SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): AUGUST 31, 2002

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
(FORMERLY RELIANT ENERGY, INCORPORATED)
(Exact name of registrant as specified in its charter)

TEXAS	1-3187	22-3865106
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (713) 207-3000

ITEM 5. OTHER EVENTS.

Effective August 31, 2002, Reliant Energy, Incorporated (Reliant Energy) consummated a restructuring transaction in which it, among other things, (1) conveyed its Texas electric generation assets to an affiliated company, Texas Genco Holdings, Inc. (Texas Genco), (2) became an indirect, wholly owned subsidiary of a new utility holding company, CenterPoint Energy, Inc. (CenterPoint Energy), (3) was converted into a Texas limited liability company named CenterPoint Energy Houston Electric, LLC, and (4) distributed the capital stock of its operating subsidiaries to CenterPoint Energy. As part of the restructuring, each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock and CenterPoint Energy assumed, and Reliant Energy was released from, approximately $3.2 billion in principal amount of outstanding indebtedness. Additionally, CenterPoint Energy assumed a $2.5 billion Senior A Credit Agreement, dated as of July 13, 2001 among Houston Industries FinanceCo LP, Reliant Energy and the lender parties thereto, and a $1.8 billion Senior B Credit Agreement, dated as of July 13, 2001 among Houston Industries FinanceCo LP, Reliant Energy and the lender parties thereto. For additional information regarding the restructuring, see CenterPoint Energy's Current Report on Form 8-K dated August 31, 2002, filed with the SEC on September 3, 2002 (file number 333-69502).

Set forth below is a description of CenterPoint Energy Houston Electric, LLC, which is referred to as "we", "our" or "CenterPoint Houston," as the successor to Reliant Energy's electric transmission and distribution business. Also described are certain risk factors associated with CenterPoint Houston and its business.

BUSINESS

OVERVIEW

We are a regulated utility engaged in the transmission and distribution of electric energy in a 5,000 square mile area located along the Texas Gulf Coast, including the City of Houston and surrounding cities such as Galveston, Pasadena, Baytown, Freeport and Sugar Land. Our principal operations are:

- ELECTRIC TRANSMISSION: Our electric transmission business transports electric energy from power plants to substations and from one substation to another.

- ELECTRIC DISTRIBUTION: Our electric distribution business distributes electricity for retail electric providers in our certificated service area by carrying lower-voltage power from the substation to the customer.

Our customers consist of municipalities, electric cooperatives, other distribution companies and approximately 27 retail electric providers in our certificated service area. Two of these retail electric providers are subsidiaries of Reliant Resources, Inc. (Reliant Resources), an indirect 83% owned subsidiary of CenterPoint Energy. We anticipate that more than half of our revenues from retail electric providers for 2002 will come from subsidiaries of Reliant Resources.

Our operations do not include the generation or sale of electricity, the procurement, supply or delivery of fuel for the generation of electricity or the solicitation or billing of retail electric customers, except as described below under "--Our Business."

We do not receive any funding support, credit support or guarantees from CenterPoint Energy or any of its affiliates for our debt obligations.

THE TEXAS ELECTRIC RESTRUCTURING LAW

In 1999, Texas enacted an electric restructuring law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition for all customers beginning in January 2002. The Texas electric restructuring law required the separation of the generation, transmission and distribution, and retail sales functions of electric utilities into three different units. It also required each electric utility to file a business separation plan detailing its plan to comply with the Texas electric restructuring law. Under the law, neither the generation function nor the retail function are subject to traditional cost of service regulation, and the retail function has been opened to competition. The transmission and distribution function we perform remains subject to traditional utility rate regulation.

Under the Texas electric restructuring law, transmission and distribution utilities in Texas whose generation assets were "unbundled" pursuant to the Texas electric restructuring law, including us, may recover generation-related:

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

- "stranded costs," which consist of the positive excess of the net regulatory book value of generation assets over the market value of the assets, taking specified factors into account.

We may also recover certain other items in connection with the stranded costs and regulatory assets recovery. For more information on stranded costs and regulatory assets recovery, see "--Stranded Costs and Regulatory Assets Recovery" and "Regulation."

Additionally, the transmission and distribution affiliate of the electric utility that was serving an area before competition began continues to provide metering services for residential retail electric customers until the later of September 1, 2005, or the date when 40% of those retail electric customers are taking service from unaffiliated retail electric providers. For other retail electric customers, metering services will become competitive on January 1, 2004.

Reliant Energy's business separation plan, as approved by the Public Utility Commission of Texas (the Texas Utility Commission), provided for the separation of its generation, transmission and distribution, and retail operations into three different companies and for the separation of its regulated and unregulated businesses into two publicly traded companies. Since January 1, 2002, the generation, transmission and distribution, and retail electric sales operations of Reliant Energy, which were previously conducted through Reliant Energy HL&P, have been

functionally separated, with the retail sales operations being conducted by subsidiaries of Reliant Resources.

Below is a description of the significant transactions through which we were formed:

- Texas Genco Transfers. In connection with the holding company formation, Reliant Energy transferred its Texas electric generation assets and the associated liabilities to Texas Genco, which, in turn, transferred those assets and liabilities to Texas Genco, LP, a Texas limited partnership. Both the general partner and the sole limited partner of Texas Genco, LP are wholly owned subsidiaries of Texas Genco. Texas Genco, LP now operates Reliant Energy's formerly regulated generating assets as a power generation company selling generation capacity, energy and ancillary services at market prices to Reliant Resources and other power purchasers.

- Reliant Energy Conversion. In connection with the holding company formation, Reliant Energy became an indirect wholly owned subsidiary of CenterPoint Energy and converted from a Texas corporation into CenterPoint Houston, a Texas limited liability company. Immediately after the conversion, we distributed the shares of all of our subsidiaries (other than Reliant Energy Transition Bond Company LLC (Bondco), Reliant Energy FinanceCo II LP and certain other financing subsidiaries) to CenterPoint Energy. Those transfers resulted in our holding only the transmission and distribution assets previously held by Reliant Energy and operating those assets subject to regulation by the Texas Utility Commission. Under the Texas electric restructuring law, we, as a transmission and distribution company, will not be subject to commodity risk since we will not be buying or selling electric energy, have provider of last resort responsibility and will not have the obligation to build new power plants to serve load in our traditional service territory.

OUR BUSINESS

Service Area. Our service area consists of a 5,000-square-mile area located along the Texas Gulf Coast, with a population in the year 2000 of approximately 4,670,000 people. Electric service is provided to approximately 1.7 million customers in this area, which includes the City of Houston and surrounding cities such as Galveston, Pasadena, Baytown, Bellaire, Freeport and Sugar Land. With the exception of Texas City, we serve nearly all of the Houston/Galveston consolidated metropolitan statistical area. Effective January 2002, all former electricity customers of Reliant Energy whose service was regulated became free to choose from retail electric providers who compete for their business. The competing retail electric providers are now our primary customers. See "--Customers" below.

Electric Transmission. Our electric transmission business transports electricity from power plants to substations and from one substation to another. Transmission services are provided under tariffs approved by the Texas Utility Commission. Transmission service offers the use of the transmission system for delivery of power over facilities operating at 69 kV and above. Other services offered by the transmission business include system impact studies, facilities studies and maintenance of substations and transmission lines owned by other parties.

Electric distribution. Our electric distribution business distributes electricity for retail electric providers in its certificated service area. Our distribution network consists of primary distribution lines, transformers, secondary distribution lines and service wires. Operations include metering services, outage response services and other call center operations. As part of the restructuring of the Texas electric utility market, metering services will be provided on a competitive basis for commercial and industrial electric customers beginning in January 2004 and for residential retail electric customers on the later of September 1, 2005, or the date when 40% of those residential retail electric customers are taking service from unaffiliated retail electric providers.

Our distribution network receives electricity from the transmission grid through power distribution substations and distributes electricity to end users and wholesale customers through our distribution feeders.

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

Most of our transmission and distribution lines have been constructed over lands of others pursuant to easements or along public highways and streets as permitted by law. The transmission and distribution networks are currently subject to the liens of a Mortgage and Deed of Trust, as supplemented, that secure our obligations under $1,161,217,000 aggregate principal amount of outstanding first mortgage bonds (including $546,500,000 aggregate principal amount issued as collateral to secure certain long-term debt obligations of CenterPoint Energy).

Electricity Reliability Council of Texas. We are a member of the Electricity Reliability Council of Texas (ERCOT), an intrastate network of retail customers, investor and municipally owned electric utilities, rural electric co-operatives, river authorities, independent generators, power marketers and retail electric providers that serves as the regional reliability coordinating council for member electric power systems in Texas. ERCOT's control area consists of the State of Texas other than a portion of the panhandle and a portion of the eastern part of the state bordering Louisiana. The ERCOT independent system operator is responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that information relating to a customer's choice of retail electric provider is conveyed in a timely manner to anyone needing the information. It is also responsible for ensuring that electricity production and delivery are accurately accounted for among the generation resources and wholesale buyers and sellers in the ERCOT market. Unlike independent systems operators in other regions of the country, ERCOT is not a centrally dispatched power pool, and the ERCOT independent system operator does not procure energy on behalf of its members other than to maintain the reliable operations of the transmission system. Members are responsible for contracting their energy requirements bilaterally. ERCOT also serves as agent for procuring ancillary services for those who elect not to provide their own ancillary service requirement.

The ERCOT market operates under the reliability standards set by the North American Electric Reliability Council. The Texas Utility Commission has primary jurisdiction over the ERCOT market to ensure the adequacy and reliability of electricity across the state's main interconnected power grid.

Our electric transmission business supports the operation of the ERCOT independent system operator and all ERCOT members. The transmission business has planning, design, construction, operation and maintenance responsibility for the transmission grid and for the load serving substations. The transmission business is participating with the ERCOT independent system operator and other ERCOT utilities to plan, design, obtain regulatory approval for and construct new transmission lines necessary to increase bulk power transfer capability and to remove existing limitations on the ERCOT transmission grid.

