Operating Income	$ 351	$ 360
Loss on AOL Time Warner Investment	(217)	(49)
Gain on Indexed Debt Securities	203	43
Other Income, net	7	3
EBIT	344	357
Interest Expense and Distribution on Trust Preferred Securities	(132)	(238)
Income Tax Expense	(67)	(40)
Minority Interest	--	2
Income From Continuing Operations Before Cumulative Effect of Accounting Change	145	81
Loss From Discontinued Operations, net of tax	(113)	--
Gain on Disposal of Discontinued Operations, net of tax	--	7
Cumulative Effect of Accounting Change, net of minority interest and tax	--	80
Net Income Attributable to Common Shareholders	$ 32	$ 168

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of $81 million ($0.27 per diluted share) for the three months ended March 31, 2003 as compared to $145 million ($0.49 per diluted share) for the same period in 2002. The decrease in income from continuing operations of $64 million was primarily due to the following:

o a $106 million increase in interest expense due to higher borrowing costs and increased debt levels; and

o a $45 million decrease in EBIT from our Electric Transmission & Distribution business segment.

The above items were partially offset by:

o a $35 million increase in EBIT from our Electric Generation business segment;

o a $24 million increase in EBIT from our Natural Gas Distribution business segment; and

o a $27 million decrease in income tax expense.

The derivation of the foregoing EBIT and its reconciliation to Operating Income is provided in the discussion of our business segments that follows.

Income Tax Expense. During the three months ended March 31, 2003 and 2002, our effective tax rates were 33.2% and 31.9%, respectively. The increase in the effective tax rate for the first quarter of 2003 compared to the first quarter of 2002 was primarily the result of an increase in state taxes and a decrease in benefits related to the employee stock ownership plan, offset by a decrease in pretax income which amplified the effect of the permanent items on our effective tax rate.

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 Jewett 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

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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 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. For additional discussion of the adoption of SFAS No. 143, please read Note 3 to our Interim Financial Statements.

EARNINGS BEFORE INTEREST AND INCOME TAXES BY BUSINESS SEGMENT

The following table presents EBIT for each of our business segments for the three months ended March 31, 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 no affect consolidated net income.

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Electric Transmission & Distribution	$ 259	$ 214
Electric Generation	(52)	(17)
Natural Gas Distribution	110	134
Pipelines and Gathering	38	45
Other Operations	(8)	(5)
Eliminations	(3)	(14)
Total Consolidated EBIT	$ 344	$ 357

Reconcilations of EBIT compared to operating income are shown in the following discussions of our business segments.

ELECTRIC TRANSMISSION & DISTRIBUTION

For information regarding factors that may affect the future results of operations of our Electric Transmission & Distribution business segment, please read "Business -- Risk Factors -- Risk Factors Affecting the Results of Our Electric Transmission & Distribution Business" in Item 1 of the CenterPoint Energy Form 10-K, which is incorporated herein by reference.

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The following tables provide summary data, including EBIT, of our Electric Transmission & Distribution business segment for the three months ended March 31, 2002 and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Operating Revenues:		
Electric Revenues	$ 427	$ 316
ECOM True-Up	141	132
Total Operating Revenues	568	448
Operating Expenses:		
Purchased Power	60	--
Operation and Maintenance	141	133
Depreciation and Amortization	63	65
Taxes Other than Income Taxes	50	44
Total Operating Expenses	314	242
Operating Income	254	206
Other Income, net	5	8
Earnings Before Interest and Income Taxes	$ 259	$ 214
Throughput (in gigawatt-hours (GWh)):		
Residential	4,473	4,558
Commercial	3,975	4,008
Industrial	6,338	6,186
Other	42	36
Total	14,828	14,788

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Our Electric Transmission & Distribution business segment reported EBIT of $214 million for the three months ended March 31, 2003, consisting of $82 million for the regulated electric transmission & distribution utility and non-cash EBIT of $132 million associated with generation-related regulatory assets, or Excess Cost Over Market (ECOM), as described below. For the three months ended March 31, 2002, EBIT was $259 million, consisting of $104 million for the regulated electric transmission & distribution utility, non-cash EBIT of $141 associated with ECOM, and $14 million related to the transition to the deregulated electric market. Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of the regulated utility through the date of their first meter reading in 2002. The purchased power costs of $60 million for the three months ended March 31, 2002 relate to operation of the regulated utility during this transition period.

The regulated electric transmission & distribution utility, excluding ECOM and transition related-EBIT, continues to benefit from solid customer growth. Reduced revenues from industrial customers ($9 million) and higher employee benefit and insurance costs ($8 million) more than offset increased revenues from the addition of over 50,000 metered customers since March 2002 ($8 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 and the Texas Utility Commission's earlier estimates of those market prices. During 2002 and 2003, this difference, referred to as ECOM, produces non-cash EBIT and is recorded as a regulatory asset. The reduction in ECOM of $9 million from 2002 to 2003 resulted from an increase in capacity auction prices at Texas Genco.

Operation and maintenance expense decreased $8 million for the three months ended March 31, 2003 as compared to the same period in 2002. The decrease was primarily due to a reduction in bad debt expense of $17 million related to the 2002 transition period (bundled) revenues ($14 million) and the termination of a factoring program ($3 million). This decrease in bad debt expense was partially offset by increased employee benefit expenses primarily due to increased pension costs ($5 million) and increased insurance expenses ($3 million).

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Depreciation and amortization expense increased $2 million for the three months ended March 31, 2003 as compared to the same period in 2002 primarily due to increases in plant in service ($4 million) partially offset by decreased amortization on securitized assets ($2 million).

Taxes other than income taxes decreased $6 million for the three months ended March 31, 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.

ELECTRIC GENERATION

For information regarding factors that may affect the future results of operations of our Electric Generation business segment, please read "Business -- Risk Factors -- Risk Factors Affecting the Results of Our Electric Generation Business" in Item 1 of the CenterPoint Energy Form 10-K, which is incorporated herein by reference.

The following tables provide summary data, including Loss Before Interest and Income Taxes, of our Electric Generation business segment for the three months ended March 31, 2002 and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Operating Revenues:		
Energy Revenues	$ 241	$ 224
Capacity and Other Revenues	85	135
Total Operating Revenues	326	359
Operating Expenses:		
Fuel and Purchased Power	229	220
Operation and Maintenance	96	106
Depreciation and Amortization	40	39
Taxes Other than Income Taxes	13	11
Total Operating Expenses	378	376
Operating Income	(52)	(17)
Other Income, net	--	--
Loss Before Interest and Income Taxes	$ (52)	$ (17)
Power Sales (in GWh)	12,635	9,267

Our Electric Generation business segment's loss before interest and income taxes for the three months ended March 31, 2003 was $17 million compared to a loss before interest and income taxes of $52 million for the same period in 2002. The improvement is primarily attributable to increased gross margins as a result of higher capacity auction prices driven by higher gas prices, partially offset by increased operation and maintenance expenses due to unplanned forced outages in the first quarter of 2003 and higher property insurance expense. The first quarter is typically Texas Genco's lowest performing quarter due to seasonal revenue effects and the scheduling of planned maintenance on its generating units. South Texas Project Unit 2 was taken out of service in December 2002 as a result of non-safety related mechanical failures and was returned to service on March 14, 2003. The added cost of replacement energy negatively impacted gross margin by approximately $23 million for the first quarter of 2003.

Operation and maintenance expense increased $10 million for the three months ended March 31, 2003 as compared to the same period in 2002 primarily due to the Unit 2 outage discussed above ($4 million), a scheduled re-fueling outage on Unit 1 ($2 million) and higher property insurance expense ($1 million).

Taxes other than income taxes decreased $2 million for the three months ended March 31, 2003 as compared to the same period in 2002. This decrease was attributable to a reduction in property taxes.

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NATURAL GAS DISTRIBUTION

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

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Business -- Risk Factors -- Risk Factors Affecting the Results of Our Natural Gas Distribution and Pipelines and Gathering Businesses" in Item 1 of the CenterPoint Energy Form 10-K, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of our Natural Gas Distribution business segment for the three months ended March 31, 2002 and 2003:

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	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Operating Revenues	$ 1,180	$ 2,045
Operating Expenses:		
Natural Gas	885	1,694
Operation and Maintenance	131	147
Depreciation and Amortization	30	33
Taxes Other than Income Taxes	28	41
Total Operating Expenses	1,074	1,915
Operating Income	106	130
Other Income, net	4	4
Earnings Before Interest and Income Taxes	$ 110	$ 134
Throughput (in billion cubic feet (Bcf)):		
Residential and Commercial Sales	132	156
Industrial Sales	11	12
Transportation	15	15
Non-rate Regulated Commercial and Industrial	121	135
Total Throughput	279	318

Our Natural Gas Distribution business segment's EBIT increased $24 million for the three months ended March 31, 2003 as compared to the same period in 2002. Operating margins (revenues less fuel costs) for the three months ended March 31, 2003 were $56 million higher than in the same period in 2002 primarily because of:

o continued customer growth ($4 million);

o higher revenues from rate increases late in 2002 ($11 million);

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o colder weather ($7 million);

o improved margins from our unregulated commercial and industrial sales ($9 million); and

o franchise fees billed to customers ($11 million).

These increases were partially offset by increased operating expenses as discussed below.

Operations and maintenance expense increased $16 million for the three months ended March 31, 2003 as compared to the same period in 2002. The increase in operations and maintenance expense was primarily due to:

o 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 ($4 million);

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o increased bad debt expense primarily due to colder weather and higher gas prices ($4 million); and

o higher employee benefit expenses primarily due to increased pension costs ($4 million).

Depreciation and amortization expense increased approximately $3 million for the three months ended March 31, 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 $13 million for the three months ended March 31, 2003 as compared to the same period in 2002, primarily due to increased franchise fees resulting from higher revenues ($11 million).

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 "Business -- Risk Factors -- Risk Factors Affecting the Results of Our Natural Gas Distribution and Pipelines and Gathering Businesses" in Item 1 of the CenterPoint Energy Form 10-K, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of our Pipelines and Gathering business segment for the three months ended March 31, 2002 and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Operating Revenues	$ 92	$ 109
Operating Expenses:		
Natural Gas	7	21
Operation and Maintenance	34	30
Depreciation and Amortization	10	11
Taxes Other than Income Taxes	4	4
Total Operating Expenses	55	66
Operating Income	37	43
Other Income, net	1	2
Earnings Before Interest and Income Taxes	$ 38	$ 45
Throughput (in Bcf):		
Natural Gas Sales	5	4
Transportation	238	268
Gathering	71	72
Elimination (1) (2)	--	
Total Throughput	314	342

(1) Elimination of volumes both transported and sold.

Our Pipelines and Gathering business segment's EBIT for the three months ended March 31, 2003 compared to the same period in 2002, increased $7 million. Operating margins were $3 million higher for the three months ended March 31, 2003 than in the same period in 2002 primarily due to increased margins resulting from higher gas and liquid commodity prices ($9 million), which were partially offset by reduced project related revenues ($5 million).

Operation and maintenance expenses decreased $4 million for the three months ended March 31, 2003 compared to the same period in 2002

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primarily due to a decrease in project related costs ($5 million), partially offset by an increase in employee benefit expenses primarily due to increased pension costs ($1 million).

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Depreciation and amortization expense increased $1 million for the three months ended March 31, 2003, as compared to the same period in 2002 primarily as a result of increases in plant in service.

OTHER OPERATIONS

Our Other Operations business segment includes district cooling operations in the central business district in downtown Houston, energy management services and other corporate operations which support all of our business operations.

The following table shows EBIT of our Other Operations business segment for the three months ended March 31, 2002 and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Operating Revenues	$ 9	$ 11
Operating Expenses	4	12
Operating Income	5	
Other Expense, net (1)	(13) (4)	
Loss Before Interest and Income Taxes	$ (8) (5)	$

Our Other Operations business segment's loss before interest and income taxes decreased by $3 million for the three months ended March 31, 2003 compared to the same period in 2002. The decline for the three months was primarily due to a net loss of $6 million in 2003 as compared to a net loss of $14 million in 2002 on our AOL Time Warner investment and related indexed debt securities, partially offset by an increase in unallocated corporate costs and corporate accruals.

DISCONTINUED OPERATIONS

In February 2003, we sold our interest in Argener, a cogeneration facility in Argentina, for $23.1 million. The carrying value of this investment was approximately $11 million as of December 31, 2002. We recorded an after-tax gain of $7 million from the sale of Argener in the first quarter of 2003. We have completed our strategy of exiting Latin America. The Interim Financial Statements present these Latin America operations as discontinued operations in accordance with SFAS No. 144 for the three months ended March 31, 2002 and 2003.

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 for the three months ended March 31, 2002. We recorded an after-tax loss from discontinued operations of $113 million for the three months ended March 31, 2002 related to the operations of Reliant Resources.

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 -- Certain Factors Affecting Future Earnings" in Exhibit 99.1 to our Current Report on Form 8-K dated May 12, 2003 (May 12 Form 8-K), which is incorporated herein by reference.

In addition to the factors incorporated by reference from the May 12 Form 8-K, increased borrowing costs and increased pension expense are expected to negatively impact our earnings in 2003. Additionally, please read the discussion of the South Texas Project Unit 1 forced outage under "-- Overview -- Recent Developments."

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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 three months ended March 31, 2002 and 2003:

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ (188)	$ 8
Investing activities	(192)	(147)
Financing activities	386	115

Net cash provided by operating activities during the three months ended March 31, 2003 increased $196 million compared to the same period in 2002 primarily due to increased accounts payable, partially offset by decreased accrued taxes and interest and increases in net regulatory assets.

Net cash used in investing activities decreased $45 million during the three months ended March 31, 2003 compared to the same period in 2002 primarily due to lower capital expenditures in 2003.

Net cash provided by financing activities decreased $271 million during the three months ended March 31, 2003 compared to the same period in 2002 primarily due a decrease in short-term borrowings, partially offset by an increase in net proceeds from long-term debt.

FUTURE SOURCES AND USES OF CASH FLOWS

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

On February 28, 2003, we reached agreement with a syndicate of banks on a second amendment to our $3.85 billion bank facility (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 in 2003 (including $600 million due on February 28, 2003) were eliminated. At the time of the Second Amendment, the facility consisted of a $2.35 billion term loan and a $1.5 billion revolver. In March 2003, a $50 million repayment of the term loan reduced the term loan to $2.30 billion. The revolver was fully utilized on March 31, 2003. Borrowings bear interest based on the London interbank offered rate (LIBOR) under a pricing grid tied to our credit rating. At our current credit ratings, the pricing for loans remains the same. The drawn cost at our current ratings is LIBOR plus 450 basis points. We have agreed to pay the banks an extension fee of 75 basis points on the amounts outstanding under the bank facility on October 9, 2003. We also paid $41 million in fees that were due on February 28, 2003, along with $20 million in fees that had been due on June 30, 2003.

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

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

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March 31, 2003, we had reduced the term loans owed under the bank facility by $50 million. Whether or not we are able to extinguish warrants on or before May 28, 2003, the remaining 50% of the warrants will be extinguished, again on a proportionate basis, if we reduce the term loans owed under the bank facility by up to $400 million by the end of 2003. We plan to eliminate the warrants entirely before they vest by accessing the capital markets to fund the total payments of $800 million during 2003; however there can be no assurance that we will be able to extinguish the warrants or to do so on favorable terms.

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

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

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

On 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 repay $150 million aggregate principal amount of medium-term notes maturing on April 21, 2003, to redeem approximately $312.3 million aggregate principal amount of CenterPoint Houston's first mortgage bonds and to repay $279 million of a $537 million intercompany note payable to CenterPoint Energy by CenterPoint Houston. Proceeds from the note repayment were ultimately used to repay borrowings under our $3.85 billion credit facility and to permanently reduce the term loan component of the credit facility by $50 million.

On March 25 and April 14, 2003, CERC issued $650 million and $112 million, respectively, aggregate principal amount of 7.875% senior unsecured notes due in 2013. A portion of the proceeds were 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 borrowings under CERC's $350 million revolving credit facility prior to its expiration on March 31, 2003. The remaining $140 million aggregate principal amount of TERM Notes are due to be refinanced or remarketed in November 2003.

On April 9, 2003, we remarketed $175 million aggregate principal amount of pollution control bonds that we 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. We are obligated to make payments sufficient to service the pollution control bonds.

In addition to the $140 million of TERM Notes, remaining maturities in 2003 include $16.6 million principal amount of pollution control bonds and $12 million of expected maturities of transition bonds which are discussed below.

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 AOL Time Warner common stock (AOL TW Common). There are 1.5 reference shares of AOL TW Common for each of the 17.2 million ZENS units originally issued (of which approximately 16% were exchanged for cash of approximately $45 million in 2002). The exchange

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market value is calculated using the average closing price per share of AOL TW Common on the New York Stock Exchange on one or more trading days following the notice date for the exchange. One of our subsidiaries owns the reference shares of AOL TW Common and generally liquidates such holdings to the extent of ZENS exchanged. Cash proceeds from such liquidations are used to fund ZENS exchanged for cash. Although proceeds from the sale of AOL TW Common offset the cash paid on exchanges, ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and AOL TW Common become current tax obligations when ZENS are exchanged and AOL TW Common is sold. There have been no exchanges in 2003.

CenterPoint Houston has outstanding approximately $699 million aggregate principal amount of first mortgage bonds and approximately $2.6 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 general mortgage bonds are issued under the General Mortgage Indenture dated as of October 10, 2002. The lien of the general mortgage indenture is junior to that of the Mortgage, pursuant to which the first mortgage bonds are issued. The aggregate amount of additional general mortgage bonds and first mortgage bonds that could be issued is approximately $600 million based on estimates of the value of property encumbered by the general mortgage, the cost of such property and the 70% bonding ratio contained in the general mortgage. As a result of contractual limitations expiring in November 2005, the aggregate amount of first mortgage and general mortgage bonds cannot be increased above current levels.

One of our indirect finance subsidiaries, CenterPoint Energy Transition Bond Company, LLC, has $729 million aggregate principal amount of outstanding transition bonds that were issued in 2001 in accordance with the Texas electric restructuring law. Classes of the transition bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015 and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. The transition bonds are secured by "transition property," as defined in the Texas electric restructuring law, which includes the irrevocable right to recover, through non-bypassable transition charges payable by retail electric customers, qualified costs provided in the Texas electric restructuring law. The transition bonds are reported as our long-term debt, although the holders of the transition bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the transition bond company. CenterPoint Houston has no payment obligations with respect to the transition bonds except to remit collections of transition charges as set forth in a servicing agreement between CenterPoint Houston and the transition bond company and in an intercreditor agreement among CenterPoint Houston, our indirect transition bond subsidiary and other parties.

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

BORROWER/SELLER	TYPE OF FACILITY	AMOUNT OF FACILITY	AMOUNT OUTSTANDING AS OF MARCH 31, 2003	TERMINATION DATE
		(IN MILLIONS)		
CERC	Receivables	$ 150	$ 150	November 14, 2003
CERC Corp.	Revolver	200	--	March 23, 2004
Total		$ 350	$ 150	

On February 28, 2003, our $3.85 billion bank facility was amended and extended to June 2005 as discussed above in " -- Long-Term Debt." Loans under this facility are recorded as long-term debt in the Consolidated Balance Sheets at both December 31, 2002 and March 31, 2003.

On March 25, 2003, CERC obtained a $200 million revolving credit facility that terminates on March 23, 2004. Rates for borrowings under this facility, including the facility fee, are LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid.

On March 31, 2003, we had $279 million of temporary investments.

Refunds to CenterPoint Houston Customers. An order issued by the Texas Utility Commission on October 3, 2001 established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that CenterPoint Houston had overmitigated its stranded costs by redirecting transmission

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and distribution depreciation and by accelerating depreciation of generation assets (an amount equal to earnings above a stated overall rate of return on rate base that was used to recover our investment in generation assets) as provided under the 1998 transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston is required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. Per the October 3, 2001 order, CenterPoint Houston recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. CenterPoint Houston began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven-year period. The annual refund of excess earnings is approximately $237 million. Under the Texas electric restructuring law, a final determination of these stranded costs will occur in 2004.

Cash Requirements in 2003. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs.

On April 30, 2003 we had no temporary investments and unutilized capacity of $657 million under our bank facilities and receivables facility.

BORROWER/SELLER	TYPE OF FACILITY	AMOUNT OF FACILITY	UNUTILIZED AMOUNT AS OF APRIL 30, 2003
		(IN MILLIONS)	
CenterPoint Energy	Revolver/term loan	$3,800	$ 427
CERC Corp.	Revolver	200	200
CERC	Receivables	150	30
Total		$4,150	$ 657

Our principal remaining cash requirements during 2003 include the following:

o approximately $543 million of capital expenditures;

o an estimated $185 million which we are obligated to return to customers as a result of the Texas Utility Commission's findings of over-mitigation of stranded costs;

o remarketing or refinancing of $140 million of CERC Corp. debt, plus the possible payment of option termination costs, which will be determined at the time of remarketing or refinancing (estimated to be $18.2 million as of March 31, 2003) as discussed in "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Risk" in Item 3 of this report;

o dividend payments on CenterPoint Energy common stock; and

o $29 million of maturing long-term debt.

We expect to meet our capital requirements through cash flows from operations, short-term borrowings and proceeds from debt and/or equity offerings. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from short-term borrowings, including the renewal, extension or replacement of existing bank facilities, and anticipated sales of securities in the capital markets will be sufficient to meet our cash needs. However, the mandatory prepayments required under our $3.85 billion bank facility and disruptions in our ability to access the capital markets on a timely basis could adversely affect our liquidity. Limits on our ability to issue secured debt, as described in this report, may adversely affect our ability to issue debt securities. Please read "Business -- Risk Factors -- Risk Factors Associated with Financial Condition and Other Risks -- If we are unable to arrange future financings on acceptable terms, our ability to fund future capital expenditures and refinance existing indebtedness could be limited" in Item 1 of the CenterPoint Energy 10-K, which is incorporated herein by reference.

At March 31, 2003, CenterPoint Energy had a shelf registration statement for 15 million shares of common stock and CERC Corp. had a shelf registration statement covering $50 million of debt securities. The amount of any debt security or any security having equity characteristics that we can issue, whether registered or unregistered, or whether debt is secured or unsecured, is expected to be affected by the market's perception of our creditworthiness, general market conditions and factors affecting our industry. Proceeds from the sales of securities are expected to be used primarily to refinance debt.

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

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

Impact on Liquidity of a Downgrade in Credit Ratings. As of May 1, 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(1)	RATING	OUTLOOK(2)	RATING	OUTLOOK(3)
CenterPoint Energy Senior Unsecured Debt.....	Ba1	Negative	BBB-	Stable	BBB-	Stable
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds).....	Baa2	Stable	BBB	Stable	BBB+	Stable
CERC Corp. Senior Debt.....	Ba1	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 "stable outlook" from Moody's indicates that Moody's does not expect to put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

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

(3) A "stable" outlook from Fitch indicates the direction a rating is likely to move 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 facility fees and borrowing costs under our existing bank credit facilities. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions.

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

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legality, validity or enforceability of the loan documents.

The $150 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 AOL TW Common attributable to each ZENS note. If our creditworthiness were to drop such that ZENS note holders thought our liquidity was adversely affected or the market for the ZENS notes were to become illiquid, some ZENS holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the AOL TW Common that we own or from other sources. We own shares of AOL TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and AOL TW Common become current tax obligations when ZENS are exchanged and AOL TW Common is sold.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary of CERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. has agreements with provisions standard for the industry that establish credit thresholds and require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case) falls below those levels. As of May 1, 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 $39 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Under our bank facility, a payment default by us or any of our significant subsidiaries on any indebtedness exceeding $50 million will cause a default. A default by CenterPoint Energy would not trigger a default under our subsidiaries' debt instruments.

Pension Plan. As discussed in Note 11 of the notes to the consolidated financial statements in the May 12 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. We are not required and do not anticipate making any contributions to our pension plans prior to 2004. Changes in interest rates and the market values of the securities held by the plans 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 $14 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 in 2004. 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 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:

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

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

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

o increases in interest expense in connection with debt refinancings;

o various regulatory actions; and

o 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 we and our participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money pool's net funding requirements are expected to be met with bank loans. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act.