Customers. Our customers consist of municipalities, electric cooperatives, other distribution companies and approximately 27 retail electric providers in our certificated service area. Two of these retail electric providers are subsidiaries of Reliant Resources. We anticipate that more than half of our revenues from retail electric providers for 2002 will come from subsidiaries of Reliant Resources. Each retail electric provider is licensed by the Texas Utility Commission and must meet creditworthiness criteria established by the Texas Utility Commission. We operate on a continuous billing cycle, with meter readings being conducted and invoices being distributed to the retail electric providers each business day.

Competition. In order for another provider of transmission and distribution services to provide such services in our territory, it would be required to obtain a certificate of convenience and necessity in proceedings before the Texas Utility Commission.

STRANDED COSTS AND REGULATORY ASSETS RECOVERY

The Texas electric restructuring law provides us an opportunity to recover our "regulatory assets" and "stranded costs" resulting from the unbundling of the transmission and distribution utility from the generation facilities and the related onset of retail electric competition. "Stranded costs" include the positive excess of the regulatory net book value of generation assets over the market value of the assets. The Texas electric restructuring law allows alternative methods of third party valuation of the fair market value of generation assets, including outright sale, full and partial stock valuation and asset exchanges. CenterPoint Energy has agreed in the business separation plan approved by the Texas Utility Commission that the fair market value of its generating assets will be determined using the partial stock valuation method. We expect that CenterPoint Energy will distribute to its shareholders approximately 19% of the common stock of Texas Genco in late 2002 or early 2003. The publicly traded common stock will then be used to determine the market value of Texas Genco. The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. For example, during a base rate freeze period from 1999 through 2001, earnings above the utility's

authorized rate of return formula were required to be applied in a manner to accelerate depreciation of generation-related plant assets for regulatory purposes if the utility was expected to have stranded costs. In addition, depreciation expense for transmission and distribution related assets could be redirected to generation assets for regulatory purposes during that period if the utility was expected to have stranded costs. Reliant Energy undertook both of these remedies provided in the Texas electric restructuring law.

"Regulatory assets" consist of the Texas jurisdictional amount reported by an electric utility as regulatory assets and liabilities (offset by specified amounts) in their audited financial statements for 1998. The Texas electric restructuring law permits utilities to recover regulatory assets through non-bypassable transition charges on retail electric customers' bills, to the extent that such assets and costs are established in certain regulatory proceedings.

The Texas electric restructuring law also permits us, or a special purpose entity, to issue securitization bonds for the recovery of generation-related regulatory assets and stranded costs. See "--Securitization Financing" below for a more complete discussion of the issuance of securitization bonds. Any stranded costs not recovered through the sale of securitization bonds may be recovered through a separate non-bypassable charge to transmission and distribution customers.

Mitigation. In the Wires Case described below under "Regulation," the Texas Utility Commission found that Reliant Energy had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its transition plan and the Texas electric restructuring law. In December 2001, Reliant Energy recorded a regulatory liability of $1.1 billion to reflect the prospective refund of accelerated depreciation, removed its previously recorded embedded regulatory asset of $841 million that had resulted from redirected depreciation and recorded a regulatory asset of $2.0 billion based upon then current projections of market value of Reliant Energy's Texas generation assets to be covered by the 2004 true-up proceeding described below. Recovery of this asset dependent upon action by the Texas Utility Commission. Reliant Energy began refunding the excess mitigation credits in January 2002 and we will continue to do so over a seven year period. If events occur that make the recovery of all or a portion of the regulatory assets no longer probable, we will write off the corresponding balance of these assets as a charge against earnings.

Final True-Up. Beginning in January 2004, the Texas Utility Commission will conduct true-up proceedings for each investor-owned utility. The purpose of the true-up proceeding is to quantify and reconcile the amount of stranded costs, the capacity auction true-up, unreconciled fuel costs and other regulatory assets associated with the generating assets that were not previously securitized as described below under "--Securitization Financing." The true-up proceeding will result in either additional charges or credits being assessed on certain retail electric providers.

STRANDED COST COMPONENT. The regulatory net book value of generating assets will be compared to the market value based on the partial stock valuation method. The resulting difference, if positive, is stranded cost that will be recovered through a transition charge, which is a non-bypassable charge assessed to customers taking delivery service from us, or through

securitization of the transition charge. If the difference is negative, the amount of over-mitigation not at that time returned to customers (redirected depreciation and excess earnings directed to depreciation) will be returned to customers through lower transmission and distribution charges.

The publicly traded common stock of Texas Genco will be used to determine the value of the generating assets of Texas Genco pursuant to the partial stock valuation method for determining stranded costs. The value will be equal to the average daily closing price on a national exchange for publicly held shares of common stock in Texas Genco for the 30 consecutive trading days chosen by the Texas Utility Commission out of the 120 trading days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission. The regulatory net book value is the balance as of December 31, 2001 plus certain costs incurred for reductions in emissions of oxides of nitrogen and any above-market purchase power costs. The regulatory net book value will also include any mitigation returned to ratepayers through return of "excess earnings depreciation" or reversal of redirected depreciation.

ECOM TRUE-UP COMPONENT. The Texas Utility Commission used a computer model or projection, called an ECOM model, to estimate stranded costs related to generation plant assets. In connection with using the ECOM model to calculate the stranded cost estimate, the Texas Utility Commission estimated the market power prices that will be received in the generation capacity auctions mandated by the Texas electric restructuring law during the period January 1, 2002 through December 31, 2003. Any difference between the actual market power prices received in those auctions and the Texas Utility Commission's earlier estimates of those market prices will be a component of the 2004 true-up to which we will be a party.

FUEL OVER/UNDER RECOVERY COMPONENT. The fuel component will be determined in a final fuel reconciliation. In that proceeding, the amount of any over- or under-recovery of fuel costs from the period August 1, 1997 through January 30, 2002 will be determined. Reliant Energy's filing related to this proceeding covers $8.6 billion in fuel expense and interest incurred during that period. Current substantive rules require that the Texas Utility Commission rule on this case by March 2003. A procedural schedule has been set with a hearing scheduled to begin November 19, 2002. Any over- or under-recovery, plus interest thereon, will either be returned to or recovered from our customers, as appropriate, as a component of the 2004 true-up.

"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 with a former integrated utility 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 master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources is obligated to reimburse us for the clawback component of the true-up. The clawback will 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 outside the transmission and distribution utility's service territory on January 1, 2004.

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

In October 2001, our subsidiary Bondco issued $749 million of transition bonds to securitize generation-related regulatory assets. The bonds have a final maturity date of September 15, 2015. Payments on the securitization bonds are made out of funds from non-bypassable transition charges assessed to customers taking delivery service from us.

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

REGULATION

Our parent company, CenterPoint Energy, operates as a public utility holding company subject to regulation by the SEC under the Public Utility Holding Company Act of 1935. The Public Utility Holding Company Act of 1935 directs the SEC to regulate, among other things, issuances of securities, sales or acquisitions of assets, intra-corporate transactions and permitted lines of business.

We are subject to regulation by various federal, state and local governmental agencies. Except with respect to minor elements of our business associated with the operation of high voltage DC lines, we are not regulated by the Federal Energy Regulatory Commission (FERC). Our rates and services are regulated by the Texas Utility Commission. We conduct our operations pursuant to a certificate of convenience and necessity issued by the Texas Utility Commission that covers our present service area and facilities. We hold non-exclusive franchises from the incorporated municipalities in our service territory. These franchises give us the right to operate our transmission and distribution system within the streets and public ways of these municipalities for the purpose of delivering electric service to the municipality and its residents and businesses. None of these franchises expires before 2007.

Historically, Reliant Energy paid the incorporated municipalities in its service territory a franchise fee based on a formula that was usually a percentage of revenues received from electricity sales for consumption within each municipality. Since January 1, 2002, we have become responsible for Reliant Energy's obligations under these franchise arrangements. We expect the franchise fees payable to remain consistent with the fees paid by Reliant Energy; however, the new fees could be higher if electricity sales increase. We would be able to adjust our rates to recover such an increase only through a general rate case in which all of our expenses and revenues would be subject to review by the Texas Utility Commission.

Rates. All retail electric providers in our service area pay the same rates and other charges for distribution services. Our distribution rates are based on amounts of energy demanded. All other

distribution companies in ERCOT pay us the same rates and other charges for transmission services. Transmission rates are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted.

The transmission and distribution rates that are in effect as of January 1, 2002 for us are based on an order issued by the Texas Utility Commission (Docket No. 22355). The order resulted from a March 31, 2000 filing (the Wires Case) with the Texas Utility Commission required by the Texas electric restructuring law. The Wires Case set the regulated rates for us to be effective when electric competition began. This regulated delivery charge includes the transmission and distribution charge, a system benefit fund fee, a nuclear decommissioning fund charge, a municipal franchise fee and a transition charge associated with securitization of regulatory assets. In Reliant Energy's appeal of certain aspects of the Wires Case, the Travis County District Court generally upheld the Texas Utility Commission's order. CenterPoint Energy may appeal the district court's decision to the Texas Court of Appeals but has not yet filed an appeal.

Decommissioning Trust. The South Texas Project Nuclear Generating Station (the South Texas Project) is a nuclear power generation facility, 30.8% of which is owned by Texas Genco. The South Texas Project must undergo decommissioning at the end of its licensed life. We have been authorized by the Texas electric restructuring law and the Texas Utility Commission to collect $2.9 million per year from customers using our transmission and distribution services and to deposit the amount collected into an external trust created to fund Texas Genco's share of the decommissioning costs for the South Texas Project. At June 30, 2002, the securities held by the trusts had an estimated fair value of $169 million.