Capitalization. Factors affecting our capitalization include:

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

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

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 $3.85 billion credit agreement 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 debt issuances and asset sales.

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

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

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

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

Additionally, the SEC has placed limitations on our dividends and the dividends of our subsidiaries that require common equity as a percentage of total capitalization for CenterPoint Houston, CERC Corp. and Texas Genco to be at least 30% after the payment of such dividends. The order issued by the SEC that authorizes our financing program expires on June 30, 2003, and we must seek a new financing order before that date. Any new order may contain restrictions or authorizations different from those described above.

Security Interest in Receivables. Effective March 28, 2003, Texas Genco, LP, a subsidiary of Texas Genco, amended a Master Power Purchase and Sale Agreement with a subsidiary of Reliant Resources related to ERCOT power sales. Texas Genco, LP was 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.

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

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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 $4.6 billion as of December 31, 2002 and March 31, 2003, respectively. Additionally, regulatory liabilities reflected in our consolidated Balance Sheets aggregated $1.1 billion at both December 31, 2002 and March 31, 2003. 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 $829 million of ECOM true-up as of March 31, 2003. The stranded costs are comprised of $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. Regulatory assets related to ECOM true-up represent the regulatory assets associated with costs incurred as a result of mandated capacity auctions conducted beginning in 2002 by our Electric Generation business being consummated at market-based prices that have been substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. Any significant changes in our estimate of our regulatory asset associated with ECOM true-up could have a significant effect on our financial condition and results of operations. Additionally, any significant changes in our estimated stranded costs or ECOM true-up recovery could significantly affect our liquidity subsequent to the final true-up proceedings conducted by the Texas Utility Commission which are expected to conclude in late 2004.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets recorded in our Consolidated Balance Sheets primarily consist of property, plant and equipment (PP&E). Net PP&E comprises $11.2 billion or 55% of our total assets as of March 31, 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.

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

IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

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

We recorded goodwill associated with the acquisition of our Natural Gas Distribution and Pipelines and Gathering operations in 1997. We reviewed our goodwill for impairment as of January 1, 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 March 31, 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 March 31, 2003 were $61 million related to our Electric Transmission & Distribution business segment and $277 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 Jewett mine supplying the Limestone

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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 Jewett 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 three months ended March 31, 2003:

	BALANCE, JANUARY 1, 2003	LIABILITIES INCURRED	LIABILITIES SETTLED	ACCRETION	CASH FLOW REVISIONS	BALANCE, MARCH 31, 2003
	(IN MILLIONS)					
Nuclear decommissioning	$ 186.7	--	--	$ 2.2	--	$ 188.9
Jewett lignite mine	3.8	--	--	0.1	--	3.9
	$ 190.5	--	--	$ 2.3	--	$ 192.8

The following represents the pro-forma effect on our net income for the three months ended March 31, 2002, as if we had adopted SFAS No. 143 as of January 1, 2002:

	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)
Income from continuing operations before cumulative effect of accounting change as reported	$ 144,636
Pro-forma income from continuing operations before cumulative effect of accounting change	152,371
Net income as reported	31,605
Pro-forma net income	39,340
DILUTED EARNINGS PER SHARE:	
Income from continuing operations before cumulative effect of accounting change as reported	$ 0.49
Pro-forma income from continuing operations before cumulative effect of accounting change	0.51
Net income as reported	0.11
Pro-forma net income	0.13

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:

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

Our rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of March 31, 2003, these previously recognized removal costs of $639

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million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities. Our non-rate regulated businesses have also previously recognized removal costs as 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 prospectively as it relates to lease accounting and will apply the accounting provisions related to debt extinguishment in 2003. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods will be reclassified. No such reclassification was required in the three month period ended March 31, 2002. We have reclassified the $26 million loss on debt extinguishment related to the fourth quarter of 2002 from extraordinary item to interest expense.

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 will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 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. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect the adoption of FIN 46 to have a material impact on our results of operations or financial condition.

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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 March 31, 2003 levels would have decreased the fair value of our Energy Derivatives from their levels on that date by $28 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 (Trust Preferred Securities), securities held in our nuclear decommissioning trusts, some lease obligations and our obligations under the ZENS that subject us to the risk of loss associated with movements in market interest rates. We utilize interest-rate swaps in order to hedge a portion of our floating-rate debt.

Our floating-rate obligations to third parties aggregated $5.1 billion at March 31, 2003. If the floating rates were to increase by 10% from March 31, 2003 rates, our combined interest expense to third parties would increase by a total of $3.2 million each month in which such increase continued.

At March 31, 2003, we had outstanding fixed-rate debt (excluding indexed debt securities) and Trust Preferred Securities aggregating $6.1 billion in principal amount and having a fair value of $6.3 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 $332 million if interest rates were to decline by 10% from their levels at March 31, 2003. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

As discussed in Note 13(f) to the CenterPoint Energy Notes, which note is incorporated herein by reference, we contribute $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 $158 million as of March 31, 2003, of which approximately 48% 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 March 31, 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.

As discussed in Note 9(b) to the CenterPoint Energy Notes, which note is incorporated herein by reference, CERC Corp.'s $240 million aggregate principal amount of TERM Notes outstanding at March 31, 2003, include an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate is below 5.66%. At March 31, 2003, we could terminate the option at a cost of $31 million. A decrease of 10% in the March 31, 2003 level of interest rates would increase the cost of termination of the option by approximately $12 million. On April 14, 2003, CERC Corp. retired an additional $100 million principal amount of its TERM Notes obligations, leaving a remaining balance of $140 million of TERM Notes due November 1, 2003.

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 $104 million at March 31, 2003 is a fixed-rate

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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 March 31, 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 March 31, 2003 levels, the fair value of the derivative component would increase by approximately $4 million, which would be recorded as a loss in our Statements of Consolidated Income.

As of March 31, 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 March 31, 2003, the swaps relating to short-term debt could be terminated at a cost of $14 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 March 31, 2003 level of interest rates would increase the cost of terminating the swaps at March 31, 2003 by $1 million.

EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of approximately 22 million shares of AOL TW 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 March 31, 2003 market value of AOL 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 March 31, 2003. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at March 31, 2003, the resulting loss in fair value of these securities would be approximately $8 million. Currently, the risk of an economic loss is mitigated as discussed above under "-- Interest Rate Risk."

ITEM 4. CONTROLS AND PROCEDURES

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

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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, all of which are incorporated herein by reference.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

Our credit facility restricts our ability to pay dividends. Please read "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--Long-Term Debt" in Item 2 of Part I of this report.

ITEM 5. OTHER INFORMATION.

Forward-Looking Statements. 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.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

o 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:

o approval of stranded costs;

o allowed rates of return;

o rate structures;

o recovery of investments; and

o operation and construction of facilities;

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

o the successful and timely completion of our capital projects;

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

o changes in business strategy or development plans;

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

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o changes in interest rates or rates of inflation;

o unanticipated changes in operating expenses and capital expenditures;

o weather variations and other natural phenomena;

o 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;

o actions by rating agencies;

o legal and administrative proceedings and settlements;

o changes in tax laws;

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

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

o changes in technology;

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

o significant changes in critical accounting policies;

o 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;

o the availability and price of insurance;

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

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

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

o 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 independent system operator in the market served by the Electric Reliability Council of Texas, Inc.;

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

o other factors we discuss in the CenterPoint Energy Form 10-K, including those outlined in Item 1 under "Risk Factors".

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

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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.

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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
4.1.1	--	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Energy Houston Electric, LLC and JPMorgan Chase Bank, as Trustee	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(1)
4.1.2	--	First Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(2)
4.1.3	--	Second Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(3)
4.1.4	--	Third Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(4)
4.1.5	--	Fourth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(5)
4.1.6	--	Fifth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(6)
4.1.7	--	Sixth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(7)
4.1.8	--	Seventh Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(8)
4.1.9	--	Eighth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(9)
4.1.10	--	Ninth Supplemental Indenture to Exhibit 4.1.1, dated as of November 12, 2002	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(c)(10)
4.1.11	--	Tenth Supplemental Indenture to Exhibit 4(e)(1), dated as of March 18, 2003	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.1
4.2	--	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
4.3.1	--	$3,850,000 Amended and Restated Credit Agreement, dated as of October 31, 2002, among CenterPoint Energy and the banks named therein	CenterPoint Energy's Form 10-Q for the quarter ended September 30, 2002	1-31447	10(a)
4.3.2	--	First Amendment to Exhibit 4.3.1 effective December 5, 2002	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(2)
4.3.3	--	Second Amendment to Exhibit 4.3.1 effective February 28, 2003	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(3)
4.3.4	--	Form of warrant agreement related to Exhibit 4.3.3	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(4)
4.3.5	--	Form of warrant registration rights agreement related to Exhibit 4.3.3	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(5)
4.3.6	--	Form of pledge agreement related to Exhibit 4.3.3	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(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,	CERC's Form 8-K dated February 5, 1998	1-13265	4.2

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EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+99.3 --	Items incorporated by reference from the CenterPoint Energy Form 10-K. Item 1 "Business--Environmental Matters,", "Business--Risk Factors--Risk Factors Associated with Financial Condition and Other Risks--If we are unable to arrange future financings on acceptable terms, our ability to fund future capital expenditures and refinance existing indebtedness could be limited", "--Risk Factors Affecting the Results of Electric Transmission and Distribution Business," "--Risk Factors Affecting the Results of Our Electric Generation Business" and "--Risk Factors Affecting the Results of Our Natural Gas Distribution and Pipelines and Gathering Business," Item 3 "Legal Proceedings,"			
+99.4	Items incorporated by reference from the Current Report on Form 8-K dated May 12, 2003. "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings" and 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 January 7, 2003, we filed a Current Report on Form 8-K dated January 6, 2003, announcing that we had distributed approximately 19% of the 80 million outstanding shares of Texas Genco common stock to our shareholders of record as of the close of business on December 20, 2002.

On January 27, 2003, we filed a Current Report on Form 8-K to furnish information under Item 9 of that form regarding earnings guidance for Texas Genco and the filing of a post-effective amendment on Form U-1/A.

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

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

On March 27, 2003, we filed a Current Report on Form 8-K dated March 18, 2003, announcing the pricing and closing of $650 million of senior notes of our subsidiary, CenterPoint Energy Resources Corp., in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended.

On March 27, 2003, we filed a Current Report on Form 8-K dated March 13, 2003, announcing the pricing and closing of $762.275 million of general mortgage bonds by our subsidiary, CenterPoint Energy Houston Electric, LLC, in a private placement with institutions pursuant to Rule

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144A under the Securities Act of 1933, as amended.

On April 8, 2003, we filed a Current Report on Form 8-K to furnish information under Item 9 of that form regarding our external debt balances as of March 31, 2003.

On April 23, 2003, we filed a Current Report on Form 8-K dated April 16, 2003, reporting the filing of a class action lawsuit in California against CenterPoint Energy, Inc. and others and the shutdown of a reactor at the South Texas Project Nuclear Generating Station.

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On April 24, 2003, we filed a Current Report on Form 8-K dated April 24, 2003, in which we announced first quarter 2003 earnings.

On May 1, 2003, we filed a Current Report on Form 8-K dated April 7, 2003, announcing the pricing and closing of $112 million of senior notes of our subsidiary, CenterPoint Energy Resources Corp., which will be added to and form a single series with its prior existing 7.875% senior notes due on April 1, 2013, in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended. We also furnished under Item 9 and Item 12 of Form 8-K transcripts of the earnings conference call held on April 24, 2003.

On May 12, 2003, we filed a Current Report on Form 8-K dated May 12, 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 on our Annual Report on Form 10-K for the year ended December 31, 2002.

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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: May 12, 2003

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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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

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

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

Date: May 12, 2003

By: /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

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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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

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

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

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

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

Date: May 12, 2003

By: /s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

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.

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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
4.1.1	--	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Energy Houston Electric, LLC and JPMorgan Chase Bank, as Trustee	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(1)
4.1.2	--	First Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(2)
4.1.3	--	Second Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(3)
4.1.4	--	Third Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(4)
4.1.5	--	Fourth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(5)
4.1.6	--	Fifth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(6)
4.1.7	--	Sixth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(7)
4.1.8	--	Seventh Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(8)
4.1.9	--	Eighth Supplemental Indenture to Exhibit 4.1.1, dated as of October 10, 2002	CenterPoint Houston's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(9)
4.1.10	--	Ninth Supplemental Indenture to Exhibit 4.1.1, dated as of November 12, 2002	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(c)(10)
4.1.11	--	Tenth Supplemental Indenture to Exhibit 4(e)(1), dated as of March 18, 2003	CenterPoint Energy's Form 8-K dated March 13, 2003	1-31447	4.1
4.2	--	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
4.3.1	--	$3,850,000 Amended and Restated Credit Agreement, dated as of October 31, 2002, among CenterPoint Energy and the banks named therein	CenterPoint Energy's Form 10-Q for the quarter ended September 30, 2002	1-31447	10(a)
4.3.2	--	First Amendment to Exhibit 4.3.1 effective December 5, 2002	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(2)
4.3.3	--	Second Amendment to Exhibit 4.3.1 effective February 28, 2003	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(3)
4.3.4	--	Form of warrant agreement related to Exhibit 4.3.3	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(4)
4.3.5	--	Form of warrant registration rights agreement related to Exhibit 4.3.3	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(5)
4.3.6	--	Form of pledge agreement related to Exhibit 4.3.3	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(f)(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,	CERC's Form 8-K dated February 5, 1998	1-13265	4.2

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EXHIBIT INDEX

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
+99.3	--	Items incorporated by reference from the CenterPoint Energy Form 10-K. Item 1 "Business--Environmental Matters,", "Business--Risk Factors--Risk Factors Associated with Financial Condition and Other Risks--If we are unable to arrange future financings on acceptable terms, our ability to fund future capital expenditures and refinance existing indebtedness could be limited", "--Risk Factors Affecting the Results of Electric Transmission and Distribution Business," "--Risk Factors Affecting the Results of Our Electric Generation Business" and "--Risk Factors Affecting the Results of Our Natural Gas Distribution and Pipelines and Gathering Business," Item 3 "Legal Proceedings,"			
+99.4		Items incorporated by reference from the Current Report on Form 8-K dated May 12, 2003. "Management's Discussion and Analysis of Financial Condition and Results of Operations--Certain Factors Affecting Future Earnings" and 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).			

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U.S. $200,000,000

CREDIT AGREEMENT

Dated as of March 25, 2003

Among

CENTERPOINT ENERGY RESOURCES CORP.

as Borrower,

and

THE INITIAL LENDERS NAMED HEREIN

as Initial Lenders,

and

SALOMON SMITH BARNEY INC. and J.P. MORGAN SECURITIES INC.

as Lead Arrangers and Joint Bookrunners,

and

CITICORP USA, INC.

as Administrative Agent,

and

CITICORP NORTH AMERICA, INC

as Collateral Agent,

and

WACHOVIA BANK, NATIONAL ASSOCIATION and BANC ONE CAPITAL MARKETS, INC.

as Co-Syndication Agents,

and

CREDIT SUISSE FIRST BOSTON, CAYMAN ISLANDS BRANCH

as Documentation Agent

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CERC 364-Day Revolving Credit Agreement

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Exhibit B - Form of Notice of Borrowing

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Exhibit D - Form of CAF Note

Exhibit E - Form of Competitive Bid Request

Exhibit F - Form of Competitive Bid

Exhibit G - Form of Competitive Bid Confirmation

Exhibit H - Form of Pledge Agreement

CERC 364-Day Revolving Credit Agreement

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CREDIT AGREEMENT

Dated as of March 25, 2003

CENTERPOINT ENERGY RESOURCES CORP., a Delaware corporation (the "Borrower"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, SALOMON SMITH BARNEY INC. ("SSBI") and J.P. MORGAN SECURITIES INC. ("JPMS"), as lead arrangers and as joint bookrunners (the "Lead Arrangers"), WACHOVIA BANK, NATIONAL ASSOCIATION and BANC ONE CAPITAL MARKETS, INC., as syndication agents (the "Co-Syndication Agents"), CREDIT SUISSE FIRST BOSTON, CAYMAN ISLANDS BRANCH, as documentation agent (the "Documentation Agent"), CITICORP NORTH AMERICA, INC. ("CNAI"), as collateral agent (the "Collateral Agent") and CITICORP USA, INC. ("CUSA"), as administrative agent (the "Administrative Agent") for the Lenders (as hereinafter defined), agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquired Entity" has the meaning set forth in the definition of "Permitted Liens".

"Advance" means a Revolving Advance or a CAF Advance, as the case may be, by a Lender to the Borrower pursuant to Article II, and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a "Type" of Advance).

"Affiliate" of any Person means any other Person that, directly or indirectly, Controls or is Controlled by or is under common Control with such first Person.

"Administrative Agent's Account" means the account of the Administrative Agent maintained by the Administrative Agent at Citibank, N.A. with its office at Two Penns Way, Suite 200, New Castle, Delaware, 19720, Account No. 36852248, Attention: Global Loans/Agency.

"Agents" means the Administrative Agent and the Collateral Agent.

"Aggregate Outstanding Extensions of Credit" means, as to any Lender at any time, an amount equal to the aggregate principal amount of all Revolving Advances and CAF Advances made by such Lender then outstanding.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance or CAF Eurodollar Rate Advance.

"Applicable Margin" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances
Level 1 BBB+/Baa1 or above	0.00%	0.85%
Level 2 BBB/Baa2	0.05%	1.05%

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Level 3 BBB-/Baa3	0.50%	1.50%
Level 4 BB+/Ba1	1.00%	2.00%
Level 5 Lower than Level 4 or unrated by both S&P and Moody's	1.50%	2.50%

provided, that at all times that any amounts due under the Bridge Credit Agreement remain outstanding, the Applicable Margin shall be equal to 4.50%.

"Applicable Percentage" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Percentage
Level 1 BBB+/Baa1	0.15%
Level 2 BBB/Baa2	0.20%
Level 3 BBB-/Baa3	0.25%
Level 4 BB+/Ba1	0.50%
Level 5 Lower than Level 4 or unrated by both S&P and Moody's	0.50%

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Administrative Agent, in substantially the form of Exhibit C hereto.

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of:

(a) the rate of interest announced publicly by Citibank, N.A. in New York, New York, from time to time, as its base rate; and

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(b) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means a Revolving Advance that bears interest as provided in Section 2.08(a)(i).

"Board" means the Board of Governors of the Federal Reserve System of the United States (or any successor).

"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 and lease obligations under Capital Leases); provided, however, that Borrowed Money shall not include (a) any guarantees that may be incurred by endorsement of negotiable instruments for deposit or collection in the ordinary course of business or similar transactions, (b) any obligations or guarantees of performance of obligations under a franchise, performance bonds, franchise bonds, obligations to reimburse drawings under letters of credit issued in accordance with the terms of any safe harbor lease or franchise or in lieu of performance or in

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lieu of franchise bonds or other obligations that do not represent money borrowed or raised, which reimbursement obligations in each case shall be payable in full within ten (10) Business Days after the date upon which such obligation arises, (c) trade payables, (d) customer advance payments and deposits arising in the ordinary course of such Person's business, (e) operating leases and (f) obligations under swap agreements.

"Borrowing" means either a Revolving Borrowing or a CAF Borrowing.

"Borrowing Date" means any Business Day specified by the Borrower as a date on which the Borrower requests the relevant Lenders to make Advances hereunder.

"Bridge Credit Agreement" means the $350,000,000 Bridge Credit Agreement to be entered into among the Borrower, Salomon Smith Barney Inc. as lead arranger, the lenders party thereto and Citicorp North America, Inc. as administrative agent.

"Bridge Lenders" means the "Lenders" as defined in the Bridge Credit Agreement.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

"CAF Advance" means an Advance made to the Borrower pursuant to Section 2.04 by a Lender in response to a Competitive Bid Request.

"CAF Borrowing" means a borrowing consisting of CAF Advances under Section 2.04 consisting of CAF Advances of the same Type made on the same day by the Lender or Lenders whose Competitive Bid or Bids have been accepted pursuant to Section 2.04(d).

"CAF Eurodollar Rate Advance" means any CAF Advance that bears interest at the Eurodollar Rate.

"CAF Facility" has the meaning as set forth in Section
2.03(a).

"CAF Margin" means, as to any Competitive Bid relating to a CAF Eurodollar Rate Advance, the margin (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) to be added to or subtracted from the Eurodollar Rate in order to determine the interest rate acceptable to such Lender with respect to such CAF Eurodollar Rate Advance.

"CAF Note" means a promissory note of the Borrower payable to the order of any Lender that has requested a CAF Note pursuant to Section 2.18(a), in substantially the form of Exhibit D hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the CAF Advances made by such Lender.

"CAF Rate" means, as to any Competitive Bid made by a Lender pursuant to Section 2.04(b), (i) in the case of a CAF Eurodollar Rate Advance, the CAF Margin added to or subtracted from, as the case may be, the Eurodollar Rate, and (ii) in the case of a Fixed Rate Advance, the fixed rate of interest, in each case, offered by such Lender.

"Capital Lease" means a lease that, in accordance with GAAP, would be recorded as a capital lease on the balance sheet of the lessee.

"Cash Interest" means interest expense of the Borrower and its Subsidiaries, to the extent actually paid in cash, during the relevant period.

"Collateral" has the meaning specified in the Pledge Agreement.

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"Collateral Agent" has the meaning as set forth in the recital of the parties hereto.

"Commitment" has the meaning specified in Section 2.01.

"Communications" has the meaning specified in Section 8.02(b).

"Competitive Bid" has the meaning as set forth in Section 2.04(b).

"Competitive Bid Confirmation" has the meaning as set forth in Section 2.04(d).

"Competitive Bid Request" has the meaning as set forth in Section 2.04(a).

"Confidential Information" means information that the Borrower furnishes to the Administrative Agent or any Lender in a writing designated as confidential or which in the Borrower's course of dealing with the Administrative Agent or such Lender has been designated as confidential, but does not include any such information that is or becomes generally available to the public or that is or becomes available to the Administrative Agent or such Lender from a source other than the Borrower.

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Consolidated Capitalization" means the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and (c) without duplication, any Mandatory Payment Preferred Stock.

"Consolidated Net Tangible Assets" means the total amount of assets of the Borrower and its Subsidiaries less, without duplication, (a) total current liabilities (excluding Indebtedness for Borrowed Money due within 12 months); (b) all reserves for depreciation and other asset valuation reserves, but, excluding reserves for deferred federal income taxes arising from accelerated amortization or otherwise; (c) all intangible assets such as goodwill, trademarks, trade names, patents and unamortized debt discount and expense carried as an asset; and (d) all appropriate adjustments on account of minority interests of other persons holding common stock of any Subsidiary; all as reflected in the Borrower's audited consolidated balance sheet most recently delivered pursuant hereto prior to the date of a determination of Consolidated Net Tangible Assets hereunder.

"Consolidated Shareholders' Equity" means, as of any date of determination, the total assets of Borrower and its Consolidated Subsidiaries less all liabilities of Borrower and its Consolidated Subsidiaries. (As used in this definition, "liabilities" means all obligations that, in accordance with GAAP consistently applied, would be classified on a balance sheet as liabilities, including, without limitation, (a) Indebtedness; (b) deferred liabilities; and (c) Indebtedness of Borrower or any of its Consolidated Subsidiaries that is expressly subordinated in right and priority of payment to other liabilities of Borrower or such Consolidated Subsidiaries, but in any case excluding as at such date of determination any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary and excluding any adjustment, non-cash charge to net income or other non-cash charges or write-offs resulting thereto from the application of SFAS No. 142 and similar provisions of GAAP).

"Controlled" 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" and "Controls" shall be similarly construed).

"Convert", "Conversion" and "Converted" each refers to a conversion of Revolving Advances of one Type into Revolving Advances of the other Type pursuant to Section 2.09 or 2.10.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

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"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"EBITDA" means, for any period, net income (or net loss) plus the sum of (a) interest expense, (b) income tax expense, (c) depreciation expense, (d) amortization expense and (e) to the extent reflected as a charge in the computation of net income for such period, any other non-cash charges, in each case determined in accordance with GAAP for such period.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (i) a Lender; (ii) an Affiliate of a Lender; and (iii) any other Person approved by the Administrative Agent and, unless an Event of Default has occurred and is continuing at the time any assignment is effected in accordance with Section 8.07, the Borrower, such approval not to be unreasonably withheld or delayed; provided, however, that neither the Borrower nor an Affiliate of the Borrower shall qualify as an Eligible Assignee.

"Environmental Action" means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance having the force of law relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"Equity Interests" means any capital stock, partnership, joint venture, member or limited liability or unlimited liability company interest, beneficial interest in a trust or similar entity or other equity interest or investment of whatever nature.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person that for purposes of Title IV of ERISA is a member of the Borrower's controlled group, or under common control with the Borrower, within the meaning of Section 414 of the Internal Revenue Code.

"ERISA Event" means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in

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Section 4041(e) of ERISA); (d) the cessation of operations at a facility of the Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in
Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any Plan; (g) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Borrower and the Administrative Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) the rate per annum (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such rate per annum is not such a multiple) at which deposits in U.S. dollars are offered by the principal office of Citibank, N.A. in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the Administrative Agent's Eurodollar Rate Advance comprising part of such Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period by (b) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period.

"Eurodollar Rate Advance" means a Revolving Advance that bears interest as provided in Section 2.08(a)(ii).

"Eurodollar Rate Reserve Percentage" for any Interest Period for all Eurodollar Rate Advances or CAF Eurodollar Rate Advances comprising part of the same Borrowing means the reserve percentage applicable two Business Days before the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances or CAF Eurodollar Rate Advances is determined) having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Excess Cash Flow" means, for any period,

(a) net cash provided by (used in) operating activities as reported in the Borrower's Statements of Consolidated Cash Flows, less

(b) net cash used in investing activities as reported in the Borrower's Statements of Consolidated Cash Flows, plus

(c) if there was a net increase in Consolidated Indebtedness for Borrowed Money (other than with respect to amounts borrowed under this Agreement), the amount of such increase, less

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(d) if there was a net decrease in the amount of Consolidated Indebtedness for Borrowed Money (other than with respect to amounts borrowed under this Agreement), the amount of such decrease.

"Exchange Act" means the Securities Exchange Act of 1933, as amended.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fee Letter" means the 364-Day Revolving Credit Facility Fee Letter dated as of February 28, 2003 between CUSA, SSBI and the Borrower.

"Financial Officer" means, with respect to the Borrower, its chief financial officer, chief accounting officer, treasurer, assistant treasurer, comptroller or any other officer acceptable to the Administrative Agent.

"Fixed Rate Advance" means any CAF Advance made by a Lender pursuant to Section 2.04(b) based upon a fixed percentage rate per annum offered by such Lender, expressed as a decimal (to no more than four decimal places), and accepted by the Borrower.

"Fully Hedged" means, with respect to any Indexed Debt Securities, that Borrower or any Consolidated Subsidiary of Borrower either (i) owns or has in effect rights providing substantially the economic effect, in such context, of owning, a sufficient amount of the Indexed Asset relating thereto to satisfy completely its obligations at maturity of the Indexed Debt Securities or (ii) has in effect a hedging arrangement sufficient to enable it to satisfy completely its obligations at maturity of the Indexed Debt Securities.

"GAAP" has the meaning specified in Section 1.03.

"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 obligations") of any other third Person in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds for the purchase or payment of any such primary obligation or (iii) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof. The amount of any Guarantee of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by Borrower in good faith (and "guaranteed" and "guarantor" shall be construed accordingly).

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"Hazardous Materials" means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"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 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 and (b) the amount of all Guarantees by such Person; provided, however, that Indebtedness of a Person shall not include any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary or any Guarantee by Borrower of payments with respect to any Hybrid Preferred Securities.

"Indexed Asset" means, with respect to any Indexed Debt Security, (i) any security or commodity that is deliverable upon maturity of such Indexed Debt Security to satisfy the obligations under such Indexed Debt Security at maturity or (ii) any security, commodity or index relating to one or more securities or commodities used to determine or measure the obligations under such Indexed Debt Security at maturity thereof.

"Indexed Debt Securities" means any security issued by Borrower or any Consolidated Subsidiary of Borrower that (a) in accordance with GAAP, is shown on the consolidated balance sheet of Borrower and its Consolidated Subsidiaries as Indebtedness or a liability and (b) the obligations at maturity of which may be satisfied completely by the delivery of, or the amount of such obligations are determined by reference to, (1) an equity security issued by an issuer other than Borrower or any such Consolidated Subsidiary or (2) an underlying index, commodity or security.

"Indenture" means the Indenture between the Borrower (successor in interest to Arkla, Inc.) and Citibank, N.A., as trustee, dated December 1, 1986, as supplemented by the First Supplemental Indenture dated as of September 30, 1988, by the Second Supplemental Indenture dated as of November 15, 1989 and by the Third Supplemental Indenture dated as of August 6, 1997.

"Information Memorandum" means the information memorandum dated February 28, 2003 used by the Administrative Agent in connection with the syndication of the Commitments.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Revolving Borrowing and each CAF Eurodollar Rate Advance comprising part of the same CAF Borrowing, the period commencing on the date of such Eurodollar Rate Advance or CAF Eurodollar Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, with respect to Eurodollar Rate Advances, 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 the provisions below. The duration of each such Interest Period shall be two weeks or one, two, three or six months (or such other period as may be approved by the Administrative Agent), as the Borrower may, upon notice received by the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

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(i) the Borrower may not select any Interest Period that ends after the Termination Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Revolving Borrowing or for CAF Eurodollar Rate Advances comprising part of the same CAF Borrowing shall be of the same duration;

(iii) 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, however, 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

(iv) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Investment" in any Person means any loan or advance to such Person, any purchase or other acquisition of any capital stock, warrants, rights, options, other securities or all or substantially all of the assets of such Person or any capital contribution to such Person or any other investment in such Person.

"Junior Subordinated Debt" means subordinated debt of Borrower or any Subsidiary of 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.

"Lenders" means the Initial Lenders and each Person that shall become a party hereto pursuant to Section 8.07.

"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).

"Loan Documents" means this Agreement, the Notes or CAF Notes (if any) and all other documents executed in connection herewith and therewith, including, without limitation, each Notice of Borrowing and the Pledge Agreement upon execution and delivery of the same.

"Mandatory Payment Preferred Stock" means any preference or preferred stock of the Borrower or of any Consolidated Subsidiary (in each case other than any issued to the Borrower or its Subsidiaries and other than Hybrid Preferred Securities or Junior Subordinated Debt) that is subject to mandatory redemption, sinking fund or retirement provisions; provided, that any amounts subject to any mandatory redemption, sinking fund or retirement provisions due and payable prior to the Termination Date or within one year following the Termination Date will not be considered Mandatory Payment Preferred Stock.

"Margin Stock" means any margin stock (as defined in Regulation U) and any margin security (as defined in Regulation T).

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"Material Adverse Change" means any material adverse change in the business, condition (financial or otherwise), operations, performance or properties of the Borrower or the Borrower and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement or any other Loan Document.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Non-Recourse Debt" means (i) any Indebtedness for Borrowed Money incurred by any Project Finance Subsidiary to finance the acquisition, improvement, installation, design, engineering, construction, development, completion, maintenance or operation of, or otherwise to pay costs and expenses relating to or providing financing for any project, which Indebtedness for Borrowed Money does not provide for recourse against the Borrower or any Subsidiary of the Borrower (other than a Project Finance Subsidiary and such recourse as exists under a Performance Guaranty) or any property or asset of the Borrower or any Subsidiary of the Borrower (other than Equity Interests in, or the property or assets of, a Project Finance Subsidiary and such recourse as exists under a Performance Guaranty) and (ii) any refinancing of such Indebtedness for Borrowed Money that does not increase the outstanding principal amount thereof (other than to pay costs incurred in connection therewith and the capitalization of any interest, fees, premium or penalties) at the time of the refinancing or increase the property subject to any Lien securing such Indebtedness for Borrowed Money or otherwise add additional security or support for such Indebtedness for Borrowed Money.

"Note" means a promissory note of the Borrower payable to the order of any Lender that has requested a Note pursuant to Section 2.18(a), in substantially the form of Exhibit A hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Revolving Advances made by such Lender.

"Notice" has the meaning specified in Section 8.02(c).

"Notice of Borrowing" has the meaning specified in Section 2.02.

"Obligation" means, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 6.01(f). Without limiting the generality of the foregoing, the Obligations of the Borrower under the Loan Documents include (a) the obligation to pay principal, interest, charges, expenses, fees, attorneys' fees and disbursements, indemnities and other amounts payable by the Borrower under any Loan Document and (b) the obligation of the Borrower to reimburse any amount in respect of any of the foregoing that any Lender, in its sole discretion, may elect to pay or advance on behalf of the Borrower.

"Original Revolving Credit Facility" has the meaning specified in Section 3.01(b).

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"Parent" means CenterPoint Energy, Inc., a Texas corporation.

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor).

"Performance Guaranty" means any guaranty issued in connection with any Non-Recourse Debt that (i) if secured, is secured only by assets of or Equity Interests in a Project Finance Subsidiary, and (ii) guarantees to the provider of such Non-Recourse Debt or any other Person (a) performance of the improvement, installation, design, engineering, construction, acquisition, development, completion, maintenance or operation of, or otherwise affects any such act in respect of, all or any portion of the project that is financed by such Non-Recourse Debt, (b) completion of the minimum agreed equity or other contributions or support to the relevant Project Finance Subsidiary, or (c) performance by a Project Finance Subsidiary of obligations to Persons other than the provider of such Non-Recourse Debt.

"Permitted Liens" means

(a) mortgage Liens securing Indebtedness in an aggregate amount which, together with all other Indebtedness of the Company or a Subsidiary secured by a mortgage Lien permitted by this clause (a) (not including Indebtedness permitted to be secured under clauses (b)-(u) below) and the Value of all Sale and Leaseback Transactions in existence at such time (other than any Sale and Leaseback Transaction which, if such Sale and Leaseback Transaction had been a Lien, would have been permitted by clauses (k) or (m) below), does not at the time of incurrence of such Indebtedness exceed 5% of the Consolidated Net Tangible Assets;

(b) undetermined or inchoate Liens and charges incidental to construction, maintenance, development or operation;

(c) the Lien of taxes and assessments for the then current year;

(d) the Lien of taxes and assessments not at the time delinquent;

(e) the Lien of specified taxes and assessments which are delinquent but the validity of which is being contested at the time by the Borrower or such Subsidiary in good faith and by appropriate proceedings or for which its non-payment would not reasonably be expected to have a Material Adverse Effect;

(f) the Lien reserved in leases for rent and for compliance with the terms of the lease in the case of leasehold estates;

(g) any obligations or duties, affecting the property of the Borrower or such Subsidiary, to any municipality or public authority with respect to any franchise, grant, license, permit or similar arrangement;

(h) the Liens of any judgments or attachments in an aggregate amount not in excess of $5,000,000, or the Lien of any judgment or attachment the execution or enforcement of which has been stayed or which has been appealed and secured, if necessary, by the filing of an appeal bond;

(i) any Lien on any property held or used by the Borrower or a Subsidiary in connection with the exploration for, development of or production of oil, gas, natural gas (including liquefied gas and storage gas), other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels, such properties to include, but not be limited to, the Borrower's or a Subsidiary's interest in any mineral fee interests, oil, gas or other mineral leases, royalty, overriding royalty or net profits interests, production payments and other similar interests, wellhead production equipment, tanks, field gathering lines, leasehold or field separation and processing facilities, compression facilities and other similar personal property and fixtures:

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(j) any Lien on oil, gas, natural gas (including liquefied gas and storage gas), and other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels produced or recovered from any property, an interest in which is owned or leased by the Borrower or a Subsidiary;

(k) Liens upon any property heretofore or hereafter acquired, constructed or improved, created at the time of acquisition or commercial operation thereof within one year thereafter (and the accessions thereto and proceeds thereof) to secure all or a portion of the purchase price thereof or the cost of such construction or improvement, or existing thereon at the date of acquisition or within one year thereafter to secure all or a portion of the purchase price thereof or the cost of such construction or improvement, or existing thereon at the date of acquisition, whether or not assumed by the Borrower or a Subsidiary, provided, that every such Lien shall apply only to the property so acquired or constructed and fixed improvements thereon (and the accessions thereto and proceeds thereof);

(l) any extension, renewal or refunding, in whole or in part, of any mortgage, pledge, Lien or encumbrance permitted by subparagraph (k) above, if limited to the same property or any portion thereof subject to, and securing not more than the amount secured by, the mortgage, pledge, Lien or encumbrance extended, renewed or refunded and related transaction costs and expenses;

(m) Liens upon any property heretofore or hereafter acquired by any Person that is or becomes a Subsidiary after the date hereof ("Acquired Entity"), provided, that every such Lien (1) shall either (A) exist prior to the time the Acquired Entity becomes a Subsidiary or (B) be created at the time the Acquired Entity becomes a Subsidiary or within one year thereafter to secure all or a portion of the acquisition price thereof and (2) shall only apply to those properties owned by the Acquired Entity at the time it becomes a Subsidiary or thereafter acquired by it from sources other than the Borrower or any other Subsidiary;

(n) the pledge of current assets, in the ordinary course of business, to secure current liabilities;

(o) mechanics' or materialmen's Liens, any Liens or charges arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure duties or public or statutory obligations, deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or similar charges;

(p) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental regulation for any purpose at any time in connection with the financing of the acquisition or construction of property to be used in the business of the Borrower or a Subsidiary or as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Borrower or a Subsidiary to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(q) any Lien of or upon any office equipment, data processing equipment (including, without limitation, computer and computer peripheral equipment), or transportation equipment (including, without limitation, motor vehicles, tractors, trailers, marine vessels, barges, towboats, rolling stock and aircraft);

(r) any Lien created or assumed by the Borrower or a Subsidiary in connection with the issuance of debt securities the interest on which is excludable from gross income of the holder of

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such security pursuant to the Internal Revenue code, as amended, for the purpose of financing, in whole or in part, the acquisition or construction or property to be used by the Borrower or a Subsidiary;

(s) the pledge or assignment of accounts receivable, or the pledge or assignment of conditional sales contracts or chattel mortgages and evidences of indebtedness secured thereby, received in connection with the sale by the Borrower or such Subsidiary or others of goods or merchandise to customers of the Borrower or such Subsidiary;

(t) Liens granted to secure the obligations of the Borrower under the Bridge Credit Agreement, provided, that the Borrower grants to the Collateral Agent, for the benefit of the Lenders, an equal and ratable security interest in any collateral with respect to which such Lien is granted in accordance with the Pledge Agreement substantially in the form of Exhibit H hereto;

(u) Liens created in connection with the Receivables Transaction;

(v) Liens granted to secure the obligations of the Borrower under debt securities, the proceeds of which are used to refinance the Bridge Credit Agreement, provided, that the Borrower grants to the Collateral Agent, for the benefit of the Lenders, an equal and ratable security interest in any collateral with respect to which such Lien is granted in accordance with the Pledge Agreement substantially in the form of Exhibit H hereto;

(w) Liens granted to secure the obligations of the Borrower under debt securities issued to refinance the $500,000,000 bonds due November, 2003, provided, that the Borrower grants to the Collateral Agent, for the benefit of the Lenders, an equal and ratable security interest in any collateral with respect to which such Lien is granted in accordance with the Pledge Agreement substantially in the form of Exhibit H hereto; or

(x) any other Liens securing obligations under agreements to which the Borrower or any of its Subsidiaries is a party or by which it is bound as of the date hereof, which the Borrower is obligated to equally and ratably secure as a result of granting the Liens to secure Indebtedness hereunder.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"Plan" means a Single Employer Plan or a Multiple Employer Plan.

"Platform" has the meaning specified in Section 8.02(b).

"Pledge Agreement" means the Pledge Agreement to be entered into by the Borrower in favor of the Collateral Agent at such time as the Borrower executes and delivers the Bridge Credit Agreement in substantially the form of Exhibit H hereto.

"Principal Property" means any natural gas distribution property, natural gas pipeline or gas processing plant located in the United States and all common stock Equity Interests in any Subsidiary (other than a Project Finance Subsidiary) of the Borrower that owns any natural gas distribution property, natural gas pipeline or gas processing plant located in the United States, except any such property and Equity Interests that in the reasonable opinion of the board of directors of Borrower is not of material importance to the total business conducted by the Borrower and its Consolidated Subsidiaries. "Principal Property" shall not include any oil or gas property or the production or proceeds of production from an oil or gas producing property or the production or any proceeds of production of gas processing plants or oil or gas or petroleum products in any pipeline or storage field.

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"Project Finance Subsidiary" and "Project Finance Subsidiaries" means any Subsidiary of the Borrower designated by the Borrower whose principal purpose is to incur Non-Recourse Debt and/or construct, lease, own or operate the assets financed thereby, or to become a direct or indirect partner, member or other equity participant or owner in a Person created for such purpose, and substantially all the assets of which Subsidiary or Person are limited to (x) those assets being financed (or to be financed), or the operation of which is being financed (or to be financed), in whole or in part by Non-Recourse Debt, or (y) Equity Interests in, or Indebtedness or other obligations of, one or more other such Subsidiaries or Persons, or (z) Indebtedness or other obligations of the Borrower or its Subsidiaries or other Persons; provided, however, that the sum of the net book value of all Project Finance Subsidiaries shall at no time exceed 10% of Consolidated Net Tangible Assets.

"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.

"Public Debt Rating" means, as of any date, the lowest rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage shall be determined by reference to the available rating; (b) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin and the Applicable Percentage shall be based upon the lower rating; (c) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (d) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"Receivables Transaction" means the Receivables Contribution and Sale Agreement, dated as of November 15, 2002 among various Affiliates of the Borrower, as sellers, and CenterPoint Energy Gas Receivables, LLC or another Person, as buyer, together with the Second Amended and Restated Trade Receivables Purchase and Sale Agreement, dated as of November 15, 2002 among CenterPoint Energy Gas Receivables, LLC, as the seller, the Borrower, as the servicer, Corporate Asset Funding Company, Inc., as the purchaser and Citicorp North America, Inc., as the Administrative Agent, and related agreements (as each such agreement may be amended, supplemented, or otherwise modified from time to time, or replaced, refunded, refinanced).

"Register" has the meaning specified in Section 8.07(c).

"Regulation T" and "Regulation U" means Regulation T and U, respectively, of the Board or any other regulation hereafter promulgated by the Board to replace the prior Regulation T or U, as the case may be, and having substantially the same function.

"Required Lenders" means at any time Lenders owed at least 51% of the then aggregate unpaid principal amount of the Advances owing to the Lenders, or, if no such principal amount is then outstanding, Lenders having at least 51% of the Commitments.

"Responsible Officer" means, with respect to any Person, its chief financial officer, chief accounting officer, assistant treasurer, treasurer or comptroller of such Person or any other officer of such Person whose primary duties are similar to the duties of any of the previously listed officers of such Person.

"Restricted Subsidiary" means any Subsidiary of the Borrower which owns Principal Property.

"Revolving Advances" has the meaning as set forth in Section 2.01.

"Revolving Borrowing" means a borrowing consisting of Revolving Advances of the same Type, made by the Lenders on the same day under Section 2.02.

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"Revolving Extensions of Credit" means, as to any Lender at any time, an amount equal to the aggregate principal amount of all Revolving Advances held by such Lender then outstanding.

"Revolving Facility" has the meaning as set forth in Section 2.01.

"Sale and Leaseback Transaction" means any arrangement with any Person providing for the leasing to the Borrower or any Restricted Subsidiary of any Principal Property (except for temporary leases for a term, including any renewal thereof of not more than three years and except for leases between the Borrower and a Restricted Subsidiary or between Restricted Subsidiaries), which Principal Property has been or is to be sold or transferred by the Borrower or any Restricted Subsidiary to such Person.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

"Significant Subsidiary" means (i) for the purposes of determining what constitutes an "Event of Default" under Sections 6.01(d), (e), (f) and (g), a Subsidiary of the Borrower (other than a Project Finance 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 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 5.01(j)(ii).

"Single Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Solvent" means, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership, joint venture or other Person or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Termination Date" means the earlier of March 23, 2004 and the date of termination in whole of the Commitments pursuant to Section 2.06 or 6.01.

"Total Aggregate Outstanding Extensions of Credit" means, at any time, the aggregate amount of Aggregate Outstanding Extensions of Credit of all Lenders outstanding at such time.

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"Total Commitments" means, at any time, the aggregate amount of the Commitments of all Lenders then in effect.

"Total Debt" means, as of any date of determination, the sum of (i) the total Indebtedness for Borrowed Money as shown on the consolidated balance sheet of Borrower and its Consolidated Subsidiaries, determined without duplication of any Guarantee of Indebtedness for Borrowed Money of Borrower by any of its Consolidated Subsidiaries or of any Guarantee of Indebtedness of any such Consolidated Subsidiary by Borrower or any other Consolidated Subsidiary of Borrower, and any Mandatory Payment Preferred Stock, less (ii) such amount of Indebtedness for Borrowed Money attributable to amounts then outstanding under receivables facilities or arrangements to the extent that such amount would not have been shown as Indebtedness for Borrowed Money on a balance sheet prepared in accordance with GAAP prior to January 1, 1997, less (iii) with respect to any Indexed Debt Securities that are Fully Hedged and the liabilities in respect of which as shown on the consolidated balance sheet of Borrower and its Consolidated Subsidiaries have increased from the amount of liabilities in respect thereof at the time of their issuance by reason of an increase in the price of the Indexed Asset relating thereto, the excess of (a) the aggregate amount of liabilities in respect of such Indexed Debt Securities at the time of determination over (b) the initial amount of liabilities in respect of such Indexed Debt Securities at the time of their issuance, provided that at the time of determination such increase in the price of the Indexed Asset relating to such Indexed Debt Securities has not been recorded on such consolidated balance sheet, less (iv) funds segregated to repay bonds maturing in November, 2003, and less (v) Non-Recourse Debt of the Borrower and its Subsidiaries.

"Type" has the meaning as set forth in the definition of "Advance".

"Value" means, with respect to a Sale and Leaseback Transaction, as of any particular time, the amount equal to the greater of (1) the net proceeds from the sale or transfer of the property leased pursuant to such Sale and Leaseback Transaction or (2) the fair value, in the opinion of the board of directors, of such property at the time of entering into such Sale and Leaseback Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

"Voting Stock" means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Wholly-Owned" means, with respect to any Subsidiary of any Person, a Subsidiary, all the outstanding capital stock (other than directors' qualifying shares required by law) or other ownership interest of which are at the time owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person, or both.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles in effect from time to time in the United States of America ("GAAP").

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ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The Revolving Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make advances to the Borrower (the "Revolving Advances") from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed at any time outstanding the amount set forth opposite such Lender's name on the signature pages hereof or, if such Lender has entered into any Assignment and Acceptance, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 8.07(c), as such amount may be reduced pursuant to Section 2.06 (such Lender's "Commitment", and, in the aggregate, the "Revolving Facility"). Each Revolving Borrowing, in the case of a Revolving Borrowing consisting of Eurodollar Rate Advances, shall be in minimum principal aggregate amounts of $5,000,000 or an integral multiple of $1,000,000 in excess thereof, or in the case of a Revolving Borrowing consisting of Base Rate Advances, shall be in minimum principal aggregate amounts of $5,000,000 or an integral multiple of $1,000,000 in excess thereof, and shall consist of Revolving Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Within the limits of each Lender's Commitment, the Borrower may borrow under this Section 2.01, prepay pursuant to Section 2.11 and reborrow under this Section 2.01.