In the event that funds from the trust are inadequate to decommission the facilities, we will be required to collect through rates or other authorized charges all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the South Texas Project. 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. We are also contractually obligated to indemnify Texas Genco from and against any obligations relating to the decommissioning not otherwise satisfied through collections from customers. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to our customers through reductions in the rates applicable to transmission and distribution services.

Environmental. We are subject to various 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.

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

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

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

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.

LEGAL PROCEEDINGS

Our predecessor, Reliant Energy, and certain of its former subsidiaries have been named as defendants in several lawsuits and as parties in regulatory proceedings. Additional information about these matters is set forth below. Under a master separation agreement between Reliant Energy and Reliant Resources, we and our parent CenterPoint Energy are entitled to be indemnified by Reliant Resources for any losses arising out of the described lawsuits, including attorneys' fees and other costs, other than the municipal franchise fee lawsuits described below.

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 service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. 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. Because the franchise ordinances at issue affecting Reliant Energy expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, we regard all of plaintiffs' allegations as spurious and are vigorously contesting the case. The plaintiffs' pleadings asserted that their damages exceeded $250 million. The 269th Judicial District Court for Harris County granted partial summary judgment in favor of Reliant Energy dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A six-week jury trial of the original claimant cities (but not the class of cities) ended on April 4, 2000 (the Three Cities case). Although the jury found for Reliant Energy on many issues, they 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 and vacated its prior orders certifying a class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

The Three Cities case has been appealed. We believe that the $1.7 million damage award resulted from serious errors of law and that it will be set aside by the Texas appellate courts. In addition, we believe that because of an agreement between the parties limiting fees to a percentage of the damages, reversal of the award of $13.7 million in attorneys' fees in the Three Cities case is probable.

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 trial court's rulings disregarding most of the jury's findings are consistent with Texas Supreme Court opinions over the past decade. We estimate the range of possible outcomes for the plaintiffs in the Three Cities case to be between zero and $18 million inclusive of interest and attorneys' fees.

California Litigation. Reliant Energy has been named as a defendant in class action lawsuits and other lawsuits filed against subsidiaries of Reliant Resources and other companies that own generation plants in California and other sellers of electricity in California markets. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County; and one was filed in the Superior Court of Los Angeles County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that 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. Plaintiffs have voluntarily dismissed Reliant Energy from two of the three class actions in which it was named as a defendant.

The cases were initially removed to federal court and were then assigned to Judge Robert H. Whaley, United States District Judge, pursuant to the federal procedures for multi-district litigation. In July 2000, Judge Whaley remanded the cases to state court. Upon remand to state court, the cases were assigned to Superior Court Judge Janis L. Sammartino pursuant to the California state coordination procedures. In March 2002, Judge Sammartino adopted a schedule proposed by the parties that would result in a trial beginning on March 1, 2004. Thereafter, the plaintiffs filed a single, consolidated complaint that restated the allegations described above and alleged that damages against all defendants could be as much as $1 billion. In April 2002, Reliant Resources and Duke Energy filed cross complaints in the coordinated proceedings seeking, in an alternative pleading, relief against other market participants in California, the surrounding states, Canada and Mexico including Powerex Corp., the Los Angeles Department of Water and Power and the Bonneville Power Administration. Powerex Corp. and Bonneville Power Administration removed the case once again to federal court where it was reassigned to Judge Whaley. In July 2002, a motion to dismiss was filed in coordinated proceedings seeking dismissal of the complaints on the basis of the filed rate doctrine and federal preemption.

In March 2002, the California Attorney General filed a civil lawsuit in San Francisco Superior Court naming Reliant Energy, Reliant Resources and several subsidiaries of Reliant Resources as defendants. The Attorney General alleges various 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 System Operator. In addition to injunctive relief, the Attorney General seeks restitution and disgorgement of alleged unlawful profits for sales of electricity, and civil penalties. Reliant Resources removed this lawsuit to federal court in April 2002, where it has been assigned to Judge Vaughn Walker in the Northern District of California.

In April 2002, the California Attorney General filed a lawsuit in San Francisco County Superior Court against Reliant Energy, Reliant Resources and several subsidiaries of Reliant Resources alleging that Reliant Resources consistently charged unjust and unreasonable prices for electricity, and that each instance of overcharge violated California law. The lawsuit seeks fines of up to $2,500 for each alleged violation, and "other equitable relief as appropriate." Reliant Resources has removed this case to federal court, where it too has been assigned to Judge Vaughn Walker.

Also in April 2002, the California Attorney General and the California Department of Water Resources filed a complaint in the United States District Court for the Northern District of California against Reliant Energy, Reliant Resources and a number of its subsidiaries. In this lawsuit, the Attorney General alleges that Reliant Resources' acquisition of electric generating facilities from Southern California Edison in 1998 violated Section 7 of the Clayton Act, which prohibits mergers or acquisitions that substantially lessen competition. The lawsuit claims that the acquisitions gave Reliant Resources market power which it then exercised to overcharge California consumers for electricity. The lawsuit seeks injunctive relief against alleged unfair competition, divestiture of Reliant Resources' California facilities, disgorgement of alleged illegal profits, damages, and civil penalties for each alleged exercise of market power. This lawsuit also has been assigned to Judge Vaughn Walker. Judge Walker has denied the California Attorney General's motion to remand the removed above-mentioned cases to state court and it is anticipated that he will rule in the near future in Reliant Resources' motion to dismiss all three cases.

After the filing of the Attorney General cases, seven new 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 Southern 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 court and have been conditionally assigned to Judge Whaley by the Panel on Multi-District Litigation. The plaintiffs in the Southern California class actions have opposed this transfer and it is likely that there will be a hearing before the Panel in September 2002. An additional class action lawsuit was filed in federal court in Los Angeles on behalf of electric power customers in the State of Washington.

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. Their ultimate outcome and their effect on us cannot be predicted at this time. Additional information regarding certain of these matters is set forth below.

In June 2002, the SEC advised Reliant Resources that it had issued a formal order in connection with its investigation of Reliant Resources' financial reporting, internal controls and related matters. We understand that the investigation is focused on its same-day commodity

trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price ("round trip trades") and structured transactions. These matters were previously the subject of an informal inquiry by the SEC. The SEC's formal order is also addressed to Reliant Energy. Reliant Resources and we, as Reliant Energy's corporate successor, 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.

In May, June and July 2002, eleven class action lawsuits were filed on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy. Reliant Resources and several of its executive officers are named as defendants. Reliant Energy is also named as a defendant in three of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the Reliant Resources initial public offering. One of those two lawsuits also names Reliant Resources' and Reliant Energy's independent auditors as a defendant.

The complaints allege that the defendants overstated the revenues of Reliant Energy by including transactions involving the purchase and sale of commodities with the same counterparty at the same price and that Reliant Energy improperly accounted for certain other transactions, among other things. The complaints seek monetary damages and, in one of the lawsuits rescission, on behalf of a supposed class. In eight of the lawsuits, the supposed class is composed of persons who purchased or otherwise acquired Reliant Resources and/or Reliant Energy securities during specified class periods. The three lawsuits that include Reliant Energy as a named defendant were also filed on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy during specified class periods.

Additionally, in May and June 2002, four class action lawsuits were filed on behalf of purchasers of securities of Reliant Energy. Reliant Energy and several of its executive officers are named as defendants. The dates of filing of the four lawsuits are as follows: one on May 16, 2002; one on May 21, 2002; one on June 13, 2002; and one on June 17, 2002. The lawsuits were filed in the United States District Court, Southern District of Texas, Houston Division. The complaints allege that the defendants violated federal securities laws by issuing false and misleading statements to the public. The plaintiffs allege that the defendants made false and misleading statements as part of an alleged scheme to artificially inflate trading volumes and revenues by including transactions involving the purchase and sale of commodities with the same counterparty at the same price, to spin-off Reliant Resources to avoid exposure to Reliant Resources' liabilities and to cause the price of Reliant Resources' stock to rise artificially, among other things. The complaints seek monetary damages on behalf of persons who purchased Reliant Energy securities during specified class periods.

In May 2002, three class action lawsuits were filed 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. Reliant Resources is named as a defendant in two of the lawsuits. The lawsuits were filed on May 29, 2002, May 30, 2002, and May 31, 2002. All of the lawsuits were filed in the United States District Court, Southern District of Texas, Houston

Division. By order dated June 20, 2002, the Court granted the motion for voluntary dismissal filed by the plaintiffs in one of the cases and dismissed that case without prejudice.

The two remaining complaints allege that the defendants breached their fiduciary duties to various employee benefits plans 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.

We are involved in other proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Our management currently believes that the disposition of these matters will not have a material adverse effect on our financial condition, results of operations or cash flows.

PROPERTIES

All of our properties are located in the State of Texas. Our transmission system carries electricity from power plants to substations and from one substation to another. These substations serve to connect power plants, the high voltage transmission lines and the lower voltage distribution lines. Unlike the transmission system, which carries high voltage electricity over long distances, distribution lines carry lower voltage power from the substation to the retail electric customers. The distribution system consists primarily of distribution lines, transformers, secondary distribution lines and service wires.

Electric Lines--Overhead. As of December 31, 2001, we owned 25,998 pole miles of overhead distribution lines and 3,606 circuit miles of overhead transmission lines, including 452 circuit miles operated at 69,000 volts, 2,095 miles operated at 138,000 volts and 1,059 circuit miles operated at 345,000 volts.

Electric Lines--Underground. As of December 31, 2001, we owned 12,701 circuit miles of underground distribution lines and 15.6 circuit miles of underground transmission lines, including 4.5 circuit miles operated at 69,000 volts and 11.1 circuit miles operated at 138,000 volts.

Substations. As of December 31, 2001, we owned 223 major substation sites (252 substations) having total installed rated transformer capacity of 64,783 megavolt amperes.