SECTION 2.02. Making the Revolving Advances. (a) Each Revolving Borrowing shall be made on notice, given not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Revolving Borrowing in the case of a Revolving Borrowing consisting of Eurodollar Rate Advances, or on the same Business Day as the date of the proposed Revolving Borrowing in the case of a Revolving Borrowing consisting of Base Rate Advances, by the Borrower to the Administrative Agent, which shall give to each Lender prompt notice thereof by telecopier or telex. Each such notice of a Revolving Borrowing (a "Notice of Borrowing") shall be by telephone, confirmed immediately in writing, or telecopier or telex, in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Revolving Borrowing, (ii) Type of Revolving Advances comprising such Revolving Borrowing, (iii) aggregate amount of such Revolving Borrowing, (iv) in the case of a Revolving Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Advance and (v) whether any of such Revolving Borrowing shall be used by the Borrower to repay commercial paper. Each Lender shall, before 11:00 A.M. (New York City time) on the date of such Revolving Borrowing, in the case of a Revolving Borrowing consisting of Eurodollar Rate Advances, or before 3:00 P.M. (New York City time) in the case of a Revolving Borrowing consisting of Base Rate Advances, make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's Account, in same day funds, such Lender's ratable portion of such Revolving Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent will make such funds available to the Borrower at the Administrative Agent's address referred to in Section 8.02 no later than 12:00 P.M. (New York City time) on such date, in the case of a Revolving Borrowing consisting of Eurodollar Rate Advances, or 4:00 P.M. (New York City time) on such date, in the case of a Revolving Borrowing consisting of Base Rate Advances.

(b) Anything in subsection (a) above to the contrary notwithstanding,
(i) the Borrower may not select Eurodollar Rate Advances for any Revolving Borrowing if the aggregate amount of such Revolving Borrowing is less than $5,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.09 or 2.13 and (ii) the Eurodollar Rate Advances may not be outstanding as part of more than twelve separate Revolving Borrowings.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Revolving Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Revolving Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Advance to be made by such Lender as part of such Revolving Borrowing when such Revolving Advance, as a result of such failure, is not made on such date.

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(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Revolving Borrowing that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Revolving Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Revolving Borrowing in accordance with subsection (a) of this Section 2.02 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Revolving Advances comprising such Revolving Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Advance as part of such Revolving Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Advance to be made by it as part of any Revolving Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Advance on the date of such Revolving Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Advance to be made by such other Lender on the date of any Revolving Borrowing.

SECTION 2.03. The CAF Advances. (a) From time to time on any Business Day during the period from the Effective Date until the Termination Date, the Borrower may request CAF Advances from the Lenders in amounts such that the Total Aggregate Outstanding Extensions of Credit at any time shall not exceed the Total Commitments at such time (the "CAF Facility").

(b) Under the terms and conditions set forth below, the Borrower may borrow, repay pursuant to Section 2.07 and reborrow under this Section 2.03.

SECTION 2.04. Competitive Bid Procedure. (a) In order to request a CAF Advance, the Borrower shall deliver to the Administrative Agent a written notice in the form of Exhibit E, attached hereto (a "Competitive Bid Request"), to be received by the Administrative Agent (i) in the case of each CAF Eurodollar Rate Advance, not later than 3:00 P.M. (New York City time), four
(4) Business Days before the Borrowing Date specified for such CAF Eurodollar Rate Advance and (ii) in the case of each Fixed Rate Advance, not later than 11:00 A.M. (New York City time), one (1) Business Day before the Borrowing Date specified for such Fixed Rate Advance. Each Competitive Bid Request shall in each case refer to this Agreement and specify (i) the date of Borrowing of such CAF Advances (which shall be a Business Day), (ii) the aggregate principal amount thereof, (iii) whether the CAF Advances then being requested are to be CAF Eurodollar Rate Advances or Fixed Rate Advances, (iv) the maturity date for each CAF Advance requested to be made and (v) the interest payment dates for each CAF Advance requested to be made. The Administrative Agent shall promptly notify each Lender by telex or facsimile transmission of the contents of each Competitive Bid Request received by it. Each Competitive Bid Request may solicit bids for CAF Advances in an aggregate principal amount of $5,000,000 or an integral multiple of $1,000,000 in excess thereof and for not more than three alternative maturity dates for such CAF Advances. The maturity date for each CAF Advance shall be not less than 15 days nor more than 180 days after the applicable date of CAF Borrowing (and in any event shall not extend beyond the Termination Date).

(b) Each Lender may, in its sole discretion, irrevocably offer to make one or more CAF Advances to the Borrower responsive to each Competitive Bid Request from the Borrower. Any such irrevocable offer by a Lender must be received by the Administrative Agent, in the form of Exhibit F hereto (a "Competitive Bid"), (i) in the case of each CAF Eurodollar Rate Advance, not later than 10:30 A.M. (New York City time), three (3) Business Days before the Borrowing Date specified for such CAF Eurodollar Rate Advance and (ii) in the case of each Fixed Rate Advance, not later than 9:30 A.M. (New York City time) on the Borrowing Date specified for such Fixed Rate Advance. Competitive Bids that do not conform substantially to the format of Exhibit F may be rejected by the Administrative Agent after conferring with, and upon the instruction of, the Borrower, and the Administrative Agent shall notify the Lender of such rejection as soon as practicable. Each Competitive Bid shall refer to this Agreement and
(i) specify the maximum principal amount of CAF Advances for each maturity date (which shall be in an aggregate principal amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof and which may equal, but not exceed, the principal amount requested for such maturity date by the Borrower) and the

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aggregate maximum principal amount of CAF Advances for all maturity dates (which amount, with respect to any Lender, may exceed such Lender's Commitment) that the Lender is willing to make to the Borrower, and (ii) specify the CAF Rate at which the Lender is prepared to make each such CAF Advance. A Competitive Bid submitted by a Lender pursuant to this Section 2.04(b) shall be irrevocable absent manifest error.

(c) The Administrative Agent shall (i) in the case of each CAF Eurodollar Rate Advance, not later than 11:00 A.M. (New York City time) three (3) Business Days before the Borrowing Date specified for such CAF Eurodollar Rate Advance and (ii) in the case of each Fixed Rate Advance, not later than 10:00 A.M. (New York City time) on the Borrowing Date specified for such Fixed Rate Advance, notify the Borrower in writing of all the Competitive Bids made (arranging each such bid in ascending interest rate order), and the CAF Rate or Rates and the maximum principal amount of each CAF Advance in respect of which a Competitive Bid was made, and the identity of the Lender that made each bid. The Administrative Agent shall send a copy of all Competitive Bids to the Borrower for its records as soon as practicable after completion of the bidding process set forth in this Section 2.04.

(d) The Borrower may in its sole and absolute discretion, subject only to the provisions of this Section 2.04(d), accept or reject any Competitive Bid referred to in Section 2.04(c); provided, however, that the aggregate amount of the Competitive Bids for CAF Advances so accepted by the Borrower may not exceed the lesser of (i) the principal amount of the applicable CAF Borrowing requested by the Borrower in respect thereof and (ii) the amount of the Commitments less the Total Aggregate Outstanding Extensions of Credit then outstanding, after giving effect to the application of the proceeds of such respective CAF Borrowing on the Borrowing Date therefor. The Borrower shall notify the Administrative Agent in writing whether and to what extent it has decided to accept or reject any or all of the bids referred to in Section 2.04(c) by delivering to the Administrative Agent a written notice in the form of Exhibit G hereto (a "Competitive Bid Confirmation"), (i) in the case of each CAF Eurodollar Rate Advance, not later than 1:00 P.M. (New York City time), three
(3) Business Days before the Borrowing Date specified for such CAF Eurodollar Rate Advance and (ii) in the case of each Fixed Rate Advance, not later than 11:00 A.M. (New York City time) on the Borrowing Date specified for such Fixed Rate Advance, which Competitive Bid Confirmation shall specify the principal amount of CAF Advances for each relevant maturity date to be made by each such bidding Lender (which amount for each such maturity date shall be equal to or less than the maximum amount for such maturity date specified in the Competitive Bid of such Lender, and for all maturity dates included in such Competitive Bid in respect thereof shall be equal to or less than the aggregate maximum amount specified in such Competitive Bid for all such maturity dates); provided, however, that (A) the failure by the Borrower to so deliver a Competitive Bid Confirmation by the specified time shall be deemed to be a rejection of all the bids referred to in Section 2.04(c) for the related Competitive Bid Request; (B) the Borrower shall not accept a bid made at a particular CAF Rate for a particular maturity if the Borrower has decided to reject a bid made at a lower CAF Rate for such maturity; (C) if the Borrower shall accept bids made at a particular CAF Rate for a particular maturity but shall be restricted by other conditions hereof from borrowing the maximum principal amount of CAF Advances in respect of which bids at such CAF Rate have been made, then the Borrower shall accept a pro rata portion of each bid made at such CAF Rate based as nearly as possible on the respective maximum principal amounts of CAF Advances offered to be made by the relevant Lenders pursuant to such bids; and (D) no bid shall be accepted for a CAF Advance by any Lender unless such CAF Advance is in an aggregate principal amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof. Notwithstanding the foregoing, if it is necessary for the Borrower to accept a pro rata allocation of the bids made in response to a Competitive Bid Request (whether pursuant to the events specified in clause
(C) above or otherwise) and the available principal amount of CAF Advances to be allocated among the Lenders is not sufficient to enable CAF Advances to be allocated to each Lender in an aggregate principal amount not less than $5,000,000 or in integral multiples of $1,000,000 in excess thereof, then the Borrower shall, subject to clause (D) above, select the Lenders to be allocated such CAF Advances and shall round allocations up or down to the next higher or lower multiple of $1,000,000 as it shall deem appropriate; provided that the allocations among the Lenders to be allocated such CAF Advances shall be made pro rata based as nearly as possible on the respective maximum principal amounts of CAF Advances offered to be made by such Lenders. The Competitive Bid Confirmation given by the Borrower pursuant to this Section 2.04(d) shall be irrevocable.

(e) Upon receipt from the Administrative Agent of the Eurodollar Rate applicable to any CAF Eurodollar Rate Advance to be made by any Lender pursuant to a Competitive Bid that has been accepted by the Borrower pursuant to this
Section 2.04, the Administrative Agent shall notify such Lender of the applicable Eurodollar Rate.

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(f) If the Administrative Agent shall at any time elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such bid directly to the Borrower by (i) in the case of a CAF Eurodollar Rate Advance, not later than 10:15 A.M. (New York City time), and (ii) in the case of a Fixed Rate Advance, not later than 9:15 A.M. (New York City time), in each case, on the Business Day on which the other Lenders are required to submit their bids to the Administrative Agent pursuant to Section 2.04(b) above.

(g) If the Borrower accepts pursuant to Section 2.04(d) one or more of the offers made by any Lender or Lenders, the Administrative Agent shall promptly notify each Lender that has made such an offer of the aggregate amount of such CAF Advances to be made on the Borrowing Date for each maturity date and of the acceptance or rejection of any offers to make such CAF Advances made by such Lender. Each Lender that is to make a CAF Advance shall, before 12:00 Noon (New York City time) on the Borrowing Date specified in the Competitive Bid Request applicable thereto, make available to the Administrative Agent at its office set forth in Section 8.02 the amount of CAF Advances to be made by such Lender, in immediately available funds. The Administrative Agent shall, no later than 1:00 P.M. (New York City time) on such Borrowing Date, make such funds available to the Borrower at the Borrower's account as shall be designated by it to the Administrative Agent from time to time. As soon as practicable after each Borrowing Date, the Administrative Agent shall notify each Lender of the aggregate amount of CAF Advances advanced on such Borrowing Date and the respective maturity dates thereof.

(h) The Borrower shall repay to the Administrative Agent for the account of each Lender that has made a CAF Advance (or the Eligible Assignee in respect thereof, as the case may be) on the maturity date of each CAF Advance (such maturity date being that specified by the Borrower for repayment of such CAF Advance in the related Competitive Bid Request) the then unpaid principal amount of such CAF Advance. The Borrower shall not, without the consent of the relevant Lender, have the right to prepay, at its option, any principal amount of any CAF Advance.

All notices required by this Section 2.04 shall be made in accordance with
Section 8.02 hereof; provided, however, that each request or notice required to be made under Section 2.04(a) or 2.04(d) by the Borrower may be made by the giving of telephone notice to the Administrative Agent that is promptly confirmed by delivery of a notice in writing (in substantially the form of Exhibit B or Exhibit E, as the case may be) to the Administrative Agent.

SECTION 2.05. Fees. (a) Facility Fee. The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment, irrespective of usage, from the Effective Date in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Percentage in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, commencing June 30, 2003, and on the Termination Date.

(b) Agents' Fees. The Borrower shall pay to each Agent for its own account such fees as may from time to time be agreed between the Borrower and such Agent.

SECTION 2.06. Termination or Reduction of the Commitments. The Borrower shall have the right, upon at least three Business Days' notice to the Administrative Agent, to terminate in whole or permanently reduce ratably in part the unused portions of the respective Commitments of the Lenders, provided that (i) each partial reduction shall be in a minimum aggregate amount of $10,000,000 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 2.11 by the Borrower on the effective date thereof, the Total Aggregate Outstanding Extensions of Credit then outstanding would exceed the Total Commitments then in effect. Any terminated or permanently reduced portion of the respective Commitments of the Lenders may not be reinstated.

Each reduction of Commitments pursuant to this Section 2.06 shall be applied pro rata to the Commitments of each Lender. If at any time, including after giving effect to any reduction of Commitments pursuant to this
Section 2.06, the Total Aggregate Outstanding Extensions of Credit exceed the Total Commitments, the Borrower shall be obligated, first, to prepay the Revolving Advances in the amount of such excess and second, to prepay the CAF Advances (whether or not consented to by the relevant Lender) to the extent that the aggregate amount of CAF Advances exceeds such Total Commitments after prepayment of all Revolving Advances.

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SECTION 2.07. Repayment. The Borrower shall repay to the Administrative Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Advances then outstanding.

SECTION 2.08. Interest. (a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Revolving Advance owing to each Lender from the date of such Revolving Advance to but excluding the date such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Advance is a Revolving Advance bearing interest at the Eurodollar Rate, a rate per annum equal at all times during each Interest Period for such Revolving Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Advance plus (y) the Applicable Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) CAF Eurodollar Rate Advances. In the case of each CAF Eurodollar Rate Advance, a rate per annum equal at all times to the sum of the Eurodollar Rate applicable to such CAF Advance plus or minus, as the case may be, the CAF Margin specified by a Lender with respect to such CAF Advance in its Competitive Bid submitted pursuant to Section
2.04(b), payable on the date or dates specified in the relevant Competitive Bid Request.

(b) Default Interest. Upon the occurrence and during the continuance of any default in the payment of any amount owed hereunder, the Administrative Agent may, and upon the request of the Required Lenders shall, require the Borrower to pay interest ("Default Interest") on (i) the unpaid principal amount of each Revolving Advance past due and owing to each Lender, payable in arrears on the dates referred to in clause (a)(i) or (a)(ii) above, at a rate per annum equal at all times to 2.00% per annum above the rate per annum required to be paid on such Revolving Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2.00% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above; provided, however, that following acceleration of the Advances pursuant to
Section 6.01, Default Interest shall accrue and be payable hereunder whether or not previously required by the Administrative Agent.

SECTION 2.09. Interest Rate Determination. (a) The Administrative Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Administrative Agent for purposes of Section 2.08(a)(i), (ii) or (iii).

(b) If, with respect to any Eurodollar Rate Advances, the Required Lenders notify the Administrative Agent that the Eurodollar Rate for any Interest Period for such Revolving Advances will not adequately reflect the cost to such Required Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Administrative Agent shall forthwith so notify the Borrower and the Lenders, whereupon (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (ii) the obligation of the Lenders to make, or to Convert Revolving Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Administrative

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Agent will forthwith so notify the Borrower and the Lenders and such Revolving Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances. If no Advances are outstanding at the time of delivery of a Notice of Borrowing with respect to Eurodollar Rate Advances and the Borrower shall fail to select an Interest Period for such Advances, such Advances shall be made as Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Revolving Borrowing shall be reduced, by payment or prepayment or otherwise, to less than $5,000,000, such Revolving Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default under Section 6.01(a), (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance and (ii) the obligation of the Lenders to make, or to Convert Revolving Advances into, Eurodollar Rate Advances shall be suspended.

SECTION 2.10. Optional Conversion of Revolving Advances. The Borrower may on any Business Day, upon notice given 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 Conversion and subject to the provisions of Sections
2.09 and 2.13, Convert all Revolving Advances of one Type comprising the same Borrowing into Revolving Advances of the other Type; provided, however, that any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b) and no Conversion of any Revolving Advances shall result in more separate Borrowings than permitted under Section 2.02(b). Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Revolving Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

SECTION 2.11. Prepayments of Revolving Advances. (a) Optional Prepayments. The Borrower may, upon at least two Business Days' notice to the Administrative Agent, in the case of a Revolving Borrowing consisting of Eurodollar Rate Advances, or upon same day notice to the Administrative Agent, in the case of a Revolving Borrowing consisting of Base Rate Advances, stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of the Revolving Advances comprising part of the same Revolving 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 (x) each partial prepayment shall be in a minimum aggregate principal amount of $10,000,000 or an integral multiple of $1,000,000 in excess thereof and (y) in the event of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to
Section 8.04(c).

(b) Mandatory Prepayments from Excess Cash Flow. The Borrower shall, on the day the Borrower files its Form 10-Q or Form 10-K, but not later than 45 days following the end of each calendar quarter (the "Prepayment Date" and the "Reference Quarter", respectively), prepay an aggregate principal amount of the Revolving Advances comprising part of the same Revolving Borrowings in an amount sufficient to cause the aggregate principal amount of all Advances outstanding as of the Prepayment Date to equal the aggregate principal amount of all Advances outstanding as of the first day of the Reference Quarter, less the amount of Excess Cash Flow for the Reference Quarter. Amounts prepaid under this
Section 2.11(b) shall be available to be reborrowed on the following Business Day, provided that all other conditions to such Borrowing under this Agreement are met.

SECTION 2.12. Increased Costs. (a) If, after the date hereof, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances or CAF Eurodollar Rate Advances (excluding for purposes of this Section 2.12 any such increased costs resulting from (A) Taxes or Other Taxes (as to which Section
2.15 shall govern), (B) net income taxes and franchise taxes imposed on such Lender as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and such Lender other than a connection arising solely from such Lender having

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executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Advances and (C) changes in the rate of tax on the overall net income of such Lender), then the Borrower shall from time to time, upon demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such actual increased cost; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if the making of such a designation would avoid the need for, or reduce the amount of, such increased cost and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such increased cost, submitted to the Borrower and the Administrative Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender determines in good faith that compliance 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) affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by such Lender (with a copy of such demand to the Administrative Agent), the Borrower shall pay to the Administrative Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder. A certificate as to such amounts submitted to the Borrower and the Administrative Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

(c) The agreements contained in this Section 2.12 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Lender for amounts contemplated by this Section 2.12 for any period prior to the date that is 90 days prior to the date upon which such Lender requests in writing such reimbursement or compensation from the Borrower.

SECTION 2.13. Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Administrative Agent that it has determined in good faith that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or CAF Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances or CAF Eurodollar Rate Advances hereunder, (a) each Eurodollar Rate Advance or CAF Eurodollar Rate Advance, as the case may be, will automatically, upon such demand, Convert into a Base Rate Advance or an Advance that bears interest at the rate set forth in Section 2.08(a)(i), as the case may be, and (b) the obligation of the Lenders to make Eurodollar Rate Advances or CAF Eurodollar Rate Advances or to Convert Revolving Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist; provided, however, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office if the making of such a designation would allow such Lender or its Eurodollar Lending Office to continue to perform its obligations to make Eurodollar Rate Advances or CAF Eurodollar Rate Advances, as the case may be, or to continue to fund or maintain Eurodollar Rate Advances or CAF Eurodollar Rate Advances, as the case may be, and would not, in the judgment of such Lender, be otherwise disadvantageous to such Lender.

SECTION 2.14. Payments and Computations. (a) The Borrower shall make each payment hereunder and under the Notes (if any), irrespective of any right of counterclaim or set-off, not later than 12:00 Noon (New York City time) on the day when due in U.S. dollars to the Administrative Agent at the Administrative Agent's Account in same day funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or facility fees ratably (other than amounts payable pursuant to Sections 2.04, 2.12, 2.15 or 8.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information

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contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder and under the Notes or CAF Notes (if any) in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) The Borrower hereby authorizes each Lender, if and to the extent payment owed to such Lender is not made when due hereunder or under the Note or CAF Note, as the case may be, held by such Lender (if any), to charge from time to time against any or all of the Borrower's accounts with such Lender any amount so due.

(c) All computations of interest based on the Base Rate shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, the CAF Rate or the Federal Funds Rate or in respect of Fixed Rate Advances and of facility fees shall be made by the Administrative Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Administrative Agent of an interest rate hereunder shall be prima facie evidence of the correctness thereof.

(d) Whenever any payment hereunder or under the Notes or CAF Notes (if any) 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 facility fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances or CAF Eurodollar Rate Advances 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 Lenders 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 Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

SECTION 2.15. Taxes. (a) Any and all payments by the Borrower to or for the account of any Lender or the Administrative Agent hereunder or under the Notes or CAF Notes (if any) or any other documents to be delivered hereunder shall be made, in accordance with Section 2.14 or the applicable provisions of such other documents, free and clear of and without deduction for 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 Lender and the Administrative Agent, net income taxes and franchise taxes imposed on it as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Administrative Agent or such Lender other than a connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any Note or CAF Note, if any (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes or CAF Notes (if any) 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 or CAF Note or any other documents to be delivered hereunder to any Lender 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 2.15) such Lender 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 Lender with respect to any Taxes (i) that are attributable to such Lender's failure to comply with the requirements of Section 2.15(e) or (ii) that are United States withholding taxes imposed on sums payable to such Lender at the time such Lender becomes a party

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to this Agreement, except to the extent that any such Lender'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 2.15. Whenever any Taxes or Other Taxes (as defined in Section 2.15(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 Lender or Administrative Agent, as the case may be, either (A) official tax receipts or notarized copies of such receipts to such Lender 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 shall 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 the Notes or CAF Notes (if any) or any other documents to be delivered hereunder or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or the Notes or CAF Notes (if any) or any other documents to be delivered hereunder (hereinafter referred to as "Other Taxes").

(c) The Borrower shall indemnify each Lender and the Administrative Agent for and hold it harmless against the full amount of Taxes or Other Taxes (including, without limitation, taxes of any kind imposed or asserted by any jurisdiction on amounts payable under this Section 2.15) imposed on or paid by such Lender or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto.

(d) Within 30 days after the date of any payment of Taxes, the Borrower shall furnish to the Administrative Agent, at its address referred to in Section
8.02, the original or a certified copy of a receipt evidencing such payment to the extent such a receipt is issued therefor, or other written proof of payment thereof that is reasonably satisfactory to the Administrative Agent. In the case of any payment hereunder or under the Notes or CAF Notes (if any) or any other documents to be delivered hereunder by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Administrative Agent, at such address, an opinion of counsel acceptable to the Administrative Agent stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection
(e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender registered in the Register that is not a United States person as defined in Section 7701(a)(30) of the Internal Revenue Code agrees that it will deliver to the Borrower and the Administrative Agent on the Effective 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 Lender 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 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 Lender from duly completing and delivering any such form with respect to it and such Lender so advises the Borrower and the Administrative Agent. Each such Lender shall certify in the case of a Form W-8BEN, W-8ECI, W-8EXP or W-8IMY that is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. In the event that any such Lender fails to deliver any forms required under this Section 2.15(e), 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.

(f) For any period with respect to which a Lender has failed to provide the Borrower with the appropriate form, certificate or other document described in Section 2.15(e) (other than if such failure is due to a change in law, or in the interpretation or application thereof, occurring subsequent to the date on which a form, certificate or other document originally was required to be provided, or if such form, certificate or other document otherwise is not

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required under subsection (e) above), such Lender shall not be entitled to indemnification under Section 2.15(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a form, certificate or other document required hereunder, the Borrower shall take such steps as the Lender shall reasonably request to assist the Lender to recover such Taxes.

(g) Any Lender claiming any additional amounts payable pursuant to this Section 2.15 agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender.

(h) If any Taxes or Other Taxes are not correctly or legally asserted and the Agent or any Lender determines, in its sole discretion, that it has received a refund of those Taxes or Other Taxes as to which it has been indemnified by the Borrower, the Administrative Agent or such Lender 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 Lender for such Taxes or Other Taxes pursuant to this Section 2.15, net of any out-of-pocket costs of the Administrative Agent or such Lender 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 Lender, 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 Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent or any Lender 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.