MANAGEMENT

MANAGER AND EXECUTIVE OFFICERS
(AS OF AUGUST 31, 2002)

NAME TITLE ---- ----- David M. McClanahan..... Manager Thomas R. Standish..... President and Chief Operating Officer Gary L. Whitlock..... Executive Vice President and Chief Financial Officer Scott E. Rozzell..... Executive Vice President, General Counsel and Corporate Secretary James A. Brian..... Senior Vice President and Chief Accounting Officer Marc Kilbride..... Vice President and Treasurer

DAVID M. MCCLANAHAN is the sole Manager of CenterPoint Houston and President and Chief Executive Officer of CenterPoint Energy. Before the restructuring, he served as Vice Chairman of Reliant Energy and President and Chief Operating Officer of the Reliant Energy Delivery Group, which was responsible for regulated electric and gas operations. Prior to being named President of the Delivery Group, Mr. McClanahan served as President of the electric utility division of Reliant Energy. Since 1972, Mr. McClanahan has held a variety of positions at Reliant Energy and its predecessors and subsidiaries including positions in information systems, accounting, and finance.

THOMAS R. STANDISH is President and Chief Operating Officer of CenterPoint Houston. He previously served as President and Chief Operating Officer for both electricity and natural gas in Reliant Energy's Texas service areas. He began his career in 1983 with Houston Lighting & Power Company, where he served in various positions in the marketing, rates & research, regulatory relations and engineering departments and more recently, as Senior Vice President of Distribution Customer Service.

GARY L. WHITLOCK is Executive Vice President and Chief Financial Officer of CenterPoint Energy and of CenterPoint Houston. From July 2001 until the time of the restructuring, he served as Executive Vice President and Chief Financial Officer of the Delivery Group of Reliant Energy. Prior to July 2001, Mr. Whitlock was Vice President, Finance and Chief Financial Officer of Dow AgroSciences, a subsidiary of The Dow Chemical Company. He started his career with Dow in 1972, where he held a number of financial positions.

SCOTT E. ROZZELL is Executive Vice President and General Counsel of CenterPoint Energy and of CenterPoint Houston. He previously served as Executive Vice President and General Counsel of the Delivery Group of Reliant Energy. Before joining Reliant Energy in 2001, Mr. Rozzell served as chair of the Energy Department of the Houston office of Baker Botts L.L.P.

JAMES A. BRIAN is Senior Vice President and Chief Accounting Officer of CenterPoint Energy and of CenterPoint Houston. He served from August 2002 until the restructuring as Senior Vice President and Chief Accounting Officer of Reliant Energy. Mr. Brian has served in various finance, accounting and treasury positions with Reliant Energy, its predecessors and subsidiaries since 1977.

MARC KILBRIDE is Vice President and Treasurer of CenterPoint Energy and of CenterPoint Houston, having previously served as Treasurer of Reliant Energy. Mr. Kilbride has served in various finance, risk management and treasury capacities with Reliant Energy, its predecessors and subsidiaries since 1977.

RISK FACTORS

Investors in our securities should consider carefully the risks described below as well as the other risks described in this Current Report on Form 8-K. There may be risks that others view in a different way than we do, and we may omit a risk that we consider immaterial but that others would consider important. If any of the following risks occurs, our business, financial condition or results of operations could be materially harmed.

RISKS RELATED TO OUR TRANSMISSION AND DISTRIBUTION BUSINESSES

WE ARE OPERATING IN A NEW MARKET ENVIRONMENT IN WHICH WE AND OTHERS HAVE LITTLE OPERATING EXPERIENCE.

The competitive electric market in Texas is new. Neither we 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 last year and are being 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 our revenues and results of operations.

COLLECTION OF OUR REVENUES IS CONCENTRATED IN A SMALL NUMBER OF RETAIL ELECTRIC PROVIDERS.

Our revenues from the distribution of electricity are collected from retail electric providers that supply the electricity we distribute to their customers. Currently, we do business with approximately 27 retail electric providers. Adverse economic conditions or structural problems in the new Texas market could impair the ability of these retail providers to pay for our services or could cause them to delay such payments. We depend on these retail electric providers to timely remit payments to us. Any delay or default in payment could adversely affect our cash flows. We anticipate that more than half of our revenues from retail electric providers for 2002 will come from subsidiaries of Reliant Resources. See "Business--Our Business--Customers."

PROBLEMS WITH METERING THE ELECTRICITY WE DISTRIBUTE MAY MATERIALLY AFFECT OUR REVENUES AND RESULTS OF OPERATIONS.

Currently, we provide all metering services to retail electric providers for customers in our service territory. Pursuant to the Texas electric restructuring law, metering services will be provided on a competitive basis beginning in January 2004 for commercial and industrial customers and by at least September 2005 for residential customers. After January 2004, third parties will be permitted to perform metering services and provide metering data to us. The Texas Utility Commission has not yet established certification or performance standards for third party metering entities. Because third parties will not have previously performed metering services in our service territory, there may be unforeseen problems in converting to the third party's metering system, in taking accurate meter readings and in collecting and processing accurate metering data following the conversion to competitive metering. Any failure by us or

these third parties to meter accurately the electricity sold by the retail electric providers could adversely impact the revenues we receive from retail electric providers.

RATE REGULATION OF OUR BUSINESS MAY DELAY OR DENY OUR FULL RECOVERY OF OUR COSTS.

Our rates are regulated by the Texas Utility Commission based on an analysis of our expenses incurred in a test year. Thus, the rates we are allowed to charge may or may not match our expenses at any given time. While rate regulation in Texas is premised on providing a reasonable opportunity to earn a reasonable rate of return on invested capital, there can be no assurance that the Texas Utility Commission will judge all of our costs to have been prudently incurred or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of our costs.

WE MAY NOT BE SUCCESSFUL IN RECOVERING THE FULL VALUE OF OUR STRANDED COSTS AND REGULATORY ASSETS RELATED TO GENERATION.

Pursuant to the Texas electric restructuring law, we will be entitled to recover our stranded costs (i.e., 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 our regulatory assets related to generation. We will 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 auctions of Texas Genco's generation capacity and Texas Utility Commission estimates; unreconciled fuel costs; and other regulatory assets associated with our Texas generation business for which we were not previously reimbursed through the issuance of "securitization" bonds by a subsidiary. We will be required to establish and support the amounts of these costs in order to recover them. We cannot assure you that we will be able to successfully establish and support our estimates of the value of these costs. For more information about the true-up proceeding, please read "Business--Stranded Costs and Regulatory Assets Recovery."

DISRUPTIONS IN POWER GENERATION FACILITIES OWNED BY THIRD PARTIES COULD INTERRUPT OUR SALES OF DISTRIBUTION AND TRANSMISSION SERVICES.

We depend on power generation facilities owned by third parties to provide retail electric providers with electric power which we transmit and distribute to their customers. We do not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, our transmission and distribution services may be interrupted adversely affecting our revenues.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A portion of our revenues is derived from rates that we collect from each retail electric provider based on the amount of electricity we distribute on behalf of each retail electric provider. Thus, our revenues and results of operation are subject to seasonality, weather conditions and other changes in electricity usage.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SUBJECT TO RISKS THAT ARE BEYOND OUR CONTROL.

The cost of repairing damage to our facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events, in excess of reserves established for such repairs, may adversely impact our revenues, operating and capital expenses and results of operations.

TECHNOLOGICAL CHANGE MAY MAKE ALTERNATIVE ENERGY SOURCES MORE ATTRACTIVE AND MAY ADVERSELY AFFECT OUR 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 our distribution facilities. Manufacturers of self-generation facilities continue to develop smaller-scale, more-fuel-efficient generating units that can be cost-effective options for retail customers with smaller electric energy requirements. Any reduction in the amount of electric energy we distribute as a result of these technologies may have an adverse impact on our revenues and results of operations in the future.

OUR RESULTS OF OPERATIONS, OUR ABILITY TO ACCESS CAPITAL AND INSURANCE AND OUR FUTURE GROWTH PROSPECTS COULD BE ADVERSELY AFFECTED BY THE OCCURRENCE OR RISK OF OCCURRENCE OF FUTURE TERRORIST ATTACKS OR RELATED ACTS OF WAR.

We are currently unable to measure the ultimate impact of the terrorist attacks of September 11, 2001 on our industry and the United States economy as a whole. The uncertainty associated with the retaliatory military response of the United States and other nations and the risk of future terrorist activity may impact our results of operations and financial condition in unpredictable ways. These actions could result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, our transmission and distribution facilities could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues and margins and limit our future growth prospects. The occurrence or risk of occurrence could also increase pressure to regulate or otherwise limit the prices charged for electricity. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

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 recent events, including the September 11, 2001 terrorist attacks, the bankruptcy of Enron Corp., the downgrading of the credit ratings of several energy companies 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 August 31, 2002, we had $400 million of outstanding indebtedness under our $400 million credit facility that will expire during October 2002. To the extent that we continue to need access to this amount of committed credit,

we expect to extend or replace this facility. If we are unable to maintain appropriately sized credit facilities on terms that are acceptable to us, our financial condition could be materially adversely affected. In addition, the capital constraints currently impacting our industry 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 banks and other financial institutions;
- 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 as a customer and in connection with its indemnification obligations arising in connection with its separation from CenterPoint Energy; and
- provisions of relevant tax and securities laws.

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

Under some circumstances, we could incur liabilities associated with assets and businesses we no longer own. These assets and businesses include

- those transferred to Reliant Resources or its subsidiaries in connection with the organization and capitalization of Reliant Resources prior to its initial public offering in 2001;
- those transferred to Texas Genco in connection with its organization and capitalization; and
- those transferred to CenterPoint Energy in connection with the holding company restructuring.

In connection with the organization and capitalization of Reliant Resources, Reliant Resources and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. Reliant Resources also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, Reliant Energy with respect to liabilities associated with the transferred assets and businesses. The indemnity provisions were intended to place sole financial responsibility on Reliant Resources and its subsidiaries for all liabilities

associated with the current and historical business and operations Reliant Resources conducts, regardless of the time those liabilities arise. If Reliant Resources is unable to satisfy a liability that has been so assumed and in circumstances in which Reliant Energy has not been released from the liability in connection with the transfer, we, as successor to Reliant Energy, could be responsible for satisfying the liability.

As described in "Legal Proceedings," Reliant Energy and Reliant Resources have been named as defendants in a number of lawsuits arising out of financial reporting matters. Although most of the alleged violations of financial reporting requirements relate to the business and operations of Reliant Resources, claims against Reliant Energy have been made on grounds that include the effect of our subsidiary's financial results on our own financial statements and liability as a controlling shareholder. As Reliant Energy's successor, we could incur liability if claims in one or more of these lawsuits were successfully asserted against us and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed to us with respect to those claims.

In connection with the organization and capitalization of Texas Genco, Texas Genco assumed liabilities associated with the electric generation assets and business Reliant Energy transferred to it. In case Texas Genco were unable to satisfy a liability that had been so assumed or indemnified against, and provided Reliant Energy had not been released from the liability in connection with the transfer, we could be responsible for satisfying the liability. Examples of liabilities for which we could be responsible in these circumstances include environmental liabilities associated with the generation facilities and obligations respecting the decommissioning of the South Texas Project.

OUR HISTORICAL FINANCIAL RESULTS AS THE UNINCORPORATED ELECTRIC TRANSMISSION AND DISTRIBUTION DIVISION OF RELIANT ENERGY ARE NOT REPRESENTATIVE OF OUR EXPECTED FUTURE RESULTS AS CENTERPOINT HOUSTON.

We have limited experience operating as a transmission and distribution utility in a deregulated electricity market in which we are subject to rate regulation. The pro forma financial information we have included in this Current Report on Form 8-K does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate transmission and distribution subsidiary during the periods presented. Although our transmission and distribution operations had a significant operating history at the time of the restructuring of Reliant Energy, the pro forma financial information relating to these operations reflects the transmission and distribution of electricity as part of an integrated utility in a regulated electricity market. We currently transmit and distribute electricity at rates regulated by the Texas Utility Commission, and our revenues will depend in large part on the transmission and distribution of electricity at those rates.

Our historical costs and expenses reflect charges from Reliant Energy for centralized corporate services and infrastructure costs. These allocations have been determined based on what we and Reliant Energy considered to be reasonable reflections of the utilization of services provided to us or for the benefits received by us. This pro forma financial information is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future. We may experience significant changes in our cost structure, funding and

operations as a result of the restructuring of Reliant Energy, including increased costs associated with reduced economies of scale.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(b) Pro Forma Financial Information.

99.1 Unaudited Pro Forma Condensed Consolidated Financial Statements

(c) 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 herein by reference to a filing of CenterPoint Energy, Inc. as indicated.

Exhibit Number	Description	Report or SEC File or Registration Statement	Registration Exhibit Number References
2(a)(1)	Agreement and Plan of Merger among Reliant Energy, Incorporated ("REI"), CenterPoint Energy, Inc. ("CNP") and Reliant Energy MergerCo, Inc. dated as of October 19, 2001 contained in Registration Statement on Form S-4	Joint Proxy Statement/ Prospectus of REI	333-69502 Annex A
+3(a)	Articles of Conversion of REI		
+3(b)	Articles of Organization of CenterPoint Energy Houston Electric, LLC		
+3(c)	Limited Liability Company Regulations		

Report or SEC File or Exhibit Registration	Registration Exhibit Number	Description	Statement Number	References
---	4(a)	Fifth Supplemental Indenture dated as of August	Form 8-K of CNP 333-69502	4(d)
31, 2002, among CNP, REI and JPMorgan Chase	dated August 31, Bank	(supplementing the Collateral Trust	2002 and filed with	Indenture dated as of
September 1, 1988 pursuant the SEC on to which REI's Series C Medium	Term Notes were September 3, 2002	issued)	4(b)	Supplemental Indenture No.
2 dated as of August	Form 8-K of CNP 333-69502	4(e)	31, 2002, among CNP, REI and JPMorgan	Chase Bank dated August
31, (supplementing the Subordinated Indenture	dated 2002 and filed with as	of September 1, 1999	under which REI's	2% the SEC on Zero-Premium
Exchangeable Subordinated Notes Due	September 3, 2002 2029 were	issued)	4(c)	Supplemental Indenture No.
2 dated as of August	Form			

8-K of CNP 333-69502 4(f) 31, 2002, among CNP, REI and The Bank of New dated August 31, York (supplementing the Junior Subordinated 2002 and filed with Indenture dated as of February 15, 1999 under the SEC on which REI's Junior Subordinated Debentures September 3, 2002 related to REI Trust I's 7.20% trust originated preferred securities were issued) 4(d) Supplemental Indenture No. 3 dated as of August Form 8-K of CNP 333-69502 4(g) 31, 2002 among CNP, REI and The Bank of New York dated August 31, (supplementing the Junior Subordinated Indenture 2002 and filed with dated as of February 1, 1997 under which REI's the SEC on Junior Subordinated Debentures related to 8.125% September 3, 2002 trust preferred securities issued by HL&P Capital Trust I and 8.257% capital securities issued by HL&P Capital Trust II were issued) 4(e) Third Supplemental Indenture dated as of August Form 8-K of CNP 333-69502 4(h) 31, 2002 among CNP, REI, Reliant Energy dated

August 31,
Resources
Corp.
("RERC") and
The Bank of
New 2002 and
filed with
York
(supplementing
the Indenture
dated as of
the SEC on
June 15, 1996
under which
RERC's 6.25%
September 3,
2002
Convertible
Junior
Subordinated
Debentures
were issued)

Report or SEC File or Exhibit Registration	Registration Exhibit Number	Description	Statement Number	References
---	4(f)	Second Supplemental Indenture dated as of August 31, 2002 among CNP, REI, RERC and JPMorgan Chase Bank (supplementing the Indenture dated as of March 1, 1987 under which RERC's 6% Convertible Subordinated Debentures due 2012 were issued)	Form 8-K of CNP dated as of August 31, 2002 and filed with the SEC on September 3, 2002	333-69502 4(i)
	4(g)	Assignment and Assumption Agreement for the Form 8-K of CNP 333-69502		4(j)
		Guarantee Agreements dated as of August 31, 2002 dated August 31, 2002 between CNP and REI (relating to (i) the 2002 Guarantee Agreement dated as of February 4, 1997 between REI and The Bank of New York providing for the guaranty of certain amounts relating to the 8.125% trust preferred		

securities issued by Trust I and (ii) the Guarantee Agreement dated as of February 4, 1997 between REI and The Bank of New York providing for the guaranty of certain amounts relating to the 8.257% capital securities issued by Trust II)

4(h) Assignment and Assumption Agreement for the Form 8-K of CNP 333-69502

4(k) Guarantee Agreement dated as of August 31, 2002 dated August 31, between CNP and REI (relating to the Guarantee 2002 and filed with Agreement dated as of February 26, 1999 between the SEC on REI and The Bank of New York providing for the September 3, 2002 guaranty of certain amounts relating to the 7.20% Trust Originated Preferred Securities issued by REI Trust I)

4(i) Assignment and Assumption Agreement for the Form 8-K of CNP 333-69502

4(l) Expense and Liability Agreements and the Trust dated August 31, Agreements dated as of August 31, 2002 between 2002 and filed with CNP and REI (relating to the (i)

Agreement as to the SEC on Expenses and Liabilities dated as of June 4, 2002	September 3, 1997	between REI and Trust I, (ii)	
Agreement as to Expenses and Liabilities dated as of February 4, 1997	between REI and Trust II, (iii)		
Trust I's Amended and Restated Trust Agreement dated February 4, 1997	and (iv)		
Trust II's Amended and Restated Trust Agreement dated February 4, 1997)	+99.1		
Unaudited Pro Forma Condensed Consolidated Financial Statements			

FORWARD-LOOKING STATEMENTS

Some of the statements in this report and the exhibits hereto 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. In some cases, you can identify our forward-looking statements by the words "anticipates," "believes," "continue," "could," "estimates," "expects," "forecast," "goal," "intends," "may," "objective," "plans," "potential," "predicts," "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 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, actual results may differ materially from those expressed or implied by our forward-looking statements. 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 update or revise publicly any forward-looking statements.