SECTION 2.16. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Revolving Advances owing to it (other than pursuant to Sections 2.12, 2.15 or 8.04(c)) in excess of its ratable share of payments on account of the Revolving Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Revolving Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.16 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

SECTION 2.17. Use of Proceeds. The proceeds of the Advances shall be available (and the Borrower agrees that it shall use such proceeds) solely for working capital, including capital expenditures, and to repay commercial paper.

SECTION 2.18. Evidence of Debt. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder. The Borrower agrees that upon notice by any Lender to the Borrower (with a copy of such notice to the Administrative Agent) to the effect that a promissory note or other evidence of indebtedness is required or appropriate in order for such Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Lender, the Borrower shall promptly execute and deliver to such Lender, with a copy to the Administrative Agent, a Note or a CAF Note, as the case may be, in substantially the form of Exhibit A or Exhibit D hereto, respectively and as the case may be, payable to the order of such Lender in a principal amount equal to the amount of the Revolving Advance or the CAF Advance, as

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the case may be, of such Lender. All references to Notes or CAF Notes in the Loan Documents shall mean Notes or CAF Notes, respectively and if any, to the extent issued hereunder.

(b) The Register maintained by the Administrative Agent pursuant to Section 8.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded
(i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder, and (iv) the amount of any sum received by the Administrative Agent from the Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Administrative Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Administrative Agent or such Lender Party to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Conditions Precedent to Effectiveness of Sections 2.01 and 2.03. Sections 2.01 and 2.03 of this Agreement shall become effective on and as of the first date (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) There shall have occurred no Material Adverse Change since December 31, 2002.

(b) The Lead Arrangers shall be satisfied that any and all amounts outstanding (including without limitation all principal, interest, fees and other amounts owed) under the $350,000,000 Revolving Credit Agreement, dated as of March 31, 1998 (as amended, supplemented or otherwise modified from time to time, the "Original Revolving Credit Facility"), among the Borrower, the lenders party thereto and Citibank, N.A. as Administrative Agent, shall be paid by the Borrower in full, and such Original Revolving Credit Facility shall be cancelled or otherwise terminated prior to or immediately after the initial Advances are made hereunder.

(c) Nothing shall have come to the attention of the Lenders during the course of their due diligence investigation to lead them to believe that the Information Memorandum was or has become misleading, incorrect or incomplete in any material respect.

(d) The Borrower shall have paid all accrued fees and expenses of the Lenders and Agents (including the accrued fees and expenses of counsel to the Administrative Agent) and taxes, if any, due and payable hereunder and under the Fee Letter.

(e) The Administrative Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Administrative Agent and (except for the Notes) in sufficient copies for each Lender:

(i) The Notes, duly executed by the Borrower and made payable to the order of each Lender who has requested a Note, pursuant to Section 2.18(a).

(ii) Certified copies of the (A) resolutions of the board of directors of the Borrower approving this Agreement and the Notes (if any), and of all documents evidencing other necessary

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corporate action and governmental approvals, if any, with respect to this Agreement and the Notes (if any) and (B) certificate of incorporation and bylaws of the Borrower (such certificate, duly executed by an authorized officer of the Borrower, shall state that such resolutions, certificate of incorporation and bylaws are in full force and effect as of the Effective Date).

(iii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes (if any) and the other documents to be delivered hereunder.

(iv) A favorable opinion of Baker Botts LLP, counsel for the Borrower, in form and substance satisfactory to the Agent.

(v) A favorable opinion of the in-house counsel of the Borrower, in form and substance satisfactory to the Agent.

(vi) A favorable opinion of Shearman & Sterling, counsel for the Administrative Agent, in form and substance satisfactory to the Administrative Agent.

(vii) If the obligations of the Borrower hereunder are required to be secured, the Pledge Agreement, duly executed by the Borrower, in substantially the form of Exhibit H hereto.

(f) The Administrative Agent shall have received from the Borrower such other approvals, opinions or documents as any Lender through the Administrative Agent may reasonably request.

SECTION 3.02. Conditions Precedent to Each Revolving Borrowing. The obligation of each Lender to make a Revolving Advance on the occasion of each Revolving Borrowing shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Revolving Borrowing, the Administrative Agent shall have received the applicable Notice of Borrowing signed by a Financial Officer of the Borrower, each of the statements in which shall be true in all material respects.

SECTION 3.03. Conditions Precedent to Each CAF Borrowing. The obligation of each Lender that is to make a CAF Advance on the occasion of a CAF Borrowing to make such CAF Advance as part of such CAF Borrowing is subject to the conditions precedent that (i) the Administrative Agent shall have received the written confirmatory Competitive Bid Request pursuant to Section 2.04(a) with respect thereto, (ii) the Administrative Agent shall have received a Competitive Bid Confirmation from the Borrower pursuant to Section 2.04(d), (iii) on or before the date of such CAF Borrowing, but prior to such CAF Advance, the Administrative Agent shall have received a CAF Note in accordance with Section 2.18(a) payable to the order of such Lender for each of the one or more CAF Advances to be made by such Lender as part of such CAF Borrowing, in a principal amount equal to the principal amount of the CAF Advance to be evidenced thereby and otherwise on such terms as were agreed to for such CAF Advance in accordance with Section 2.04, and (iv) on the date of such CAF Borrowing the following statements shall be true (and each of the giving of the applicable Competitive Bid Request and the acceptance by the Borrower of the proceeds of such CAF Borrowing shall constitute a representation and warranty by the Borrower that on the date of such CAF Borrowing such statements are true):

(a) the representations and warranties contained in Section 4.01 are correct on and as of the date of such CAF Borrowing, before and after giving effect to such CAF Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,

(b) no event has occurred and is continuing, or would result from such CAF Borrowing or from the application of the proceeds therefrom, that constitutes a Default, and

(c) no event has occurred and no circumstance exists as a result of which the information concerning the Borrower that has been provided to the Agent and each Lender by the Borrower in connection herewith would include an untrue statement of a material fact or omit to state any material fact or any fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

CERC 364-Day Revolving Credit Agreement

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SECTION 3.04. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Administrative Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower, by notice to the Lenders, designates as the proposed Effective Date, specifying its objection thereto. The Administrative Agent shall promptly notify the Lenders of the occurrence of the Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The execution, delivery and performance by the Borrower of this Agreement and the Notes or CAF Notes (if any), and the consummation of the transactions contemplated hereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene the Borrower's certificate of incorporation or by-laws or any law or any contractual restriction binding on or affecting the Borrower, or (ii) constitute a default under any existing indenture, loan agreement or other material agreement to which the Borrower or any Subsidiary of the Borrower is a party.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes or CAF Notes (if any), and no law or regulation is applicable that restrains, prevents or imposes materially adverse conditions upon the transactions contemplated hereby.

(d) This Agreement has been, and each of the Notes or CAF Notes (if any) when delivered hereunder will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the Notes or CAF Notes (if any) when delivered hereunder will be, the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.

(e) The Consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 2002, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, accompanied by an opinion of Deloitte & Touche LLP, independent public accountants, copies of which have been furnished to each Lender, fairly present, in all material respects, the Consolidated financial condition of the Borrower and its Subsidiaries as at such date and the Consolidated results of the operations of the Borrower and its Subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied. Since December 31, 2002, there has been no Material Adverse Change.

(f) There is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that
(i) could be reasonably likely to have a Material Adverse Effect or
(ii) purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby.

(g) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no proceeds of any Advance will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

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(h) 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. None of the execution and delivery of the Loan Documents by the Borrower or the performance of its obligations thereunder violate any regulation under the Public Utility Holding Company Act of 1935, as amended.

(i) The Borrower is and each of its Subsidiaries are in substantial compliance with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except for any non-compliance that could not reasonably be expected to have a Material Adverse Effect.

(j) All written information heretofore furnished by the Borrower to the Administrative Agent or any Lender for purposes of or in connection with this Agreement or any transaction contemplated hereby or thereby is, and all such information hereafter furnished by the Borrower to the Administrative Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is stated in the light of the circumstances under which such information was provided (as modified or supplemented by other information so furnished, when taken together as a whole as of the date so stated); provided, that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based on assumptions believed to be reasonable at the time, it being recognized by the Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. The Borrower has disclosed to the Administrative Agent any and all facts specific to the Borrower and its Subsidiaries and known as of the date hereof to a Responsible Officer of the Borrower that could reasonably be expected to result in a Material Adverse Effect or which could reasonably be expected to materially and adversely affect or may affect (to the extent the Borrower can now reasonably foresee), the business, operations or financial condition of the Borrower and its Subsidiaries, taken as a whole.

(k) The Borrower is, and together with its Subsidiaries, taken as a whole, Solvent as of the date hereof.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Borrower will:

(a) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, in all material respects, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, except to the extent the failure to so comply could not reasonably be expected to have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Significant Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property or unless the failure to pay could not reasonably be expected to result in a Material Adverse Effect; provided, however, that neither the Borrower nor any of its Significant Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained or unless the failure to pay could not reasonably be expected to result in a Material Adverse Effect.

(c) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such

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risks as is usually carried by companies engaged in similar businesses and owning similar properties; provided, however, that the Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties and to the extent consistent with prudent business practice.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises, except (other than in the case of the Borrower) to the extent such failure could not reasonably be expected to have a Material Adverse Effect; provided, however, that the Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(b) and provided further that neither the Borrower nor any of its Subsidiaries shall be required to preserve any right or franchise if the board of directors of the Borrower or such Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Borrower or such Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Borrower, such Subsidiary or the Lenders.

(e) Visitation Rights. 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 Lenders designated by the Required Lenders, or representatives of the Agents, on not less than five (5) Business Days' notice, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, 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 Significant 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 Lender or any agents or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. Notwithstanding the foregoing, none of the conditions precedent to the exercise of the right of access described in the preceding sentence that relate to notice requirements or limitations on the Persons permitted to exercise such right shall apply at any time when a Default or an Event of Default shall have occurred.

(f) Keeping of Books. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in accordance with GAAP.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted.

(h) Maintenance of Existing Business. Maintain and preserve its fundamental business of being a local gas distribution company and an owner and operator of natural gas pipeline systems.

(i) Use of Proceeds. Use the proceeds of each Advance only for working capital purposes, including capital expenditures, of the Borrower and its Subsidiaries and the repayment of commercial paper, provided, that in no case shall such proceeds be used to repay amounts outstanding under the Bridge Credit Agreement.

(j) Reporting Requirements. Furnish to the Lenders:

(i) 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, unaudited Consolidated balance sheets of the Borrower and its Subsidiaries, prepared in conformity with GAAP consistently applied, as of the end of such quarter and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries, prepared in conformity with GAAP consistently applied, for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly

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certified (subject to year-end audit adjustments and the inclusion of abbreviated footnotes) by Responsible Officer of the Borrower as having been prepared in accordance with generally accepted accounting principles and certificates of a Responsible Officer of the Borrower as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03 (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 Securities and Exchange Commission);

(ii) as soon as practicable and in any event within 120 days after the end of each fiscal year of the Borrower commencing 2003, a copy of the annual audit report for such year for the Borrower and its Subsidiaries, containing Consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal year accompanied by an opinion of an independent public accountants, in each case prepared in conformity with GAAP consistently applied (which requirement may be satisfied by delivering the Borrower's annual report on Form 10-K with respect to such fiscal year as filed with the Securities and Exchange Commission) together with a certificate of a Responsible Officer of the Borrower identifying Significant Subsidiaries determined with respect to such financial statements;

(iii) as soon as practicable and in any event within seven Business Days after a Responsible Officer of the Borrower becomes aware of the occurrence of each Default continuing on the date of such statement, a statement of a Responsible Officer of the Borrower setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) within ten (10) days of the filing thereof, copies of all periodic reports (other than (x) reports on Form 11-K or any successor form, (y) current reports on Form 8-K that contain no information other than exhibits filed therewith and (z) reports on Form 10-Q or 10-K or any successor forms) under the Exchange Act (in each case other than exhibits thereto and documents incorporated by reference therein)) filed by the Borrower with the Securities and Exchange Commission;

(v) promptly after the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Borrower or any of its Subsidiaries of the type described in Section 4.01(f); and

(vi) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Administrative Agent may from time to time reasonably request.

Information required to be delivered pursuant to the foregoing Sections 5.01(j)(i), (ii) and (iv) shall be deemed to have been delivered on the date on which the Borrower provides notice (including notice by e-mail) to the Administrative Agent (which notice the Administrative Agent will convey promptly to the Lenders) that such information has been posted on the Securities and Exchange Commission website on the internet at sec.gov/edgar/searches.htm or at another website identified in such notice and accessible by the Lenders without charge; provided that such notice may be included in a certificate delivered pursuant to Section 5.01(j)(i).

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Borrower will not:

(a) Restrictions on Liens. Pledge, mortgage or hypothecate, or permit to exist, and will not permit any Subsidiary (other than a Project Finance Subsidiary) to pledge, mortgage or hypothecate, or permit to exist, except in favor of Borrower or any Subsidiary (other than a Project Finance Subsidiary), any Lien upon, any Principal Property or Equity Interest in any Significant Subsidiary (other than a Project Finance Subsidiary) owning any Principal Property, at any time owned by Borrower or a Subsidiary (other

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than a Project Finance Subsidiary), to secure any Indebtedness; provided, however, that this restriction shall not apply to or prevent the creation or existence of any Permitted Lien.

(b) Consolidation, Mergers or Disposal of Assets. (i) consolidate with, or merge into or amalgamate with or into, any other Person; (ii) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or (iii) convey, sell, transfer, lease or otherwise dispose of all or substantially all of its assets to any Person, or permit any Significant Subsidiary (other than a Project Finance Subsidiary) to do so; provided, however, that nothing contained in this Section 5.02(b) shall prohibit (A) a merger in which Borrower is the surviving entity thereof; (B) mergers involving Significant Subsidiaries in which Borrower or, if the Borrower is not a party to such merger, a Wholly-Owned Significant Subsidiary (other than a Project Finance Subsidiary, except for the case where all parties to such merger are Project Finance Subsidiaries) is the surviving entity;
(C) the liquidation, winding up or dissolution of a Significant Subsidiary if all of the assets of such Significant Subsidiary are conveyed, transferred or distributed to Borrower or a Wholly-Owned Significant Subsidiary (other than a Project Finance Subsidiary, unless such Significant Subsidiary is also a Project Finance Subsidiary); (D) the conveyance, sale, transfer, lease or other disposal of all or substantially all (or any lesser portion) of the assets of any Significant Subsidiary to Borrower or a Wholly-Owned Significant Subsidiary (other than a Project Finance Subsidiary, unless such Significant Subsidiary is also a Project Finance Subsidiary); or (E) additional conveyances, sales, transfers, leases or other disposals of assets of the Borrower and its Subsidiaries, provided, that the aggregate net book value of all assets of the Borrower and its Subsidiaries conveyed, sold, transferred, leased or otherwise disposed of pursuant to this clause (E) shall not exceed $200,000,000 or shall constitute assets that are no longer necessary for the operation of the business of the Borrower and its Subsidiaries; provided that, in each case covered by this Section 5.02(b), immediately before and after giving effect to any such merger, dissolution or liquidation, or conveyance, sale, transfer, lease or other disposition, no Default shall have occurred and be continuing.

(c) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies or reporting practices, except as required or permitted by GAAP.

(d) Subsidiary Indebtedness. Permit any Significant Subsidiary to be a party to, guarantee, assume, create, incur, issue or otherwise be liable in any manner in connection with or suffer to exist, any Indebtedness or preferred stock other than (i) Indebtedness for Borrowed Money and preferred stock which does not exceed at any time outstanding an aggregate amount for all Significant Subsidiaries of $100,000,000 (for purposes of this clause (i), the amount of Indebtedness for Borrowed Money will be the outstanding principal amount thereof, and the amount of any preferred stock will be the greater of the par value thereof or the consideration received in the issuance thereof), (ii) assumed Indebtedness for Borrowed Money and preferred stock of any Person that becomes a Subsidiary after the date hereof, if such Indebtedness for Borrowed Money or preferred stock is in existence at the time such Person becomes a Subsidiary and was not created in contemplation thereof and no other Subsidiary is liable therefor, (iii) Indebtedness for Borrowed Money owed to and held by, and preferred stock held by, the Borrower or any Wholly-Owned Subsidiary of the Borrower, (iv) Non-Recourse Debt and (v) Indebtedness for Borrowed Money existing on the date hereof, any refinancing thereof in an amount not greater than the outstanding amount thereof at the time of such refinancing and any preferred stock existing on the date hereof.

(e) Restrictions on Dividends, Intercompany Loans, or Investments. Permit, or permit any Significant Subsidiary (other than a Project Finance Subsidiary) to, create or otherwise cause or permit to exist or become effective any explicit and direct restriction under any agreement evidencing or providing for the issuance of Indebtedness for Borrowed Money (other than this Agreement) on the ability of any Significant Subsidiary (other than a Project Finance Subsidiary) to (i) pay dividends or make any other distributions on its capital stock or pay any Indebtedness owed to the Borrower or any Subsidiary of the Borrower, (ii) make any loans or advances to or investments in the Borrower or any Subsidiary of the Borrower, or (iii) transfer any of its property or assets to the Borrower or any Subsidiary of the Borrower; provided, that the foregoing shall not prohibit financial incurrence, maintenance and similar covenants that indirectly have the practical effect of prohibiting or restricting the ability of a Significant Subsidiary to make such payments or provisions that require that a certain amount of capital be maintained, or prohibit the return of capital to shareholders above certain dollar limits; provided, further, that the foregoing shall

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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 (if such disposal is otherwise permitted under this Agreement).

(f) Affiliate Transaction. And will not permit any Subsidiary of Borrower to, make, directly or indirectly, (i) any transfer, sale, lease or other disposition of any Property to any Affiliate of Borrower or any Subsidiary of Borrower or any purchase or acquisition of any Property from any such Affiliate; or (ii) any other arrangement or transaction directly or indirectly with or for the benefit of any such Affiliate (including without limitation, guaranties and assumptions of obligations of any such Affiliate); provided, that (A) Borrower and any such Subsidiary may enter into any arrangement or other transaction with any such Affiliate if the monetary or business consideration arising therefrom would be substantially at least as advantageous to Borrower or such Subsidiary as the monetary or business consideration which would be obtained in a comparable arm's length transaction with a Person not an Affiliate of Borrower or any Subsidiary of Borrower; (B) Borrower and any Subsidiary of Borrower may become liable in connection with guaranties of the obligations of any such Affiliate in the ordinary course of business, other than guaranties of Indebtedness for Borrowed Money; (C) Borrower and its Subsidiaries may make purchases of receivables of any kind from the Borrower and the Subsidiaries of Borrower on terms that any of them deem acceptable; (D) intercompany borrowings between Borrower and any Subsidiary of Borrower and between any Subsidiaries of the Borrower and other such Subsidiaries of the Borrower may be on terms that they deem acceptable or under the Parent's money pool; (E) Borrower may enter into any arrangement or other transaction with any Wholly-Owned Subsidiary of Borrower, and any Wholly-Owned Subsidiary of Borrower may enter into any arrangement or other transaction with Borrower or any other Wholly-Owned Subsidiary of Borrower, in each case under this clause (E) only if such arrangements and other transactions do not involve any Person other than Borrower and Wholly-Owned Subsidiaries of Borrower; and (F) Borrower may enter into arrangements or other transactions permitted by Section
5.02(b)(E).

(g) Payments on Preferred Stock. And will not permit any Subsidiary of Borrower to, make or agree to make any payment or other distribution on or in connection with, or purchase, redeem or otherwise acquire or agree to do so, or convert or exchange or agree to convert or exchange, in whole or in part, any capital stock or other equity interest of Borrower or any Subsidiary of Borrower, in whole or in part (including, without limitation, dividends), in each case if prior to and immediately after giving effect thereto, any Default or Event of Default exists or would occur.

(h) Investments in the Parent. Make or hold, or permit any of its Subsidiaries to make or hold, any Investment in the Parent, other than money pool loans.

(i) Use of Proceeds: Regulation U. Use the proceeds of any Borrowing (i) to purchase or carry, within the meaning of Regulation U, any Margin Stock, (ii) to participate in any tender offer for the securities of any Person, unless such tender offer has been approved by the board of directors, general partners or other governing body of such Person or (iii) for any purpose that would violate or result in a violation of any law or regulation. 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.

SECTION 5.03. Financial Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Borrower will:

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(a) Total Debt to Capitalization Ratio. Maintain a ratio of Total Debt for Borrowed Money to Consolidated Capitalization of no greater than 0.60:1.00, calculated on a quarterly basis.

(b) Fixed Charge Coverage Ratio. Maintain a ratio of EBITDA to Cash Interest for the immediately preceding four calendar quarters of no less than 2.25:1.00, calculated on a quarterly basis.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Borrower shall fail to pay any principal of any Advance when the same becomes due and payable; or the Borrower shall fail to pay any interest on any Advance or make any other payment of fees or other amounts payable under this Agreement or any Note or CAF Note, as the case may be, within five Business Days after the same becomes due and payable; or

(b) Any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made; or

(c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in Sections 5.01(d), (e), (h) or (j)(iii), 5.02 or 5.03, or (ii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed if such failure shall not have been remedied within 30 days; or

(d) The Borrower or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) shall fail to pay any principal of or premium or interest on any Indebtedness for Borrowed Money that is outstanding in a principal amount of at least $30,000,000 in the aggregate (but excluding Indebtedness outstanding hereunder) of the Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Indebtedness shall be required to be made, in each case prior to the stated maturity thereof; or

(e) The Borrower or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Significant Subsidiaries (other than any Project Finance Subsidiary) seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its

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property) shall occur; or the Borrower or any of its Significant Subsidiaries (other than any Project Finance Subsidiary) shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in this subsection (e); or

(f) Judgments or orders for the payment of money in excess of $30,000,000 in the aggregate shall be rendered against the Borrower or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any non-monetary judgment or order shall be rendered against the Borrower or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) that could be reasonably expected to have a Material Adverse Effect, and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) For any reason, (i) the Parent fails to own, directly or indirectly, at least 50% of the economic interest in Borrower or (ii) the Parent fails to own, directly or indirectly, at least 50% of the outstanding shares of stock, Voting Stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of Borrower or (iii) the Borrower fails to own, directly or indirectly, at least 50% of the economic interest in CenterPoint Energy - Mississippi River Transmission Corporation, a Delaware corporation ("MRT") or (iv) the Borrower fails to own, directly or indirectly, at least 50% of the economic interest in CenterPoint Energy Gas Transmission Company, a Delaware corporation ("CEGT") or (v) the Borrower fails to own at least 50% of the outstanding shares of stock, Voting Stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of MRT or (vi) the Borrower fails to own at least 50% of the outstanding shares of stock, Voting Stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of CEGT; or

(i) The Borrower or any of its ERISA Affiliates shall incur, or could be reasonably expected to incur, liability in excess of $50,000,000 in the aggregate as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of the Borrower or any of its ERISA Affiliates from a Multiemployer Plan; or (iii) the reorganization or termination of a Multiemployer Plan;

then, and in any such event, the Administrative Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the Notes or CAF Notes (if any), the unpaid principal amount of all outstanding Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes or CAF Notes (if any), all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Advances shall automatically be terminated and (B) the Notes or CAF Notes (if any), the unpaid principal amount of all outstanding Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

CERC 364-Day Revolving Credit Agreement

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ARTICLE VII

THE AGENTS

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes each Agent to take such action as Agent on its behalf and to exercise such powers and discretion under this Agreement and the other Loan Documents as are delegated to such Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes or CAF Notes, if any), the Agents shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, subject, with respect to the Collateral Agent, to Section 8.08, and such instructions shall be binding upon all Lenders and all holders of Notes or CAF Notes (if any); provided, however, that neither of the Agents shall be required to take any action that exposes such Agent to personal liability or that is contrary to this Agreement or applicable law. Each Agent agrees to give to each Lender prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Agents' Reliance, Etc. Neither the Agents nor any of their respective directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, each Agent:
(i) may treat the payee of any Note or CAF Note, as the case may be, as the holder thereof until the such Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note or CAF Note, as the case may be, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance, observance or satisfaction of any of the terms, covenants or conditions of this Agreement on the part of the Borrower or the existence at any time of any Default or to inspect the property (including the books and records) of the Borrower; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or, if applicable, the perfection or priority of any lien or security interest created or purported to be created under or in connection with, this Agreement or any other instrument or document furnished pursuant hereto; and (vi) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. CUSA, JPMS and Affiliates. With respect to its Commitment, the Advances made by it and the Note or CAF Note, if any, issued to it, CUSA and JPMS shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not an Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include CUSA and JPMS in their respective individual capacities. CUSA and JPMS and their respective Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of its Subsidiaries and any Person who may do business with or own securities of the Borrower or any such Subsidiary, all as if CUSA and JPMS were not Agents and without any duty to account therefor to the Lenders. The Agents shall have no duty to disclose any information obtained or received by it or any of its Affiliates relating to the Borrower or any of its Subsidiaries to the extent such information was obtained or received in any capacity other than as Agent.