In addition to the matters described in this report and the exhibits hereto, the following list identifies some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements:

- state, federal and international legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, 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 our largest customer, Reliant Resources, Inc.;
- 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;
- unanticipated changes in interest rates or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- weather variations and other natural phenomena, which can affect the demand for power over our transmission and distribution systems;
- commercial bank and financial market conditions, our access to capital and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets for transmission and distribution companies;
- actions by rating agencies;
- legal and administrative proceedings and settlements;
- changes in tax laws;
- 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 material to us;
- 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 Reliant Energy, Incorporated and Reliant Resources, Inc.;
- the outcome of the SEC investigation relating to the treatment in our consolidated financial statements of certain activities of Reliant Resources, Inc.;

- 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 Electric Reliability Council of Texas, Inc.; and

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

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 hereunto duly authorized.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Date: September 3, 2002

By /s/ James S. Brian

James S. Brian
Senior Vice President and
Chief Accounting Officer

EXHIBIT INDEX

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

REPORT OR SEC FILE OR REGISTRATION NUMBER	EXHIBIT NUMBER	DESCRIPTION	STATEMENT REFERENCES
2(a)(1)	Agreement and Plan of Merger among Reliant Energy, Incorporated ("REI"), CenterPoint Energy, Inc. ("CNP") and Reliant Energy Prospectus of REI MergerCo, Inc. dated as of October 19, 2001 contained in Registration Statement on Form S-4	Joint Proxy Statement/	333-69502 Annex A
+3(a)	Articles of Conversion of Reliant Energy, Incorporated		
+3(b)	Articles of Organization of CenterPoint Energy Houston Electric, LLC		
+3(c)	Limited Liability Company Regulations of CenterPoint Energy Houston Electric, LLC		
4(a)	Fifth Supplemental Indenture dated as of August	Form 8-K of CNP	333-69502
4(d)	31, 2002, among CNP, Reliant Energy, dated August 31,		

Incorporated ("REI") and JPMorgan Chase Bank 2002 and filed with (supplementing the Collateral Trust Indenture the SEC on dated as of September 1, 1988 pursuant to which September 3, 2002 REI's Series C Medium Term Notes were issued) 4(b) Supplemental Indenture No. 2 dated as of August Form 8-K of CNP 333-69502 4(e) 31, 2002, among CNP, REI and JPMorgan Chase Bank dated August 31, (supplementing the Subordinated Indenture dated 2002 and filed with as of September 1, 1999 under which REI's 2% the SEC on Zero-Premium Exchangeable Subordinated Notes Due September 3, 2002 2029 were issued)

REPORT OR SEC FILE OR EXHIBIT REGISTRATION REGISTRATION	EXHIBIT NUMBER	DESCRIPTION	STATEMENT NUMBER	REFERENCES
	4(c)	Supplemental Indenture No. 2 dated as of August 31, 2002, among CNP, REI and The Bank of New York (supplementing the Junior Subordinated Indenture dated as of February 15, 1999 under which REI's Junior Subordinated Debentures were issued)	Form 8-K of CNP 333-69502	Form 8-K of CNP 333-69502 dated as of August 31, 2002 filed with the SEC on September 3, 2002 related to REI Trust I's 7.20% trust originated preferred securities
	4(d)	Supplemental Indenture No. 3 dated as of August 31, 2002 among CNP, REI and The Bank of New York dated August 31, 2002 (supplementing the Junior Subordinated Indenture dated as of February 1, 1997 under which REI's Junior Subordinated Debentures related to 8.125% September 3, 2002 trust preferred	Form 8-K of CNP 333-69502	Form 8-K of CNP 333-69502 dated as of August 31, 2002 filed with the SEC on September 3, 2002 related to REI Trust I's 8.125% trust originated preferred securities

securities issued by HL&P Capital Trust I and 8.257% capital securities issued by HL&P Capital Trust II were issued) 4(e) Third Supplemental Indenture dated as of August Form 8-K of CNP 333-69502 4(h) 31, 2002 among CNP, REI, Reliant Energy dated August 31, Resources Corp. ("RERC") and The Bank of New 2002 and filed with York (supplementing the Indenture dated as of the SEC on June 15, 1996 under which RERC's 6.25% September 3, 2002 Convertible Junior Subordinated Debentures were issued) 4(f) Second Supplemental Indenture dated as of August Form 8-K of CNP 333-69502 4(i) 31, 2002 among CNP, REI, RERC and JPMorgan Chase dated August 31, Bank (supplementing the Indenture dated as of 2002 and filed with March 1, 1987 under which RERC's 6% Convertible the SEC on Subordinated Debentures due 2012 were issued) September 3, 2002

REPORT OR SEC FILE OR REGISTRATION STATEMENT NUMBER	EXHIBIT NUMBER	DESCRIPTION	EXHIBIT REFERENCES
	4(g)	Assignment and Assumption Agreement for the Form 8-K of CNP 333-69502	
	4(j)	Guarantee Agreements dated as of August 31, 2002 dated August 31, between CNP and REI (relating to (i) the 2002 and filed with Guarantee Agreement dated as of February 4, 1997 the SEC on between REI and The Bank of New York providing September 3, 2002 for the guaranty of certain amounts relating to the 8.125% trust preferred securities issued by Trust I and (ii) the Guarantee Agreement dated as of February 4, 1997 between REI and The Bank of New York providing for the guaranty of certain amounts relating to the 8.257% capital securities issued by Trust II)	
	4(h)	Assignment and	

Assumption Agreement for the Form 8-K of CNP 333-69502 4(k) Guarantee Agreement dated as of August 31, 2002 dated August 31, between CNP and REI (relating to the Guarantee 2002 and filed with Agreement dated as of February 26, 1999 between the SEC on REI and The Bank of New York providing for the September 3, 2002 guaranty of certain amounts relating to the 7.20% Trust Originated Preferred Securities issued by REI Trust I) 4(i) Assignment and Assumption Agreement for the Form 8-K of CNP 333-69502 4(l) Expense and Liability Agreements and the Trust dated August 31, Agreements dated as of August 31, 2002 between 2002 and filed with CNP and REI (relating to the (i) Agreement as to the SEC on Expenses and Liabilities dated as of June 4, September 3, 2002 1997 between REI and Trust I, (ii) Agreement as to Expenses and

Liabilities dated as of February 4, 1997 between REI and Trust II, (iii) Trust I's Amended and Restated Trust Agreement dated February 4, 1997 and (iv) Trust II's Amended and Restated Trust Agreement dated February 4, 1997) +99.1 Unaudited Pro Forma Condensed Consolidated Financial Statements

EXHIBIT 3(a)

ARTICLES OF CONVERSION

OF

RELIANT ENERGY, INCORPORATED

The undersigned officer of Reliant Energy, Incorporated, hereby certifies the following:

1. The converting entity is Reliant Energy, Incorporated (the "Converting Entity"), a corporation incorporated under the laws of the State of Texas.

2. The plan of conversion of the Converting Entity (the "Plan of Conversion") has been approved by the shareholders of the Converting Entity.

3. An executed Plan of Conversion is on file at the principal place of business of the Converting Entity at 1111 Louisiana, Houston, Texas 77002. An executed Plan of Conversion will be on file, from and after the conversion, at the principal place of business of CenterPoint Energy Houston Electric, LLC, the converted entity (the "Converted Entity"), at 1111 Louisiana, Houston, Texas 77002.

4. A copy of the Plan of Conversion will be furnished by the Converting Entity (prior to the conversion) or the Converted Entity (after the conversion), on written request and without cost, to any shareholder of the Converting Entity or member of the Converted Entity.

5. Immediately prior to the effective time of the conversion specified in paragraph 8 below, the outstanding capital stock of the Converting Entity consists of 1,000 shares of common stock, without par value ("Common Stock"), and 3,160 shares of Series E Preference Stock, without par value ("Series E Preference Stock"). The holders of all outstanding shares of Common Stock and Series E Preference Stock signed written consents approving the Plan of Conversion.

6. The Converted Entity will assume and be liable for the payment of all fees and franchise taxes payable by or imposed on the Converting Entity.

7. Approval of the Plan of the Conversion was duly authorized by all action required by laws under which the Converting Entity was incorporated and by its constituent documents.

8. The conversion will become effective at 11:54 p.m., Houston time, on August 31, 2002 in accordance with provisions of Article 10.03 of the Texas Business Corporation Act and Article 9.02 of the Texas Limited Liability Company Act.

EXECUTED this 30th day of August, 2002.

RELIANT ENERGY, INCORPORATED

By /s/ Rufus Scott

Name: Rufus Scott
Title: Assistant Corporate Secretary

EXHIBIT 3(b)

ARTICLES OF ORGANIZATION

OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

I, the undersigned, a natural person of the age of eighteen years or more, acting as organizer of a limited liability company under the Texas Limited Liability Company Act (the "Act"), do hereby adopt the following Articles of Organization therefor:

ARTICLE I

The name of the limited liability company is CenterPoint Energy Houston Electric, LLC (the "Company").

ARTICLE II

The period of duration of the Company shall be perpetual.

ARTICLE III

The purpose of the Company is the transaction of any or all business for which a limited liability company may be organized under the Act.

ARTICLE IV

The address of the Company's initial registered office is 1021 Main Street, Suite 1150, Houston, Texas 77002, and the name of the Company's initial registered agent at such address is CT Corporation System.

ARTICLE V

The Company shall have managers. The name and address of the sole initial manager of the Company is:

David M. McClanahan
1111 Louisiana
Houston, Texas 77002

ARTICLE VI

The Company is being formed pursuant to a plan of conversion under Section 10.08 of the Act and Article 5.17 of the Texas Business Corporation Act.

ARTICLE VII

The name and address of the converting entity (the "Converting Entity") are as follows:

Reliant Energy, Incorporated
1111 Louisiana
Houston, Texas 77002

The Converting Entity is a corporation incorporated under the laws of the State of Texas. The Converting Entity was incorporated on January 9, 1906 under the name Houston Lighting & Power Company.

IN WITNESS WHEREOF, the undersigned has executed this instrument this 30th day of August, 2002.

/s/ Richard B. Dauphin

Richard B. Dauphin
Organizer

EXHIBIT 3(c)

LIMITED LIABILITY COMPANY REGULATIONS

OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Effective as of August 31, 2002

TABLE OF CONTENTS

LIMITED LIABILITY COMPANY REGULATIONS

These Limited Liability Company Regulations (this "Agreement") of CenterPoint Energy Houston Electric, LLC (the "Company") are made and executed to be effective as of 11:54 p.m., Houston time, on August 31, 2002, by and between Utility Holding, LLC, a Delaware limited liability company ("Utility Holding"), and Reliant Energy FinanceCo II LP, a Delaware limited partnership ("Finco").

WHEREAS, the parties are all of the shareholders of Reliant Energy, Incorporated, a Texas corporation (the "Corporation"), and as such have unanimously consented to and approved the Plan of Conversion of the Corporation into a limited liability company existing under the laws of the State of Texas; and

WHEREAS, the parties desire to continue the business operations of the Corporation in the form of the Company for the purposes herein set forth;

NOW, THEREFORE, the undersigned hereby agree to form the Company upon the terms set forth in the following Articles:

ARTICLE I

DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

"Additional Member" shall mean any Person admitted to the Company as an Additional Member pursuant to Section 4.3 of this Agreement.

"Adjusted Capital Account Deficit" shall mean, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments: (i) crediting to such Capital Account any amounts that such Member is obligated to restore or is deemed to be obligated to restore pursuant to Regulations sections 1.704-1(b)(2)(ii)(b)(3), 1.704-1(b)(2)(ii)(c), 1.704-2(g)(1), and 1.704-2(i)(5), and (ii) debiting to such Capital Account the items described in Regulations section 1.704-1(b)(2)(ii)(d)(4), (5), and (6). The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Affiliate," with respect to a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Person specified. For purposes of this definition, "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Agreement as originally executed and as it may be amended from time to time hereafter.

"Articles of Organization" shall mean the Articles of Organization of the Company filed with and endorsed by the Secretary of State of the State of Texas, as such articles may be amended from time to time hereafter.

"Capital Account" shall mean a financial account to be established and maintained by the Company for each Member as computed from time to time in accordance with Section 10.3 hereof. A transferee of a Member's Shares shall succeed to the transferor's Capital Account with respect to the transferred Shares.

"Capital Contribution" shall mean any contribution to the capital of the Company in cash or property by a Member whenever made.

"Capital Percentage" shall mean a Member's ownership interest in the Company expressed as a percentage as set forth on Exhibit A hereto.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or corresponding provisions of subsequent superseding federal revenue laws.

"Corporation" shall mean Reliant Energy, Incorporated.

"Entity" shall mean any foreign or domestic general partnership, limited partnership, limited liability company, corporation, joint enterprise, trust, business trust, employee benefit plan, cooperative or association.

"Fiscal Year" shall mean the Company's fiscal year, which shall be determined by the Managers.

"Indemnitee" shall have the meaning given such term in Section 8.1.

"Manager" shall mean any of the managers of the Company duly appointed or elected to serve in such capacity under Texas law and this Agreement.

"Member" shall mean each Person who executes a counterpart of this Agreement as a Member and each Person who may hereafter become an Additional Member pursuant to Section 4.3 or a Substituted Member pursuant to Section 13.3; but shall not include any Member that ceases to be a Member.

"Member Nonrecourse Debt" shall have the meaning ascribed to the term "partner nonrecourse debt" in Regulations section 1.704-2(b)(4).

"Member Nonrecourse Debt Minimum Gain" shall have the meaning ascribed to the term "partner nonrecourse debt minimum gain" in Regulations section 1.704-2(i)(2).

"Member Nonrecourse Deductions" shall mean any item of partnership loss, deduction, or expenditure under section 705(a)(2)(B) of the Code that is attributable to a Member Nonrecourse Debt, as determined pursuant to Regulations section 1.704-2(i)(2).

"Minimum Gain" shall have the meaning set forth in Regulations section 1.704-2(d)(1) and shall mean the amount determined by (i) computing for each nonrecourse liability of the Company any gain the Company would realize if it disposed of the property subject to that liability for no consideration other than full satisfaction of the liability and (ii) aggregating the separately computed gains. If, pursuant to Regulations sections 1.704-1(b)(2)(iv)(d) or 1.704-1(b)(2)(iv)(f), Company property is properly reflected on the books of the Company at a book value that differs from the adjusted tax basis of such property, the calculation of Minimum Gain pursuant to the preceding sentence shall be made by reference to such book value. For purposes hereof, a liability of the Company is a nonrecourse liability to the extent that no Member or related person bears the economic risk of loss for that liability within the meaning of Regulations section 1.752-2.

"Net Income" shall mean for a taxable year of the Company or other period the excess of (i) the income and gain of the Company for such year or period, over (ii) the deductions and losses of the Company for such year or period.

"Net Loss" shall mean for a taxable year of the Company or other period the excess of (i) the deductions and losses of the Company for such year or period, over (ii) the income and gain of the Company for such year or period.

"Nonrecourse Deductions" shall have the meaning ascribed to such term in Regulations section 1.704-2(b)(1).

"Outstanding Liquidation Preference" shall mean, as of any date of determination, the excess of (a) the product of (1) $100,000.00, multiplied by (2) the number of outstanding Series A Preferred Shares, over (b) the aggregate amount previously distributed to Finco with respect to such Series A Preferred Shares pursuant to Section 14.3(b)(7)(C).

"Person" shall mean any individual or Entity, and any heir, executor, administrator, legal representative, successor or assign of such "Person" where the context so admits.

"Regulations" shall mean the Treasury Regulations promulgated pursuant to the Code.

"Regulatory Allocations" shall have the meaning set forth in Section 10.4(g).

"Requisite Interest" shall mean, as the case may be, the (i) Members holding more than 50% of the issued and outstanding Shares of a particular class held by Members at any given time or (ii) Members holding more than the percentage of a class of outstanding Shares held by Members at any given time specified in the instrument defining the rights of such class of Shares and, in either case, entitled to vote on the matter being considered.

"Share" shall mean an undivided portion of all or a specified category of the rights, duties, obligations, and ownership interests in the Company.

"Substituted Member" shall mean any transferee or assignee of Shares that is admitted to the Company as a Member pursuant to Section 13.3.

"Texas Act" shall mean the Texas Limited Liability Company Act, as the same may be amended from time to time hereafter.

ARTICLE II

FORMATION OF THE COMPANY

2.1 Formation. The Articles of Organization of the Company became effective as of 11:54 p.m., Houston time, on August 31, 2002.

2.2 Name. The name of the Company is CenterPoint Energy Houston Electric, LLC. If the Company shall conduct business in any jurisdiction other than the State of Texas, it shall register the Company or its trade name with the appropriate authorities in such state in order to have the legal existence of the Company recognized.

2.3 Place of Business. The initial principal place of business of the Company shall be 1111 Louisiana, Houston, Texas 77002. The Company may locate its places of business and registered office at any place or places as the Managers may from time to time deem advisable.

2.4 Registered Office and Registered Agent. The Company's registered office shall be at the office of its registered agent at 1021 Main Street, Suite 1150, Houston, Texas 77002, and the name of its initial registered agent at such address shall be CT Corporation System.

2.5 Term. The Company and this Agreement shall continue until the earlier of (a) such time as all of the Company's assets have been sold or otherwise disposed of, or (b) such time as the Company's existence has been terminated as otherwise provided herein or in the Texas Act.

2.6 Purpose of the Company. The purpose of the Company shall be to engage in any lawful business activities in which a limited liability company formed under the Texas Act may engage or participate, with its primary objective being to continue the business activities and operations of the Corporation, pursuant to the conversion of the Corporation into the Company, and to make such additional investments, engage in such additional business endeavors and to do any and all acts and things that may be necessary, incidental or convenient to carry on the Corporation's business as contemplated by this Agreement. The Company shall have any and all powers necessary or desirable to carry out the purpose and business of the Company to the extent the same may be legally exercised by limited liability companies under the Texas Act. The Company shall carry out the foregoing activities pursuant to the Articles of Organization and this Agreement.

ARTICLE III

MEMBERS

The names and places of business of each Member is set forth on Exhibit A hereto.

ARTICLE IV

CAPITAL OF THE COMPANY

4.1 Shares and Initial Contributions.

(a) A class of Shares denominated "Common Shares" and a class of Shares denominated "Series A Preferred Shares" are hereby designated as the initial classes of Shares of the Company. The forms of certificates representing Common Shares and Series A Preferred Shares are attached hereto as Exhibits B and C, respectively. Subject to Section 4.12, each Common Share shall entitle any Member holding the same to one vote in respect of all matters coming before the Members for consideration and to an undivided portion of all of the other rights, duties, obligations and ownership interests in the Company. Each Series A Preferred Share shall entitle any Member holding the same to the voting rights, designations, preferences, limitations, restrictions and relative rights set forth in Section 4.12.

(b) Pursuant to the Plan of Conversion adopted by the Corporation, and simultaneously with the issuance by the Secretary of State of the State of Texas of a certificate of conversion of the Corporation, (i) each share of common stock, without par value, of the Corporation shall be converted into a Common Share and (ii) each share of Series E Preference Stock, without par value, of the Corporation shall be converted into a Series A Preferred Share. Accordingly, each Member shall be deemed to have contributed to the capital of the Company his proportionate interest in the assets of the Corporation. The Members and type of Shares held by each Member shall be set forth opposite its name on Exhibit A hereto. The Members' corresponding capital percentages (the "Capital Percentages") shall be as set forth opposite their respective names or Exhibit A hereto.

4.2 Additional Contributions. No Member shall be required to make additional Capital Contributions unless, and except on such terms as, the Managers and the Members unanimously agree. All additional Capital Contributions shall be evidenced by the issuance of additional Shares to each contributing Member pursuant to Section 4.3.

4.3 Additional Issuances of Shares and Other Securities

(a) In the event of any additional Capital Contributions, and in order to raise additional capital or to acquire assets, to redeem or retire Company debt or for any other purpose, the Company is authorized, subject to Section 6.11, to issue Shares and other securities in addition to those issued pursuant to Section 4.1 from time to time to Members or to other Persons. The Company may assume liabilities in connection with any such issuance. The Managers shall determine the consideration and terms and conditions with respect to any such issuance of Shares. The Managers shall do all things necessary to comply with the Texas Act and are authorized and directed to do all things they deem to be necessary or advisable in connection with any such issuance, including, without limitation, compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency.