SECTION 7.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon any Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it shall deem

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appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to indemnify each Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Notes (if any) then held by each of them (or if no Notes are at the time outstanding or if any Notes are held by Persons that are not Lenders, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against such Agent in any way relating to or arising out of this Agreement or any action taken or omitted by such Agent under this Agreement (collectively, the "Indemnified Costs"), provided that no Lender shall be liable for any portion of the Indemnified Costs resulting from such Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse each Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by each Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that such Agent is not reimbursed for such expenses by the Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.05 applies whether any such investigation, litigation or proceeding is brought by any Agent, any Lender or a third party.

SECTION 7.06. Successor Agents. Any Agent may resign at any time by giving written notice thereof to the Lender Parties and the Borrower and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Notes (if any), nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by the relevant Lenders, do any of the following: (a) waive any of the conditions specified in Section 3.01, without the consent of any affected Lender, (b) increase the Commitments of any affected Lender, (c) reduce the principal of, or interest on, the Notes (if any) or any fees or other amounts payable hereunder to such Lender, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes (if any) or any fees or other amounts payable hereunder to such Lender, (e) change the percentage of the Commitments or the aggregate unpaid principal amount of the Notes (if any), or the number of Lenders, that shall be required for the Lenders or any of them to take any action hereunder without the consent of all Lenders, or (f) amend this Section 8.01 without the consent of all Lenders; and provided further that without the consent of all Lenders, to the extent that the Lenders have any rights of consent with respect thereto, the Collateral Agent shall not release the security interest of the Lenders in any of the Collateral other than in accordance with the terms of this Agreement or the other applicable Loan Documents; and provided further that no amendment, waiver or consent shall, unless in writing and signed by an Agent in addition to the Lenders required above to take such action, affect the rights or duties of the such Agent under this Agreement or any Note.

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SECTION 8.02. Notices, Etc. (a) (a) All notices and other communications provided for hereunder shall be either (x) in writing (including telecopier or telegraphic communication) and mailed, telecopied, telegraphed or delivered or (y) as and to the extent set forth in Section 8.02(b) and in the proviso to this Section 8.02(a), in an electronic medium and delivered as set forth in Section 8.02(b), if to the Borrower, at its address at P.O. Box 2805, Houston, TX 77252, Attention: Assistant Treasurer (telecopy: 713 207 3301); if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; if to the Lead Arrangers, in the case of SSBI, at its address at 390 Greenwich Street, New York, New York, 10013, Attention: Peter Kettle (telecopy:
212 723 8548), with a copy to 388 Greenwich Street, New York, New York, 10013, Attention: Stuart Glen (telecopy: 212 816 8098), or in the case of JPMS, at its address at 600 Travis, 20th Floor, Houston, Texas, 77002, Attention: Rob Traband (telecopy: 713 216 8870) or 270 Park Avenue, 4th Floor, New York, New York, 10017, Attention: Thomas Hou (telecopy: 212 270 3897); if to the Collateral Agent, at its address at Two Penns Way, Suite 200, New Castle, Delaware, 19720, Attention: Janet Wallace (212 994 0961), with a copy to 388 Greenwich Street, New York, New York, 10013, Attention: Stuart Glen (telecopy: 212 816 8098); and if to the Administrative Agent, at its address at Two Penns Way, Suite 200, New Castle, Delaware, 19720, Attention: Bank Loan Syndications Department/Janet Wallace (telecopy: 212 994 0961), with a copy to 388 Greenwich Street, New York, New York, 10013, Attention: Stuart Glen (telecopy: 212 816 8098); or, as to the Borrower or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Administrative Agent; provided, that materials required to be delivered pursuant to Section 5.01(j)(i), (ii) and (iv) shall be delivered to the Administrative Agent as specified in Section 8.02(b) or as otherwise specified to the Borrower by the Administrative Agent. All such notices and communications shall, when mailed, telecopied, telegraphed or emailed, be effective when deposited in the mails, telecopied, delivered to the telegraph company or confirmed by email, respectively, except that notices and communications to the Administrative Agent pursuant to Article II, III or VII shall not be effective until received by the Administrative Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or CAF Notes (if any) or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

(b) So long as CUSA is the Administrative Agent, materials required to be delivered pursuant to Section 5.01(j)(i), (ii) and (iv) shall be delivered to the Administrative Agent in an electronic medium in a format acceptable to the Administrative Agent and the Lenders by email at oploanswebadmin@citigroup.com, and if any Lender so requests, delivered to such Lender at its address set forth on Schedule I hereto in hardcopy form. The Borrower agrees that the Administrative Agent may make such materials, as well as any other written information, documents, instruments and other material relating to the Borrower, any of its Subsidiaries or any other materials or matters relating to this Agreement, the Notes or CAF Notes (if any) or any of the transactions contemplated hereby (collectively, the "Communications") available to the Lenders by posting such notices on "e-Disclosure" (the "Platform"), the Administrative Agent's internet delivery system that is part of SSB Direct, Global Fixed Income's primary web portal. Although the primary web portal is secured with a dual firewall and a User ID/Password Authorization System and the Platform is secured through a single user per deal authorization method whereby each user may access the Platform only on a deal-by-deal basis, the Borrower acknowledges that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided "as is" and "as available" and (iii) neither the Administrative Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Administrative Agent or any of its Affiliates in connection with the Platform.

(c) Each Lender agrees that notice to it (as provided in the next sentence) (a "Notice") specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided, that, if requested by any Lender, the Administrative Agent shall deliver a copy of the Communications to such Lender by e-mail or telecopier. Each Lender agrees
(i) to notify the Administrative Agent in writing of such Lender's e-mail address to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender

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becomes a party to this Agreement (and from time to time thereafter to ensure that the Administrative Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address. For purposes of this Section 8.02(c), the term "Notices" shall only include notices to be given regarding materials delivered in accordance with Section 8.02(b).

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender or Agent to exercise, and no delay in exercising, any right hereunder or under any Note or CAF Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses. (a) The Borrower agrees to pay on demand all reasonable costs and expenses of each Agent and the Lead Arranger in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, the Notes (if any) and the other documents to be delivered hereunder, including, without limitation, (A) all reasonable due diligence, syndication (including printing, distribution and bank meetings), computer and duplication expenses and (B) the reasonable fees and expenses of counsel for each Agent and the Lead Arranger with respect thereto and with respect to advising each Agent as to its rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of each Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes (if any) and the other documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for each Agent, the Lead Arranger and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrower agrees to indemnify and hold harmless each Agent, the Lead Arranger and each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and reasonable expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith) (i) the Notes or CAF Notes (if any), this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or (ii) the actual or alleged presence of Hazardous Materials on any property of the Borrower or any of its Subsidiaries or any Environmental Action relating in any way to the Borrower or any of its Subsidiaries, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, equityholders or creditors or an Indemnified Party or any other Person, whether or not any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Borrower also agrees not to assert any claim for special, indirect, consequential or punitive damages against any Agent, any Lender, any of their Affiliates, or any of their respective directors, officers, employees, attorneys and agents, on any theory of liability arising out of or otherwise relating to the Notes or CAF Notes (if any), this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance or CAF Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Sections
2.09(d) or (e), 2.11 or 2.13, acceleration of the maturity of the Notes or CAF Notes (if any), as the case may be, pursuant to Section 6.01 or for any other reason, the Borrower shall, upon demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

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(d) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.12, 2.15 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes or CAF Notes (if any).

SECTION 8.05. Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Administrative Agent to declare the Notes or CAF Notes, if any, due and payable pursuant to the provisions of Section 6.01, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Note or CAF Note, as the case may be, held by such Lender, whether or not such Lender shall have made any demand under this Agreement or such Note or CAF Note and although such obligations may be unmatured. Each Lender agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and its Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender and its Affiliates may have.

SECTION 8.06. Binding Effect. This Agreement shall become effective (other than Sections 2.01 and 2.03, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Borrower and each Agent and when the Administrative Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, each Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 8.07. Assignments and Participations. (a) Each Lender may assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Revolving Advances owing to it and the Note or Notes, if any, held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (other than any right to make CAF Advances, CAF Advances owing to it and CAF Note or CAF Notes, if any), (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $10,000,000 or an integral multiple of $1,000,000 in excess thereof, (iii) each such assignment shall be to an Eligible Assignee, (iv) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Note, if any, subject to such assignment, and (v) the parties to each such assignment shall deliver to the Administrative Agent a processing and recordation fee of $3,500. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than its rights under Sections 2.13, 2.16 and 8.04 to the extent any claim thereunder relates to an event arising prior to such assignment) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or

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the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto;
(iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;
(iv) such assignee will, independently and without reliance upon any Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes each Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to such Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) The Administrative Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be prima facie evidence of the correctness thereof, and the Borrower, the Agents and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Note, if any, subject to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and
(iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Note a new Note to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Commitment hereunder, a new Note to the order of the assigning Lender in an amount equal to the Commitment retained by it hereunder. Such new Note shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note or Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A hereto.

(e) Each Lender may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and the Note or Notes, if any, held by it); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrower, the Agents and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any Confidential Information relating to the Borrower received by it from such Lender.

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(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time and without the consent of the Borrower or any Agent
(i) create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and the Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System, and (ii) with notice to the Borrower and the Administrative Agent, assign all or part of its rights and obligations under this Agreement to any of its Affiliates.

(h) In the event that any Lender requests payments of reimbursement, compensation or indemnification from the Borrower pursuant to Sections 2.02,
2.12 or 2.15 herein, then the Borrower shall have the right, but not the obligation, at its own expense, upon 5 Business Days notice to such Lender and the Administrative Agent, to replace such Lender with an assignee (in accordance with and subject to the restrictions contained in paragraphs (a) and (b) above), and such Lender hereby agrees to transfer and assign without recourse (in accordance with and subject to the restrictions contained in paragraphs (a) and
(b) above) all its interests, rights and obligations in respect of its Commitment to such assignee; provided, however, that (i) no such assignment shall conflict with any law, rule and regulation or order of any governmental authority, (ii) no Default has occurred or is continuing, (iii) the Borrower has satisfied all of its obligations under this Agreement relating to such assigning Lender through the date of such assignment, (iv) the Borrower shall pay to the Administrative Agent the administrative fee in the amount of $3,500 if such replacement Lender assignee is not an existing Lender, and (v) such assignee shall pay to such assigning Lender in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Advances made by such Lender hereunder and the Borrower, the Administrative Agent or such assignee, as applicable, shall pay to such Lender all other amounts accrued for such Lender's account or owed to it hereunder.

SECTION 8.08. Collateral. The Lenders acknowledge and agree that their rights under the Pledge Agreement will be limited as set forth therein. In particular, the rights of the Lenders under the Pledge Agreement will be limited to their right to share in the proceeds of the Collateral as provided therein, and they shall have no rights to direct actions of the Collateral Agent thereunder. The security interest in the Collateral to be granted in favor of the Lenders shall be automatically released at such time as the security interest granted therein in favor of the Bridge Secured Parties (as defined in the Pledge Agreement) has been released and terminated in accordance with the terms of the Pledge Agreement.

SECTION 8.09. Confidentiality. Neither Agent nor any Lender shall disclose any Confidential Information to any other Person without the consent of the Borrower, other than (a) to such Agent's or such Lender's Affiliates and their officers, directors, employees, agents and advisors and, as contemplated by Section 8.07(f), to actual or prospective assignees and participants, and then only on a confidential basis, (b) as required by any law, rule or regulation or judicial process and (c) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking or any other regulatory or self-regulatory authorities. The Borrower may disclose to any and all Persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to the Borrower relating to such U.S. tax treatment and U.S. tax structure.

SECTION 8.10. Governing Law. This Agreement and the Notes (if any) shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 8.11. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.12. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the Notes or CAF Notes (if any), or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such

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New York State court or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes or CAF Notes (if any) in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes or CAF Notes (if any) in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

CERC 364-Day Revolving Credit Agreement

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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 RESOURCES CORP., as Borrower

By /s/ Marc Kilbride

Title:

CERC 364-Day Revolving Credit Agreement

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CITICORP USA, INC., as Administrative Agent

By /s/ [Illegible]

Title: Vice President

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SALOMON SMITH BARNEY, INC., as Lead Arranger and as Joint Bookrunner

By /s/ Anita J. Brickell

Title: Managing Director

CERC 364-Day Revolving Credit Agreement

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J.P. MORGAN SECURITIES INC., as Lead Arranger and as Joint Bookrunner

By /s/ Richard R. Thayer

Richard R. Thayer
Managing Director

CERC 364-Day Revolving Credit Agreement

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CITICORP NORTH AMERICA, INC., as Collateral Agent

By /s/ [Illegible]

Title: Vice President

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WACHOVIA BANK, NATIONAL ASSOCIATION, as Co-Syndication Agent

By /s/ [Illegible]

Title: Vice President

CERC 364-Day Revolving Credit Agreement

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BANC ONE CAPITAL MARKETS, INC., as Co-Syndication Agent

By /s/ Michael Murphy

Title: Managing Director

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CREDIT SUISSE FIRST BOSTON, CAYMAN ISLANDS BRANCH, as Documentation Agent

By /s/ S. William Fox

Title: Director

By /s/ Ian W. Nalitt

Title: Associate

CERC 364-Day Revolving Credit Agreement

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INITIAL LENDERS

Commitments

$35,000,000 CITICORP USA, INC., as an Initial Lender

By /s/ [Illegible]

Title: Vice President

$35,000,000 JPMORGAN CHASE BANK, as an Initial Lender

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By /s/ Robert Truhard

Title: Vice President

$30,000,000 WACHOVIA BANK, NATIONAL ASSOCIATION, as an Initial Lender

By /s/ [Illegible]

Title: Vice President

$30,000,000 BANK ONE, NA, as an Initial Lender

By /s/ Madeleine N. Pember

Title: Director

$30,000,000 CREDIT SUISSE FIRST BOSTON, CAYMAN ISLANDS BRANCH, as an Initial Lender

By /s/ S. William Fox

Title: Director

By /s/ Ian W. Nalitt

Title: Associate

$25,000,000 BANK OF AMERICA, N.A., as an Initial Lender

By /s/ Richard L. Stein

Title: Principal

$15,000,000 DEUTSCHE BANK AG NEW YORK BRANCH, as an Initial Lender

By /s/ Hans Narberhaus

Title: Vice President

By /s/ Joel Makowsky

Title: Vice President

$200,000,000 Total of the Commitments

CERC 364-Day Revolving Credit Agreement

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SCHEDULE I

APPLICABLE LENDING OFFICES

Name of Initial Lender	Domestic Lending Office	Eurodollar Lending Office
Citicorp USA, Inc.	Two Penns Way, Suite 200 New Castle, DE 19720 ABA # 021000089 Account # 36852248 Account Name: Agency/Medium Term Finance Attn: Jackie Caine Reference: CenterPoint Energy Resources	Two Penns Way, Suite 200 New Castle, DE 19720 ABA # 021000089 Account # 36852248 Account Name: Agency/Medium Term Finance Attn: Jackie Caine Reference: CenterPoint Energy Resources
JPMorgan Chase Bank	1111 Fannin, 10th Floor Houston, TX 77002 ABA # 021 000 021 Account # 323 226 337 Account Name: Utilities Clearing Account Attn: Janene English Reference: CenterPoint Energy Resources Corp.	1111 Fannin, 10th Floor Houston, TX 77002 ABA # 021 000 021 Account # 323 226 337 Account Name: Utilities Clearing Account Attn: Janene English Reference: CenterPoint Energy Resources Corp.
Wachovia Bank, National Association	201 South College Street Charlotte, NC 28288-1183 ABA # 053000219 Account # 0145916-8118011 Account Name: Utilities Attn: Chanue Michael Reference: CenterPoint Energy Resources	201 South College Street Charlotte, NC 28288-1183 ABA # 053000219 Account # 0145916-8118011 Account Name: Utilities Attn: Chanue Michael Reference: CenterPoint Energy Resources
Bank One, NA	1 Bank One Plaza, Suite IL1-0634 Chicago, IL 60670 ABA # 071000013 Account # 481152860000 Account Name: LS2 Incoming Account Attn: LS2 Incoming Wires Reference: CenterPoint Energy Resources Corp.	1 Bank One Plaza, Suite IL1-0634 Chicago, IL 60670 ABA # 071000013 Account # 481152860000 Account Name: LS2 Incoming Account Attn: LS2 Incoming Wires Reference: CenterPoint Energy Resources Corp.
Credit Suisse First Boston, Cayman Islands Branch	11 Madison Avenue New York, NY 10010 ABA # 021 000 018 Account # 890-0387-742 Account Name: CSFB NY Loan Clearing Attn: Sonya Shillingford Reference: CenterPoint Energy Resources Corp.	11 Madison Avenue New York, NY 10010 ABA # 021 000 018 Account # 890-0387-742 Account Name: CSFB NY Loan Clearing Attn: Sonya Shillingford Reference: CenterPoint Energy Resources Corp.

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Name of Initial Lender	Domestic Lending Office	Eurodollar Lending Office
Bank of America, N.A.	901 Main Street, 14th Floor Dallas, TX 75202-3714 ABA # 111000012 Account # 1292000883 Account Name: Credit Services Attn: Marija Salic Reference: Reliant Energy Resources Corp.	901 Main Street, 14th Floor Dallas, TX 75202-3714 ABA # 111000012 Account # 1292000883 Account Name: Credit Services Attn: Marija Salic Reference: Reliant Energy Resources Corp.
Deutsche Bank AG New York Branch	31 West 52nd Street New York, NY 10019 ABA # 021001033 Account # 60200119 Account Name: Deutsche Bank NY Loan Operations Attn: Esther Ocampo/Frank Gerencser Reference: CenterPoint Energy Resources	31 West 52nd Street New York, NY 10019 ABA # 021001033 Account # 60200119 Account Name: Deutsche Bank NY Loan Operations Attn: Esther Ocampo/Frank Gerencser Reference: CenterPoint Energy Resources

CERC 364-Day Revolving Credit Agreement

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EXHIBIT A - FORM OF PROMISSORY NOTE

U.S.$_____ Dated: _____ __, 2003

FOR VALUE RECEIVED, the undersigned, CENTERPOINT ENERGY RESOURCES CORP., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the principal sum of U.S.$[amount of the Lender's Commitment in figures] or, if less, the aggregate principal amount of the Revolving Advances made by the Lender to the Borrower pursuant to the Credit Agreement dated as of March 25, 2003 among the Borrower, the Lenders listed on the signature pages thereto, Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc. as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for the Lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined) outstanding on the Termination Date.

The Borrower promises to pay interest on the unpaid principal amount of each Revolving Advance from the date of such Revolving Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Citicorp USA, Inc., as Administrative Agent, at Two Penns Way, Suite 200, New Castle, Delaware, 19720, in same day funds. Each Revolving Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Revolving Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Revolving Advance being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

CENTERPOINT ENERGY RESOURCES CORP.

By _____

Title:

CERC 364-Day Revolving Credit Agreement

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ADVANCES AND PAYMENTS OF PRINCIPAL

DATE	AMOUNT OF REVOLVING ADVANCE	AMOUNT OF PRINCIPAL PAID OR PREPAID	UNPAID PRINCIPAL BALANCE	NOTATION MADE BY

CERC 364-Day Revolving Credit Agreement

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EXHIBIT B - FORM OF
NOTICE OF BORROWING

Citicorp USA, Inc., as Administrative Agent for the Lenders parties
to the Credit Agreement
referred to below
399 Park Avenue
New York, NY 10043

Attention: _____

[DATE]

Ladies and Gentlemen:

The undersigned, CENTERPOINT ENERGY RESOURCES CORP., refers to the Credit Agreement, dated as of March 25, 2003 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, the Lenders listed on the signature pages thereto, Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc., as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Revolving Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Revolving Borrowing (the "Proposed Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Revolving Borrowing is _____, 20__.

(ii) The Type of Revolving Advances comprising the Proposed Revolving Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed Revolving Borrowing is $_____.

(iv) [The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Revolving Borrowing is _____ [week][month][s].]

(v) All or a portion of the Proposed Revolving Borrowing
[will][will not] be used to repay commercial paper.

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Revolving Borrowing:

(A) the representations and warranties contained in Section 4.01 (other than, in the case of any Revolving Borrowing, all or a portion of the proceeds of which shall be applied to repay commercial paper of the Borrower or its Subsidiaries, Section 4.01(e) and (f)) of the Credit Agreement are correct, before and after giving effect to the Proposed Revolving Borrowing and to the application of the proceeds therefrom, as though made on and as of such date (except to the extent such representations are limited to a prior date);

(B) no event has occurred and is continuing, or would result from such Proposed Revolving Borrowing or from the application of the proceeds therefrom, that constitutes a Default; and

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(C) the Borrower is Solvent.

Very truly yours,

CENTERPOINT ENERGY RESOURCES CORP.

By _____

Title:(1)

(1) Signatory must be a Financial Officer, as defined in the Credit Agreement.

CERC 364-Day Revolving Credit Agreement

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EXHIBIT C - FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of March 25, 2003 (as amended or modified from time to time, the "Credit Agreement") among CENTERPOINT ENERGY RESOURCES CORP., a Delaware corporation (the "Borrower"), the Lenders (as defined in the Credit Agreement), Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc., as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for the Lenders (the "Administrative Agent"). Terms defined in the Credit Agreement are used herein with the same meaning.

The "Assignor" and the "Assignee" referred to on Schedule 1 hereto agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof (other than in respect of CAF Advances and CAF Notes) equal to the percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement (other than in respect of CAF Advances and CAF Notes). After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Revolving Advances owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; and (iv) attaches the Note (if any) held by the Assignor and requests that the Administrative Agent exchange such Note for a new Note payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto or new Notes payable to the order of the Assignee in an amount equal to the Commitment assumed by the Assignee pursuant hereto and the Assignor in an amount equal to the Commitment retained by the Assignor under the Credit Agreement, respectively, as specified on Schedule 1 hereto.

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance;
(ii) agrees that it will, independently and without reliance upon any Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes each Agent to take such action as such Agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to such Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto;
(v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; and (vi) attaches any U.S. Internal Revenue Service forms required under Section 2.15 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Administrative Agent for acceptance and recording by the Administrative Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Administrative Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Administrative Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and

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Acceptance, have the rights and obligations of a Lender thereunder and
(ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

6. Upon such acceptance and recording by the Administrative Agent, from and after the Effective Date, the Administrative Agent shall make all payments under the Credit Agreement and the Notes (if any) in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and facility fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Notes (if any) for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

CERC 364-Day Revolving Credit Agreement

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Schedule 1
to
Assignment and Acceptance

Percentage interest assigned:
_____%

Assignee's Commitment: $_____

Aggregate outstanding principal amount of Revolving Advances assigned: $_____

Principal amount of Note payable to Assignee: $_____

Principal amount of Note payable to Assignor: $_____

Effective Date(1): _____, 20__

[NAME OF ASSIGNOR], as Assignor

By _____ Title:

Dated: _____, 20__

[NAME OF ASSIGNEE], as Assignee

By _____ Title:

Domestic Lending Office:
[Address]

Eurodollar Lending Office:
[Address]

Accepted [and Approved](2) this
_____ day of _____, 20__

CITICORP USA, INC., as Administrative Agent

By _____
Title:

[Approved this _____ day of _____, 20__

(1) This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Agent.

(2) Required if the Assignee is an Eligible Assignee solely by reason of clause (iii) of the definition of "Eligible Assignee".

CERC 364-Day Revolving Credit Agreement

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CENTERPOINT ENERGY RESOURCES CORP.

By _____](1)
Title:

(1) Required if the Assignee is an Eligible Assignee solely by reason of clause (iii) of the definition of "Eligible Assignee".

CERC 364-Day Revolving Credit Agreement

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EXHIBIT D - FORM OF
CAF NOTE

U.S.$_____ Dated: _____, 200_

FOR VALUE RECEIVED, the undersigned, CENTERPOINT ENERGY RESOURCES CORP., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office (as defined in the Credit Agreement dated as of March 25, 2003 among the Borrower, the Lenders listed on the signature pages thereto, Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc., as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for the Lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined)), on _____, 200_, the principal amount of U.S.$_____.

The Borrower promises to pay interest on the unpaid principal amount hereof from the date hereof until such principal amount is paid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: _____% per annum (calculated on the basis of a year of 360 days for the actual number of days elapsed).

Both principal and interest are payable in lawful money of the United States of America to _____ for the account of the Lender at the office of _____, at _____ in same day funds.

This Promissory Note is one of the CAF Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York.

CENTERPOINT ENERGY RESOURCES CORP.

By _____
Title:

CERC 364-Day Revolving Credit Agreement

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EXHIBIT E - FORM OF
COMPETITIVE BID REQUEST

Citicorp USA, Inc.,
As Administrative Agent for the
Lenders parties to the Credit Agreement (as defined below) 399 Park Avenue
New York, NY 10043

Ladies and Gentlemen:

Reference is made to the Credit Agreement, dated as of March 25, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the undersigned, the Lenders listed on the signature pages thereto, Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc., as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for said Lenders. Terms defined in the Credit Agreement are used herein as therein defined.

This is a Competitive Bid Request pursuant to Section 2.04 of the Credit Agreement requesting quotes for the following:

Aggregate Principal Amount	$_____	$_____
Effective Date of CAF Advance	_____	_____
Type of CAF Advance (1)	_____	_____
Maturity Date (2)	_____	_____
Interest Payment Dates	_____	_____

Very truly yours,

CENTERPOINT ENERGY RESOURCES CORP.,
as Borrower

By _____
Title:

Dated:_____

(1) Fixed Rate Advance or CAF Eurodollar Rate Advance.

(2) A period of at least 15 days and no longer than 180 days.

CERC 364-Day Revolving Credit Agreement

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EXHIBIT F - FORM OF COMPETITIVE BID

Citicorp USA, Inc.,
As Administrative Agent for the
Lenders parties to the Credit Agreement (as defined below) 399 Park Avenue
New York, NY 10043

Ladies and Gentlemen:

Reference is made to the Credit Agreement, dated as of March 25, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the undersigned, the Lenders listed on the signature pages thereto, Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc., as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for said Lenders. Terms defined in the Credit Agreement are used herein as therein defined.

In accordance with Section 2.04(b) of the Credit Agreement, the undersigned Lender offers to make a CAF Advance thereunder in the following amounts with the following maturity dates:

Effective Date of CAF Advance: _____, 200_

Aggregate Maximum Amount: $_____

Maturity Date 1	Maturity Date 2	Maturity Date 3
Maximum Amount $ $	Maximum Amount $	Maximum Amount
Rate(1) Amount	Rate Amount	Rate Amount
Rate Amount	Rate Amount	Rate Amount

The undersigned hereby confirms that it is prepared to extend credit to the Borrower upon acceptance by the Borrower of this bid in accordance with Section 2.04(d) of the Credit Agreement.

Very truly yours,

[NAME OF BIDDING LENDER]

By

_____

Name:
Dated:_____
Title:
Telephone No.:
Fax:

---

(1) In the case of CAF Eurodollar Rate Advances, insert CAF Margin; in the case of Fixed Rate Advances, insert fixed rate bid.

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EXHIBIT G - FORM OF
COMPETITIVE BID CONFIRMATION

Citicorp USA, Inc.,
As Administrative Agent for the
Lenders parties to the Credit Agreement (as defined below) 399 Park Avenue
New York, NY 10043

Ladies and Gentlemen:

Reference is made to the Credit Agreement, dated as of March 25, 2003 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the undersigned, the Lenders listed on the signature pages thereto, Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as Lead Arrangers and Joint Bookrunners, Citicorp North America, Inc., as Collateral Agent and Citicorp USA, Inc., as Administrative Agent for said Lenders. Terms defined in the Credit Agreement are used herein as therein defined.

In accordance with Section 2.04(d) of the Credit Agreement, the undersigned accepts and confirms the offers by the Lender[s] to make CAF Advances to the undersigned on _____, 200_ under said Section 2.04(d) in the [respective] amount[s] set forth on the attached list of CAF Advances offered.

By delivery of this Competitive Bid Confirmation and the acceptance of any or all of the CAF Advances offered by the Lenders in response to this Competitive Bid Confirmation, the undersigned shall be deemed to have represented and warranted that the relevant conditions to making CAF Advances in
Section 3.03 of the Credit Agreement have been satisfied with respect to such CAF Advances.

Very truly yours,

CENTERPOINT ENERGY RESOURCES CORP.,
as Borrower

By _____
Title:

Dated:_____

[Borrower to attach CAF Advances offer list prepared by the Administrative Agent with accepted amount entered by the Borrower to the right of each CAF Advance offer]

CERC 364-Day Revolving Credit Agreement

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EXHIBIT H - FORM OF PLEDGE AGREEMENT

PLEDGE AGREEMENT

Dated [__], 2003

From

CENTERPOINT ENERGY RESOURCES CORP.

as Grantor

to

CITICORP NORTH AMERICA, INC.

as Collateral Agent

CERC - Pledge Agreement

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Schedules

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CERC - Pledge Agreement

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PLEDGE AGREEMENT

PLEDGE AGREEMENT dated [__], 2003 made by CENTERPOINT ENERGY RESOURCES CORP., a Delaware corporation (the "GRANTOR"), to CITICORP NORTH AMERICA, INC., as collateral agent (in such capacity, together with any successor collateral agent, the "COLLATERAL AGENT") for the Secured Parties (defined below).

PRELIMINARY STATEMENTS.

(1) The Grantor has entered into a U.S.$200,000,000 Credit Agreement, dated March 25, 2003 (said Credit Agreement, as it may hereafter be amended, amended and restated, supplemented or otherwise modified from time to time, being the "REVOLVING CREDIT AGREEMENT") among the Grantor, as borrower, Salomon Smith Barney, Inc. and J.P. Morgan Securities Inc. as lead arrangers (the "REVOLVER ARRANGERS"), Wachovia Bank, National Association and Banc One Capital Markets, Inc., as co-syndication agents, Credit Suisse First Boston, Cayman Islands Branch, as documentation agent, Citicorp USA, Inc., as administrative agent (the "REVOLVER AGENT") and the lenders listed on the signature pages thereto (the "REVOLVER LENDERS" and, together with the Revolver Arrangers and the Revolver Agent, the "REVOLVER SECURED PARTIES").

(2) The Grantor has also entered into a Bridge Credit Agreement, dated March [__], 2003 (said Bridge Credit Agreement, as it may hereafter be amended, amended and restated, supplemented or otherwise modified from time to time, being the "BRIDGE CREDIT AGREEMENT" and, together with the Revolving Credit Agreement, the "CREDIT AGREEMENTS") among the Grantor, as borrower, Citicorp North America, Inc., as administrative agent (the "BRIDGE AGENT"), Salomon Smith Barney, Inc. as lead arranger (the "BRIDGE ARRANGER") and the lenders listed on the signature pages thereto (the "BRIDGE LENDERS" and, together with the Bridge Agent and the Bridge Arranger, the "BRIDGE SECURED PARTIES" and, together with the Revolver Secured Parties, the "SECURED PARTIES"). Terms defined in the Credit Agreements and not otherwise defined in this Agreement are used in this Agreement as defined in the applicable Credit Agreement.

(3) Pursuant to the Credit Agreements, the Grantor is entering into this Agreement in order to grant to the Collateral Agent for the ratable benefit of the Secured Parties a security interest in the Collateral (as hereinafter defined).

(4) The Grantor is the owner of the shares of stock or other equity interests (the "INITIAL PLEDGED EQUITY") set forth opposite the Grantor's name on and as otherwise described in Schedule II hereto and issued by the Persons named therein and of the indebtedness (the "INITIAL PLEDGED DEBT") set forth opposite such Grantor's name on and as otherwise described in Part II of Schedule II hereto and issued by the obligors named therein.

(5) It is a condition precedent to the making of Advances by the Bridge Lenders under the Bridge Credit Agreement and the making of further Advances by the Revolver Lenders under the Revolving Credit Agreement that the Grantor shall have granted the assignment and security interest and made the pledge and assignment contemplated by this Agreement.

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(6) Unless otherwise defined in this Agreement or in the Credit Agreements, terms defined in Article 8 or 9 of the UCC (as defined below) are used in this Agreement as such terms are defined in such Article 8 or 9. "UCC" means the Uniform Commercial Code as in effect, from time to time, in the State of New York; provided that, if perfection or the effect of perfection or non-perfection or the priority of any security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, "UCC" means the Uniform Commercial Code as in effect from time to time in such other jurisdiction for purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection or priority.

NOW, THEREFORE, in consideration of the premises and in order to induce the Bridge Lenders to make Advances under the Bridge Credit Agreement and to induce the Revolver Lenders to make further Advances under the Revolving Credit Agreement, the Grantor hereby agrees with the Collateral Agent for the ratable benefit of the Secured Parties as follows:

Section 1. Grant of Security. The Grantor hereby grants to the Collateral Agent, for the ratable benefit of the Secured Parties, a security interest in, the Grantor's right, title and interest in and to the following, in each case, as to each type of property described below, whether now owned or hereafter acquired by the Grantor, wherever located, and whether now or hereafter existing or arising (collectively, the "COLLATERAL"):

(a) the following (the "SECURITY COLLATERAL"):

(i) the Initial Pledged Equity and the certificates, if any, representing the Initial Pledged Equity, and all dividends, distributions, return of capital, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Initial Pledged Equity and all subscription warrants, rights or options issued thereon or with respect thereto;

(ii) all additional shares of stock and other Equity Interests of or in any issuer of the Initial Pledged Equity or any successor entity from time to time acquired by the Grantor in any manner (such shares and other Equity Interests, together with the Initial Pledged Equity, being the "PLEDGED EQUITY"), and the certificates, if any, representing such additional shares or other Equity Interests, and all dividends, distributions, return of capital, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares or other Equity Interests and all subscription warrants, rights or options issued thereon or with respect thereto;

(iii) the Initial Pledged Debt and the instruments, if any, evidencing the Initial Pledged Debt, and all interest, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Initial Pledged Debt; and

(b) all proceeds of, collateral for, income and other payments now or hereafter due and payable with respect to, and supporting obligations relating to, any and all of the

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Collateral (including, without limitation, proceeds, collateral and supporting obligations that constitute property of the types described in clause (a) of this Section 1 and this clause (b)).

Section 2. Security for Obligations. This Agreement secures, in the case of the Grantor, the payment of all obligations of the Grantor now or hereafter existing under the Loan Documents, as defined in the Bridge Credit Agreement ("BRIDGE OBLIGATIONS") and under the Loan Documents, as defined in the Revolving Credit Agreement ("REVOLVER OBLIGATIONS"), whether direct or indirect, absolute or contingent, and whether for principal, reimbursement obligations, interest, fees, premiums, penalties, indemnifications, contract causes of action, costs, expenses or otherwise (all such obligations being the "SECURED OBLIGATIONS").

Section 3. Delivery and Control of Security Collateral.
(a) All certificates or instruments representing or evidencing Security Collateral shall be delivered to and held by or on behalf of the Collateral Agent pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Collateral Agent. The Collateral Agent shall have the right, at any time after the occurrence and during the continuation of an Event of Default, in its reasonable discretion and without notice to the Grantor, to transfer to or to register in the name of the Collateral Agent or any of its nominees any or all of the Security Collateral, subject only to the revocable rights specified in Section 7(a). In addition, after the occurrence and during the continuation of an Event of Default, the Collateral Agent shall have the right to exchange certificates or instruments representing or evidencing Security Collateral for certificates or instruments of smaller or larger denominations.

(b) With respect to any Security Collateral in which the Grantor has any right, title or interest and that constitutes an uncertificated security, the Grantor will cause the issuer thereof either (i) to register the Collateral Agent as the registered owner of such security or (ii) to agree in an authenticated record with the Grantor and the Collateral Agent that such issuer will comply with instructions with respect to such security originated by the Collateral Agent without further consent of the Grantor, such authenticated record to be in form and substance satisfactory to the Collateral Agent. With respect to any Security Collateral in which the Grantor has any right, title or interest and that is not an uncertificated security, upon the request of the Collateral Agent upon the occurrence and during the continuance of an Event of Default, the Grantor will notify each such issuer of Pledged Equity that such Pledged Equity is subject to the security interest granted hereunder.

(c) Upon the request of the Collateral Agent, such Grantor will notify the issuer of the Initial Pledged Debt that such Initial Pledged Debt is subject to the security interest granted hereunder.

Section 4. Representations and Warranties. The Grantor represents and warrants as follows:

(a) The Grantor's exact legal name, as defined in Section 9-503(a) of the UCC, is correctly set forth in Schedule 1 hereto. The Grantor is located (within the meaning of Section 9-307 of the UCC) and has its chief executive office in the state or

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jurisdiction set forth in Schedule I hereto. The information set forth in Schedule I hereto with respect to the Grantor is true and accurate in all respects. The Grantor has not previously changed its name, location, chief executive office, type of organization, jurisdiction of organization or organizational identification number from those set forth in Schedule I hereto except as disclosed in Schedule III hereto.

(b) The Grantor is the legal and beneficial owner of the Collateral of the Grantor free and clear of any Lien, claim, option or right of others, except for the security interest created under this Agreement or as otherwise permitted under each Credit Agreement. No effective financing statement or other instrument similar in effect covering all or any part of such Collateral or listing the Grantor or any trade name of the Grantor as debtor is on file in any recording office, except such as may have been filed in favor of the Collateral Agent relating to the Loan Documents or as otherwise permitted under each Credit Agreement.

(c) The Pledged Equity pledged by the Grantor hereunder has been duly authorized and validly issued and is fully paid and non-assessable. With respect to any Pledged Equity that is an uncertificated security, the Grantor has caused the issuer thereof either (i) to register the Collateral Agent as the registered owner of such security or (ii) to agree in an authenticated record with the Grantor and the Collateral Agent that such issuer will, upon the occurrence and during the continuation of an Event of Default, comply with instructions with respect to such security originated by the Collateral Agent without further consent of the Grantor. The Initial Pledged Debt pledged by such Grantor hereunder has been duly authorized, authenticated or issued and delivered, is the legal, valid and binding obligation of the issuers thereof, is evidenced by one or more promissory notes (which notes have been delivered to the Collateral Agent) and is not in default.

(d) The Initial Pledged Equity pledged by the Grantor constitutes the percentage of the issued and outstanding Equity Interests of the issuers thereof indicated on Schedule II hereto. The Initial Pledged Debt constitutes all of the outstanding indebtedness owed to such Grantor by the issuer thereof and is outstanding in the principal amount indicated on Schedule II hereto.

(e) All filings and other actions (including, without limitation, actions necessary to obtain control of Collateral as provided in Section 9-106 of the UCC) necessary to perfect the security interest in the Collateral of the Grantor created under this Agreement have been duly made or taken and are in full force and effect, and this Agreement creates in favor of the Collateral Agent for the benefit of the Secured Parties a valid and, together with such filings and other actions, perfected first priority security interest in the Collateral, securing the payment of the Secured Obligations.

(f) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for (i) the grant by the Grantor of the security interest granted hereunder or for the execution, delivery or performance of this Agreement by the Grantor,
(ii) the perfection or maintenance of the security interest created hereunder (including the first priority

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nature of such security interest), except for the filing of financing and continuation statements under the UCC, which financing statements have been duly filed and are in full force and effect, and the actions described in Section 3 with respect to Security Collateral, which actions have been taken and are in full force and effect, or (iii) the exercise by the Collateral Agent of its voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with the disposition of any portion of the Security Collateral by laws affecting the offering and sale of securities generally.

Section 5. Further Assurances. (a) The Grantor agrees that from time to time, at the expense of the Grantor, the Grantor will promptly execute and deliver, or otherwise authenticate, all further instruments and documents, and take all further action that may be necessary or desirable, or that the Collateral Agent may reasonably request, in order to perfect and protect any pledge or security interest granted or purported to be granted by the Grantor hereunder or to enable the Collateral Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral of the Grantor. Without limiting the generality of the foregoing, the Grantor will promptly with respect to Collateral of the Grantor: (i) if any such Collateral shall be evidenced by a promissory note or other instrument, deliver and pledge to the Collateral Agent hereunder such note or instrument duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Collateral Agent; (ii) execute or authenticate and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Collateral Agent may request, in order to perfect and preserve the security interest granted or purported to be granted by the Grantor hereunder; (iii) deliver and pledge to the Collateral Agent for benefit of the Secured Parties certificates representing Security Collateral that constitutes certificated securities, accompanied by undated stock or bond powers executed in blank; (iv) take all action necessary to ensure that the Collateral Agent has control of Collateral consisting of investment property as provided in Section 9-106 of the UCC; and (v) deliver to the Collateral Agent evidence that all other action that the Collateral Agent may deem reasonably necessary or desirable in order to perfect and protect the security interest created by the Grantor under this Agreement has been taken.

(b) The Grantor hereby authorizes the Collateral Agent to file one or more financing or continuation statements, and amendments thereto, in each case without the signature of the Grantor, and regardless of whether any particular asset described in such financing statements falls within the scope of the UCC or the granting clause of this Agreement. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. The Grantor ratifies its authorization for the Collateral Agent to have filed such financing statements, continuation statements or amendments filed prior to the date hereof.

(c) The Grantor will furnish to the Collateral Agent from time to time statements and schedules further identifying and describing the Collateral of the Grantor and such other reports in connection with such Collateral as the Collateral Agent may reasonably request, all in reasonable detail.

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Section 6. Post-Closing Changes. (a) The Grantor will not change its name, type of organization, jurisdiction of organization, organizational identification number or location from those set forth in Section 4(a) of this Agreement without first giving at least 10 Business Days' prior written notice to the Collateral Agent and taking all action required by the Collateral Agent for the purpose of perfecting or protecting the security interest granted by this Agreement. The Grantor will not become bound by a security agreement authenticated by another Person (determined as provided in Section 9-203(d) of the UCC) without giving the Collateral Agent 10 Business Days' prior written notice thereof and taking all action required by the Collateral Agent to ensure that the perfection and first priority nature of the Collateral Agent's security interest in the Collateral will be maintained.

(b) The Grantor will hold and preserve its records relating to the Collateral and will permit up to six representatives of the Bridge Secured Parties designated by the Required Lenders (as defined in the Bridge Credit Agreement) or representatives of the Collateral Agent, on not less than five (5) Business Days' notice, at any reasonable time during normal business hours, to inspect and make copies of abstracts from such records and other documents and to discuss general business affairs of the Grantor with its officers; subject, however, in all cases to the imposition of such conditions as the Grantor shall deem necessary based on reasonable considerations of safety and security; provided, however, that the Grantor shall not be required to disclose to the Collateral Agent or any Secured Party or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the Grantor 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 as 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 (as each such term is defined in either of the Credit Agreements).

(c) If the Grantor does not have an organizational identification number and later obtains one, it will forthwith notify the Collateral Agent of such organizational identification number.

Section 7. Voting Rights; Dividends; Etc. (a) So long as no Event of Default shall have occurred and be continuing:

(i) The Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Security Collateral or any part thereof for any purpose; provided however, that the Grantor will not exercise or refrain from exercising any such right if such action would have a material adverse effect on the value of the Security Collateral or any part thereof.

(ii) The Grantor shall be entitled to receive and retain any and all dividends, interest and other distributions paid in respect of the Security Collateral if and to the extent that the payment thereof is not otherwise prohibited by the terms of the Loan Documents; provided, however, that any and all

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(A) dividends, interest and other distributions paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Security Collateral,

(B) dividends and other distributions paid or payable in cash in respect of any Security Collateral in connection with a partial or total liquidation or dissolution or in connection with a material reduction of capital, capital surplus or paid-in-surplus and

(C) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any Security Collateral

shall be, and shall be forthwith delivered to the Collateral Agent to hold as, Security Collateral and shall, if received by the Grantor, be received in trust for the benefit of the Collateral Agent, be segregated from the other property or funds of the Grantor and be forthwith delivered to the Collateral Agent as Security Collateral in the same form as so received (with any necessary indorsement).

(iii) The Collateral Agent will execute and deliver (or cause to be executed and delivered) to the Grantor all such proxies and other instruments as the Grantor may reasonably request for the purpose of enabling the Grantor to exercise the voting and other rights that it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends or interest payments that it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuance of an Event of Default:

(i) All rights of the Grantor (x) to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 7(a)(i) shall, upon notice to the Grantor by the Collateral Agent, cease and (y) to receive the dividends, interest and other distributions that it would otherwise be authorized to receive and retain pursuant to Section 7(a)(ii) shall automatically cease, and all such rights shall thereupon become vested in the Collateral Agent, which shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights and to receive and hold as Security Collateral such dividends, interest and other distributions.

(ii) All dividends, interest and other distributions that are received by the Grantor contrary to the provisions of paragraph (i) of this Section 7(b) shall be received in trust for the benefit of the Collateral Agent, shall be segregated from other funds of the Grantor and shall be forthwith paid over to the Collateral Agent as Security Collateral in the same form as so received (with any necessary indorsement).

Section 8. Transfers and Other Liens; Additional Shares. (a) The Grantor agrees that it will not (i) sell, assign or otherwise dispose of, or grant any option with respect to, any of the Collateral, other than sales, assignments and other dispositions of Collateral, and options relating to Collateral, permitted under the terms of the Credit Agreements, or
(ii) create

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or suffer to exist any Lien upon or with respect to any of the Collateral of the Grantor except for the pledge, assignment and security interest created under this Agreement and Permitted Liens.

(b) The Grantor agrees that it will (i) cause each issuer of the Pledged Equity pledged by the Grantor not to issue any Equity Interests or other securities in addition to or in substitution for the Pledged Equity issued by such issuer, except to the Grantor, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional Equity Interests or other securities of each issuer of the Pledged Equity.

Section 9. Collateral Agent Appointed Attorney-in-Fact. The Grantor hereby irrevocably appoints the Collateral Agent the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time, upon the occurrence and during the continuance of an Event of Default, in the Collateral Agent's reasonable discretion, to take any action and to execute any instrument that the Collateral Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(b) to receive, indorse and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above, and

(c) to file any claims or take any action or institute any proceedings that the Collateral Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Collateral Agent with respect to any of the Collateral.

Section 10. Collateral Agent May Perform. If the Grantor fails to perform any agreement contained herein, the Collateral Agent may, but without any obligation to do so and without notice, itself perform, or cause performance of, such agreement, and the reasonable expenses of the Collateral Agent incurred in connection therewith shall be payable by the Grantor under
Section 13.

Section 11. The Collateral Agent's Duties. (a) The powers conferred on the Collateral Agent hereunder are solely to protect the Secured Parties' interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Collateral Agent shall have no duty as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not any Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which it accords its own property.

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(b) Anything contained herein to the contrary notwithstanding, the Collateral Agent may from time to time, when the Collateral Agent deems it to be necessary with (so long as an Event of Default has not occurred and is continuing) the written concurrence of the Grantor, appoint one or more subagents (each a "SUBAGENT") for the Collateral Agent hereunder with respect to all or any part of the Collateral. In the event that the Collateral Agent so appoints any Subagent with respect to any Collateral, (i) the assignment and pledge of such Collateral and the security interest granted in such Collateral by the Grantor hereunder shall be deemed for purposes of this Pledge Agreement to have been made to such Subagent, in addition to the Collateral Agent, for the ratable benefit of the Secured Parties, as security for the Secured Obligations of the Grantor, (ii) such Subagent shall automatically be vested, in addition to the Collateral Agent, with all rights, powers, privileges, interests and remedies of the Collateral Agent hereunder with respect to such Collateral, and (iii) the term "Collateral Agent," when used herein in relation to any rights, powers, privileges, interests and remedies of the Collateral Agent with respect to such Collateral, shall include such Subagent; provided, however, that no such Subagent shall be authorized to take any action with respect to any such Collateral unless and except to the extent expressly authorized in writing by the Collateral Agent.

Section 12. Remedies. If any Event of Default shall have occurred and be continuing:

(a) The Collateral Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party upon default under the UCC (whether or not the UCC applies to the affected Collateral) and also may: (i) require the Grantor to, and the Grantor hereby agrees that it will at its expense and upon request of the Collateral Agent forthwith, assemble all or part of the Collateral as directed by the Collateral Agent and make it available to the Collateral Agent at a place and time to be designated by the Collateral Agent that is reasonably convenient to both parties;
(ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Collateral Agent may deem commercially reasonable; and (iii) exercise any and all rights and remedies of any of the Grantor under or in connection with the Collateral, or otherwise in respect of the Collateral, including, without limitation, (A) rights of the Grantor to demand or otherwise require payment of any amount with respect to the Collateral and (B) exercise all other rights and remedies with respect to the Collateral. The Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Collateral Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Any cash held by or on behalf of the Collateral Agent and all cash proceeds received by or on behalf of the Collateral Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the

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discretion of the Collateral Agent, be held by the Collateral Agent as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Collateral Agent pursuant to
Section 13) in whole or in part by the Collateral Agent for the ratable benefit of the Secured Parties against, all or any part of the Secured Obligations, in the following manner:

(i) first, paid to the Agents for any amounts then owing to the Agents pursuant to Section 8.04 of each of the Credit Agreements or otherwise under the Loan Documents, ratably in accordance with such respective amounts then owing to the Agents; and

(ii) second, paid to the Lenders for any amounts then owing to them, in their capacities as such, under the Loan Documents ratably in accordance with such respective amounts then owing to such Lenders.

Any surplus of such cash or cash proceeds held by or on the behalf of the Collateral Agent and remaining after payment in full of all the Secured Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.

(c) All payments received by the Grantor in respect of the Collateral shall be received in trust for the benefit of the Collateral Agent, shall be segregated from other funds of the Grantor and shall be forthwith paid over to the Collateral Agent in the same form as so received (with any necessary indorsement).

(d) The Collateral Agent may, without notice to the Grantor except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Secured Obligations against any funds held in any deposit account.

Section 13. Indemnity and Expenses. (a) The Grantor agrees to indemnify, defend and save and hold harmless each Secured Party and each of their Affiliates and their respective officers, directors, employees, agents and advisors (each, an "INDEMNIFIED PARTY") from and against, and shall pay on demand, any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(b) The Grantor will upon demand pay to the Collateral Agent the amount of any and all reasonable expenses, including, without limitation, the reasonable fees and expenses of its counsel and of any experts and agents, that the Collateral Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Collateral Agent or the other Secured Parties hereunder or (iv) the failure by the Grantor to perform or observe any of the provisions hereof.

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Section 14. Amendments; Waivers. No amendment or waiver of any provision of this Agreement, and no consent to any departure by the Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by the Collateral Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Collateral Agent or any other Secured Party to exercise, and no delay in exercising any right hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

Section 15. Notices, Etc. All notices and other communications provided for hereunder shall be either (i) in writing (including telegraphic, telecopier or telex communication) and mailed, telegraphed, telecopied, telexed or otherwise delivered if to the Grantor, at its address at P.O. Box 2805, Houston, Texas, 77252, Attention: Assistant Treasurer (telecopy:
713 207 3301); if to the Collateral Agent, at its address at Two Penns Way, Suite 200, New Castle, Delaware, 19720 Attention: Janet Wallace (telecopy: 212 994 0961), with a copy to 388 Greenwich Street, New York, New York, 10013, Attention: Stuart Glen (telecopy: 212 816 8098) or (ii) by electronic mail (if electronic mail addresses are designated as provided below) confirmed immediately in writing, in the case of the Grantor or the Collateral Agent, addressed to it at its address specified herein and in the Bridge Credit Agreement; or, as to any party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and other communications shall, when mailed, telegraphed, telecopied, telexed, sent by electronic mail or otherwise, be effective when deposited in the mails, delivered to the telegraph company, telecopied, confirmed by telex answerback, sent by electronic mail and confirmed in writing, or otherwise delivered (or confirmed by a signed receipt), respectively, addressed as aforesaid; except that notices and other communications to the Collateral Agent shall not be effective until received by the Collateral Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or Schedule hereto shall be effective as delivery of an original executed counterpart thereof.

Section 16. Continuing Security Interest; Assignments under the Credit Agreements. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the later of (i) the payment in full in cash of the Secured Obligations consisting of Bridge Obligations and (ii) the Termination Date (as defined in the Bridge Credit Agreement), (b) be binding upon the Grantor, its successors and assigns and (c) inure, together with the rights and remedies of the Collateral Agent hereunder, to the benefit of the Secured Parties and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the applicable Credit Agreement (including, without limitation, all or any portion of its Commitments, the Advances owing to it and the Note or Notes, if any, held by it) to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise, in each case as provided in Section 8.07 of the applicable Credit Agreement.

Section 17. Release; Termination. Upon the later of (i) the payment in full in cash of the Secured Obligations consisting of Bridge Obligations, (ii) the release by the Collateral Agent of all Collateral and
(iii) the Termination Date (as defined in the Bridge Credit Agreement), the pledge and security interest granted hereby shall terminate and all rights to the

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Collateral shall revert to the Grantor. Upon any such termination, the Collateral Agent will, at the Grantor's expense, execute and deliver to the Grantor such documents as the Grantor shall reasonably request to evidence such termination.

Section 18. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of an original executed counterpart of this Agreement.

Section 19. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 20. Collateral Agent's Direction.
Notwithstanding anything to the contrary contained herein or the Loan Documents, no enforcement action may be taken by the Collateral Agent without the prior written direction by the Required Lenders (as defined in the Bridge Credit Agreement) or the Bridge Agent acting at the direction of the Required Lenders (as defined in the Bridge Credit Agreement), and the Revolving Lenders shall have no right to direct the Collateral Agent or vote on any matter other than the sharing of proceeds hereunder pursuant to Section 12.

IN WITNESS WHEREOF, the Grantor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

CENTERPOINT ENERGY RESOURCES CORP.

By _____
Title:

CERC - Pledge Agreement

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SCHEDULE I TO THE
PLEDGE AGREEMENT

LOCATION, CHIEF EXECUTIVE OFFICE, TYPE OF ORGANIZATION, JURISDICTION OF ORGANIZATION AND ORGANIZATIONAL IDENTIFICATION NUMBER

GRANTOR	LOCATION	CHIEF EXECUTIVE OFFICE	TYPE OF ORGANIZATION	JURISDICTION OF ORGANIZATION	ORGANIZATIONAL I.D. NO.
CenterPoint Energy Resources Corp.			Corporation	Delaware	

CERC - Pledge Agreement

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SCHEDULE II TO THE PLEDGE AGREEMENT

PLEDGED EQUITY AND PLEDGED DEBT

I. INITIAL PLEDGED EQUITY

ISSUER	CLASS OF EQUITY INTEREST	PAR VALUE	CERTIFICATE NO(S)	NUMBER OF SHARES	PERCENTAGE OF OUTSTANDING SHARES
CenterPoint Energy Gas Transmission Company	[Common Stock]				100%
CenterPoint Energy Mississippi River Transmission Corporation	[Common Stock]				100%

II. INITIAL PLEDGED DEBT

GRANTOR	DEBT ISSUER	DESCRIPTION OF DEBT	DEBT CERTIFICATE NO(S).	FINAL MATURITY	OUTSTANDING PRINCIPAL AMOUNT
Center-Point Energy Resources Corp.					$

CERC - Pledge Agreement

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SCHEDULE III TO THE
PLEDGE AGREEMENT

CHANGES IN NAME, LOCATION, ETC.

CHANGES IN THE GRANTOR'S NAME (INCLUDING NEW GRANTOR WITH A NEW NAME AND NAMES ASSOCIATED WITH ALL PREDECESSORS IN INTEREST OF THE GRANTOR)

CHANGES IN THE GRANTOR'S LOCATION

CHANGES IN THE GRANTOR'S CHIEF EXECUTIVE OFFICE

CHANGES IN THE TYPE OF ORGANIZATION

CHANGES IN THE JURISDICTION OF ORGANIZATION

CHANGES IN THE ORGANIZATIONAL IDENTIFICATION NUMBER

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EXHIBIT 99.1

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 March 31, 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: May 12, 2003 */s/ DAVID M. McCLANAHAN*

David M. McClanahan
President and
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Act and is not being filed as part of the Report or as a separate disclosure document.

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EXHIBIT 99.2

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 March 31, 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: May 12, 2003

/s/ GARY L. WHITLOCK

Gary L. Whitlock
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Act and is not being filed as part of the Report or as a separate disclosure document.

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EXHIBIT 99.3

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

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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

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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

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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.

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RISK FACTORS

RISK FACTORS ASSOCIATED WITH FINANCIAL CONDITION AND OTHER RISKS

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

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

- general economic and capital market conditions;

- credit availability from financial institutions and other lenders;

- investor confidence in us and the market in which we operate;

- maintenance of acceptable credit ratings;

- market expectations regarding our future earnings and probable cash flows;

- market perceptions of our ability to access capital markets on reasonable terms;

- our exposure to Reliant Resources in connection with its indemnification obligations arising in connection with its separation from us;

- provisions of relevant tax and securities laws; and

- our ability to obtain approval of specific financing transactions under the 1935 Act.

As of December 31, 2002, our CenterPoint Houston subsidiary had $1.8 billion of general mortgage bonds outstanding. It may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Although approximately $900 million of additional general mortgage bonds could be issued on the basis of property additions as of December 31, 2002, CenterPoint Houston has agreed contractually to limit incremental secured debt to $300 million. In addition, we are contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

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

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

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

CenterPoint Houston is entitled to recover its stranded costs (the excess of regulatory net book value of generation assets, as defined by the Texas electric restructuring law, over the market value of those assets) and its regulatory assets related to generation. CenterPoint Houston expects to make a filing in January 2004 in a true-up proceeding provided for by the Texas electric restructuring law. The purpose of this proceeding will be to quantify and reconcile:

- the amount of stranded costs;

- differences in the prices achieved in the state mandated auctions of Texas Genco's generation capacity and Texas Utility Commission estimates;

- fuel over- or under-recovery;

- the "price to beat" clawback; and

- other regulatory assets associated with our generation business that were not previously recovered through the issuance of securitization bonds by a subsidiary.

CenterPoint Houston will be required to establish and support the amounts of these costs in order to recover them. CenterPoint Houston expects these costs to be substantial. We cannot assure you that CenterPoint Houston will be able to successfully establish and support its estimates of the value of these costs. For more information about the true-up proceeding, please read "Our Business -- Electric Transmission & Distribution -- Stranded Costs and Regulatory Assets Recovery" above and Note 4(a) to our consolidated financial statements.

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

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

CenterPoint Houston's receivables from the distribution of electricity are collected from retail electric providers that supply the electricity CenterPoint Houston distributes to their customers. Currently, CenterPoint Houston does business with approximately 31 retail electric providers. Adverse economic conditions, structural problems in the new ERCOT market or financial difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for CenterPoint Houston's services or could cause them to delay such payments. CenterPoint Houston depends on these retail electric providers to remit payments timely to it. Any delay or default in payment could adversely affect CenterPoint Houston's cash flows, financial condition and results of operations. CenterPoint Houston's receivables balance from retail electric providers at December 31, 2002 was $85 million. Approximately 72% of CenterPoint Houston's receivables from retail electric providers at December 31, 2002 was owed by subsidiaries of Reliant Resources. Our financial condition may be adversely affected if Reliant Resources is unable to meet its obligations to CenterPoint Houston.

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

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

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

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

The competitive electric market in Texas became fully operational in January 2002. Neither CenterPoint Houston nor any of the Texas Utility Commission, ERCOT or other market participants has any significant operating history under the market framework created by the Texas electric restructuring law. Some operational difficulties were encountered in the pilot program conducted in 2001 and continue to be experienced now. These difficulties include delays in the switching of some customers from one retail electric provider to another. These difficulties create uncertainty as to the amount of transmission and distribution charges owed by each retail electric provider, which may cause payment of those amounts to be delayed. While to date these difficulties have not been material, these operating difficulties could become material or structural changes adopted to address these difficulties could materially adversely affect its results of operations, financial condition and cash flows.

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

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

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

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

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

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

RISK FACTORS AFFECTING THE RESULTS OF OUR ELECTRIC GENERATION BUSINESS

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

Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. The ERCOT market consists of the majority of the population centers in the State of Texas and represents approximately 85% of the demand for power in the state. Under the Texas electric restructuring law, Texas Genco and other power generators in Texas are not subject to traditional cost-based regulation and, therefore, may sell electric generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. As a result, Texas Genco is not guaranteed any rate of return on its capital investments through mandated rates, and its revenues and results of operations depend, in large part, upon prevailing market prices for electricity in the ERCOT market. Market prices for electricity, generation capacity, energy and ancillary services may fluctuate substantially. Texas Genco's gross margins are primarily derived from the sale of capacity entitlements associated with its large, solid fuel base-load generating units, including its Limestone and W. A. Parish facilities and its interest in the South Texas Project. The gross margins generated from payments associated with the capacity of these units are directly impacted by natural gas prices. Since the fuel costs for Texas Genco's base-load units are largely fixed under long-term contracts, they are generally not subject to significant daily and monthly fluctuations. However, the market price for power in the ERCOT market is directly affected by the price of natural gas. Because natural gas is the marginal fuel for facilities serving the ERCOT market during most hours, its price has a significant influence on the price of electric power. As a result, the price customers are willing to pay for entitlements to Texas Genco's solid fuel-fired base-load capacity generally rises and falls with natural gas prices.

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

- oversupply or undersupply of generation capacity;

- power transmission or fuel transportation constraints or inefficiencies;

- weather conditions;

- seasonality;

- availability and market prices for natural gas, crude oil and refined products, coal, enriched uranium and uranium fuels;

- changes in electricity usage;

- additional supplies of electricity from existing competitors or new market entrants as a result of the development of new generation facilities or additional transmission capacity;

- illiquidity in the ERCOT market;

- availability of competitively priced alternative energy sources;

- natural disasters, wars, embargoes, terrorist attacks and other catastrophic events; and

- federal and state energy and environmental regulation and legislation.

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

The amount by which power generating capacity exceeded peak demand (reserve margin) in the ERCOT market has exceeded 20% since 2001, and the Texas Utility Commission and the ERCOT ISO have forecasted the reserve margin for 2003 to continue to exceed 20%. A market consulting firm specializing in the power industry has published a report that predicts there will be a surplus of generating capacity in the ERCOT market for the next several years. The commencement of commercial operation of new facilities in the ERCOT region will increase the competitiveness of the wholesale power market, which could have a material adverse effect on Texas Genco's results of operations, financial condition, cash flows and the market value of Texas Genco's assets.

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

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

Texas Genco is obligated to sell substantially all of its capacity and related ancillary services through 2003 pursuant to the capacity auctions more fully described under "Our Business -- Electric Generation" above. In these auctions, Texas Genco sells firm entitlements on a forward basis to capacity and ancillary services dispatched within specified operational constraints. Although Texas Genco has reserved a portion of its aggregate net generation capacity from its capacity auctions for planned or forced outages at its facilities, unanticipated plant outages or other problems with its generation facilities could result in its firm capacity and ancillary services commitments exceeding its available generation capacity. As a result, Texas Genco could be required to obtain replacement power from third parties in the open market to satisfy its firm commitments that could result in significant additional costs. In addition, an unexpected outage at one of Texas Genco's

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

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

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

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

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

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

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

- operating performance below expected levels of output or efficiency;

- breakdown or failure of equipment or processes;

- disruptions in the transmission of electricity;

- shortages of equipment, material or labor;

- labor disputes;

- fuel supply interruptions;

- limitations that may be imposed by regulatory requirements, including, among others, environmental standards;

- limitations imposed by the ERCOT ISO;

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- violations of permit limitations;

- operator error; and

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

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

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

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

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

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

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

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

Texas Genco relies primarily on natural gas, coal, lignite and uranium to fuel its generation facilities. Texas Genco purchases its fuel from a number of different suppliers under long-term contracts and on the spot market. Under Texas Genco's capacity auctions, it sells firm entitlements to capacity and ancillary services.

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

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

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

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

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

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

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

- the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;

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

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

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

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capital expenditures at nuclear plants. In addition, although we have no reason to anticipate a serious nuclear incident at the South Texas Project, if an incident did occur, it could have a material adverse effect on Texas Genco's results of operations, financial condition and cash flows.

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

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

- merge or consolidate with another entity;

- sell assets;

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

- engage in other businesses;

- construct or acquire new generation plants or capacity;

- engage in hedging transactions;

- encumber Texas Genco's assets;

- issue additional equity securities;

- pay special dividends; and

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

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

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

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

- issue additional equity securities;

- encumber its assets; or

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

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

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

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

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

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

If Texas Genco fails to comply with regulatory requirements that apply to its operations, regulatory agencies could seek to impose civil, administrative and/or criminal liabilities or could take other actions seeking to curtail its operations. These liabilities or actions could adversely impact its results of operations, financial condition and cash flows.

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

Texas Genco's business is subject to extensive environmental regulation by federal, state and local authorities. Texas Genco is required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits, in operating its facilities. Texas Genco may incur significant additional costs to comply with these requirements. If Texas Genco fails to comply with these requirements, it could be subject to civil or criminal liability and fines. Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to Texas Genco or its facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events occurs, Texas Genco's business, results of operations, financial condition and cash flows could be adversely affected.

Texas Genco may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if

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Texas Genco fails to obtain and comply with them, it may not be able to operate its facilities or it may be required to incur additional costs.

Texas Genco is generally responsible for all on-site liabilities associated with the environmental condition of its power generation facilities, regardless of when the liabilities arose and whether the liabilities are known or unknown. These liabilities may be substantial.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CERC'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

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

ITEM 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.

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EXHIBIT 99.4

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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;

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- 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."

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(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:

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2001	DECEMBER 31, 2002
		(IN MILLIONS)	
Electric transmission & distribution	5-75	$ 6,211	$ 5,960
Electric generation	5-60	9,356	9,610
Natural gas distribution	5-50	1,980	2,151
Pipelines and gathering	5-75	1,633	1,686
Other property	3-40	146	494
Total		19,326	19,901
Accumulated depreciation and amortization		(8,126)	(8,492)
Property, plant and equipment, net		$11,200	$11,409

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

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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	$ 243	$ 496	$ 366
Add: Goodwill amortization, net of tax	50	49	--
Adjusted income from continuing operations before cumulative effect of accounting change	$ 293	$ 545	$ 366
Basic Earnings Per Share:			
Reported income from continuing operations before cumulative effect of accounting change	$0.85	$1.71	$1.25
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
Diluted Earnings Per Share:			
Reported income from continuing operations before cumulative effect of accounting change	$0.84	$1.70	$1.22
Add: Goodwill amortization, net of tax	0.18	0.17	--
Adjusted income from continuing operations before cumulative effect of accounting change	$1.02	$1.87	$1.22

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

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

The Company recognizes specifically identifiable intangibles, including land use rights and permits, when specific rights and contracts are acquired. The Company has no intangible assets with indefinite lives recorded as of December 31, 2002. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 40 to 75 years for land rights and 4 to 25 years for other intangibles.

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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

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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.

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(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,	
	2001	2002
	(IN MILLIONS)	
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).

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(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.

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(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.

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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

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$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

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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.

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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.

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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.

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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

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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	
NON-TRADING DERIVATIVE ASSETS	INVESTMENT GRADE(1)(2)	TOTAL	INVESTMENT GRADE(1)(2)	TOTAL (3)
	(IN MILLIONS)			
Energy marketers	$ 9	$ 9	$ 7	$22
Financial institutions	--	--	9	9
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.

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(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

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(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.

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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).

	AOL TW INVESTMENT	ACES	DEBT COMPONENT OF ZENS	DERIVATIVE 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	--	--	--	(58)
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	--	--	--	(480)
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

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	DECEMBER 31, 2001		DECEMBER 31, 2002	
	LONG-TERM	CURRENT(1)	LONG-TERM	CURRENT(1)
	(IN MILLIONS)			
Short-term borrowings:				
Commercial paper and bank loans		$2,792		$ 347
Receivables facility(2)		346		--
Other(3)		391		--
Total short-term borrowings		3,529		347
Long-term debt:				
CenterPoint Energy:				
ZENS(4)	$ --	$ 123	$ --	$ 104
Debentures 7.88% due 2002	--	100	--	--
Medium-term notes and pollution control bonds 4.90% to 6.70% due 2003 to 2027(5)(8)	547	--	380	167
Pollution control bonds 4.70% to 5.95% due 2011 to 2030(6)	1,046	100	871	--
Bank loan due 2005(7)	--	--	3,850	--
CenterPoint Houston:				
First mortgage bonds 7.50% to 9.15% due 2021 to 2023(8)	615	--	615	--
Series 2001-1 Transition Bonds 3.84% to 5.63% due 2002 to 2013(9)	736	13	717	19
Term loan, LIBOR plus 9.75%, due 2005(10)	--	--	1,310	--
Debentures 7.40% due 2002	--	300	--	--
CERC Corp.:(11)				
Convertible debentures 6.00% due 2012	82	--	76	--
Debentures 6.38% to 8.90% due 2003 to 2011	1,833	--	1,331	500
Other	51	1	52	7
Unamortized discount and premium	5	--	(8)	13
Total long-term debt	4,915	637	9,194	810
Total borrowings	$4,915	$4,166	$9,194	$1,157

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

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

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

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

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

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

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

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

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

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

(11) Debt acquired in business acquisitions is adjusted to fair market value as of the acquisition date. Included in long-term debt is additional unamortized premium related to fair value adjustments of long-term debt of $9 million and $7 million at December 31, 2001 and 2002, respectively, which is being amortized over the respective remaining term of the related long-term debt.

During 2002, the Company recorded a $26 million loss on the early extinguishment of debt related to CenterPoint Houston's $850 million term loan and the repurchase of $175 million of the Company's pollution control bonds.

(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

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$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

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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:

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

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

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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.

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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:

TRUST	AGGREGATE LIQUIDATION AMOUNTS AS OF DECEMBER 31, 2001 AND 2002 (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

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

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upon the performance of the Company over a three-year cycle, except as discussed below. The restricted shares vest at various times ranging from immediately to at the end of a three-year period. Upon vesting, the shares are issued to the plan participants.

During 2000, 2001 and 2002, the Company recorded compensation expense of $22 million, $6 million and $2 million, respectively, related to performance-based shares, performance-based units and restricted share grants. Included in these amounts is $7 million and $5 million in compensation expense for 2000 and 2001, respectively, related to Reliant Resources' participants. In addition, compensation benefit of $1 million was recorded in 2002 related to Reliant Resources' participants. Amounts for Reliant Resources' participants are reflected in discontinued operations in the Statements of Consolidated Operations.

The following table summarizes the Company's performance-based units, performance-based shares and restricted share grant activity for the years 2000 through 2002:

	NUMBER OF PERFORMANCE-BASED UNITS	NUMBER OF PERFORMANCE-BASED SHARES	NUMBER OF RESTRICTED SHARES
Outstanding at December 31, 1999	--	928,467	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)	(41,892)
Released to participants	(120)	(447,060)	(78,768)
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

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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

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

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

	OPTIONS OUTSTANDING	AVERAGE EXERCISE PRICE	REMAINING AVERAGE CONTRACTUAL LIFE (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:

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	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

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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.

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

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

The following table displays the change in the benefit obligation, the fair value of plan assets and the amounts included in the Company's Consolidated Balance Sheets as December 31, 2001 and 2002 for the Company's pension and postretirement benefit plans:

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

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	DECEMBER 31,			
	2001		2002	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT 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

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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

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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.

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(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).

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2003..... $
31
2004.....
28
2005.....
26
2006.....
24
2007.....
23
2008 and beyond.....
131

Total.....
$263

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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

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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

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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.

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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

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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

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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.

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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

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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).

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End of Filing

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