(b) Shares to be issued by the Company shall be issuable from time to time in one or more classes with such voting rights, designations, preferences, limitations, restrictions

and relative rights (including rights senior to existing classes of Shares) as may be fixed by the Managers, including without limitation (i) the allocation, for federal income and other tax purposes, to such class of Shares of items of income, gain, loss, deduction and credit; (ii) the rights of such class of Shares to share in distributions by the Company; (iii) the rights of such class of Shares upon dissolution and liquidation of the Company; (iv) whether such class of Shares is redeemable by the Company and, if so, the price at, and the terms and conditions on, which such class of Shares may be redeemed by the Company; (v) whether such class of Shares is issued with the privilege of conversion and, if so, the rate at and the terms and conditions upon which such class of Shares may be converted into any other class of Shares; (vi) the terms and conditions of the issuance of such class of Shares; and (vii) the rights of such class of Shares to vote on matters relating to the Company and this Agreement. The Managers are also authorized to cause the issuance of any other type of security of the Company from time to time to Members or other Persons on terms and conditions established by the Managers. Such securities may include, without limitation, unsecured and secured debt obligations of the Company, debt obligations of the Company convertible into any class of Shares that may be issued by the Company, options, rights or warrants to purchase any such class of Shares or any combination of any of the foregoing.

(c) Upon the issuance of any additional Common Shares or any other Shares or class of Shares, the Managers, without the approval at the time of any Member, may amend any provision of this Agreement, and any Manager, upon the affirmative vote of at least a majority of the Managers, may execute, swear to, verify, acknowledge, deliver, file and record, if required, amended Articles of Organization and any other documents that may be required in connection therewith, as shall be necessary or desirable to reflect the authorization and issuance of such Shares and the relative rights of such Shares as to the matters set forth in Section 4.3(b).

(i) For issuances of additional Common Shares to any Person, this Agreement shall be deemed amended with regard to such issuance upon the completion and execution of the form attached hereto as Exhibit D by a Manager and each Person receiving the Common Shares.

(ii) For issuances to any person of additional Shares or classes of Shares that are not Common Shares, this Agreement shall be deemed amended with regard to such issuance upon the completion and execution of the form attached hereto as Exhibit D by a Manager and each Person receiving such Shares, except that the form of this Agreement must in such case be further amended to set forth the rights, obligations and terms of such Shares.

(iii) Whenever this Agreement is amended pursuant to Section 4.3(c)(i) or (ii) above, Exhibit A shall be accordingly amended to reflect the issuance of such Shares.

(d) Upon (i) the execution and delivery to the Company of this Agreement, as it may be amended as provided in subparagraph (c) of this Section 4.3, by a Manager and any Person who is to be issued Shares of any class, (ii) receipt by the Company of the Capital

Contribution of such Person made in connection with the issuance of such Shares and (iii) any other action required by Texas law, such Person shall be admitted as an Additional Member of the Company.

4.4 Record of Contributions. The books and records of the Company shall include true and full information regarding the amount of cash and cash equivalents and designation and statement of the value of any other property contributed by each Member to the Company.

4.5 No Fractional Common Shares. No fractional Common Shares shall be issued by the Company unless otherwise determined by the Managers; instead, each fractional Common Share shall be rounded to the nearest whole Common Share.

4.6 Interest. No interest shall be paid by the Company on Capital Contributions.

4.7 Loans from Members. Loans by a Member to the Company shall not be considered Capital Contributions.

4.8 Withdrawal or Reduction of Members' Capital Contributions.

(a) A Member shall not be entitled to withdraw any part of his Capital Contribution or to receive any distribution from the Company, except as otherwise provided in this Agreement.

(b) Except as otherwise provided in this Agreement, a Member shall not receive out of the Company's property or other assets any part of his Capital Contributions until all liabilities of the Company, except liabilities to Members on account of their Capital Contributions, have been paid or there remains property or other assets of the Company sufficient to pay all such liabilities.

(c) A Member, irrespective of the nature of his Capital Contribution, has only the right to demand and receive cash in return for his Capital Contribution.

4.9 Loans to Company. Nothing in this Agreement shall prevent any Member from making secured or unsecured loans to the Company by agreement with the Company.

4.10 Borrowing. In the event that the Company, in order to discharge costs, expenses or indebtedness, requires funds in excess of the funds provided by Capital Contributions of the Members and by revenues, the Managers shall be authorized, at any time and from time to time, to cause the Company to borrow additional funds, as shall in the judgment of the Managers be sufficient for such purposes and upon such terms as the Managers may deem advisable.

4.11 No Further Obligation. Except as expressly provided for in or contemplated by this Article IV, no Member shall have any obligation to provide funds to the Company, whether by Capital Contributions, loans, return of monies received pursuant to the terms of this Agreement or otherwise.

4.12 Series A Preferred Shares.

(a) Designation and Amount. There shall be a class of stock that shall be designated as "Series A Preferred Shares," and the number of Shares constituting such class shall be 3,160. Such number of Shares may be increased or decreased by resolution of the Managers, provided, however, that no decrease shall reduce the number of Series A Preferred Shares to less than the number of Shares then issued and outstanding plus the number of Shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

(b) Certain Defined Terms. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Fiscal Agency Agreement, including the Exhibits thereto (the "Fiscal Agency Agreement") dated November 12, 1999 among Finco, the Corporation and Chase Bank of Texas, National Association, as in effect at the time of the initial issuance of Notes thereunder, and as such terms may be amended in the Fiscal Agency Agreement in accordance with the terms thereof. In addition, the following terms are used in this Section 4.12 as defined below:

(i) "Affiliates" means any person that, directly or indirectly, Controls or is Controlled by or is under common Control with another person.

(ii) "Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

(iii) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the Notes from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(iv) "Controlled" means, with respect to any Person, the ability of another person (whether directly or indirectly and whether by the ownership of voting securities, contract or otherwise) to appoint and/or remove the majority of the members of the board of directors or other governing body of that person (and "Control" shall be similarly construed).

(v) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(vi) "Dividend" means the dividend on the Series A Preferred Shares declared by the Managers with respect to a Dividend Interval Period.

(vii) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(viii) "Dividend Declaration Date" means the date on which Dividends on the Series A Preferred Shares are declared (or would have been declared but for the fact that the

amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Managers.

(ix) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(x) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(xi) "Excess Cash Flow" means, for any period, any excess funds of the Company after taking into account its cash requirements (including debt service and preferred Share payments, but before Common Share payments), and any other expenditures in order to accommodate regulatory requirements and sound utility financial and management practices, in each case, as determined in the discretion of the Company's senior management.

(xii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the Notes during such period.

(xiii) "Other Sources Reconciliation Amount" means, to the extent applied to pay interest on the Notes or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by Finco from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(xiv) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xv) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the Notes from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xvi) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to Finco from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(c) Dividends and Distributions.

(i) Subject to the prior and superior rights of the holders of any Shares of any class of the Company ranking prior and superior to the Series A Preferred Shares with respect to dividends, the holders of the Series A Preferred Shares, in preference to the holders of Shares of any class of the Company ranking junior to the Series A Preferred Shares, shall be entitled to receive the amounts set forth below, when, as and if declared by the Managers in the manner described below out of assets of the Company legally available for the purpose:

(A) On or prior to November 15 of each year while any Series A Preferred Share remains outstanding, the Managers shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (x) the Dividend Declaration Amount or (y) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(B) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Managers is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(C) The aggregate Dividends paid on the Series A Preferred Shares in accordance with this Section 4.12(c)(i) shall be allocated pro rata on a share-by-share basis among all such Shares at the time outstanding.

(ii) Accrued but unpaid dividends shall not bear interest. The Managers may fix a record date for the determination of holders of Series A Preferred Shares entitled to receive payment of a dividend or distribution declared thereon.

(iii) Dividends on the Series A Preferred Shares are cumulative.

(d) Voting Rights. Except as otherwise required by law or the Articles of Organization of the Company or as otherwise provided herein, the holders of Series A Preferred Shares shall have no voting rights.

(e) Certain Restrictions. At any time when dividends or distributions payable on the Series A Preferred Shares as provided in Section 4.12(c) are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on the Series A Preferred Shares outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any Shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Shares; or

(ii) declare dividends on any Shares ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Shares, except dividends declared ratably on the Series A Preferred Shares and all such parity Shares on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such Shares are then entitled.

Notwithstanding the limitation on the amount of dividends declared or to be declared on the Series A Preferred Shares set forth in Section 4.12(c)(i), for purposes of Section 4.12(g) and Section 4.12(h), the amount of accrued and unpaid dividends payable on the Series A Preferred Shares as of the date of calculation of the Series A Liquidation Preference (as defined in Section 4.12(g) below) or any redemption price, as the case may be, for the Series A Preferred Shares shall be equal to the aggregate amount of accrued and unpaid interest on the Notes as of such date, plus premium, if any.

(f) Reacquired Shares. Any Series A Preferred Shares purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof.

(g) Liquidation, Dissolution or Winding Up.

(i) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of Shares ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Shares unless, prior thereto, the holders of the Series A Preferred Shares shall have received $100,000 per Share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of the Series A Preferred Shares.

(ii) In the event that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other Shares, if any, that rank on a parity with the Series A Preferred Shares, then such remaining assets shall be distributed ratably to the holders of such parity Shares in proportion to their respective liquidation preferences.

(iii) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 4.12(g), but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 4.12(g); provided, however, that any action taken in connection with the restructuring of the Corporation and its subsidiaries into a holding company structure, including, but not limited to, the conveyances of the Company's assets to CenterPoint Energy, Inc., Utility Holding or any of the subsidiaries of CenterPoint Energy, Inc. or Utility Holding, shall not be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 4.12(g).

(h) Redemption.

(i) The Company, at its option, may redeem the Series A Preferred Shares in whole at any time and in part from time to time, at a redemption price equal to $100,000 per

Share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of redemption.

(ii) Upon maturity of the Notes, by acceleration or otherwise, the Company shall redeem the Series A Preferred Shares in whole, at a redemption price equal to the lesser of (A) the Company's Excess Cash Flow or (B) $100,000 per Share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of redemption.

(iii) In the event that fewer than all the outstanding Series A Preferred Shares are to be redeemed, the number of Shares to be redeemed shall be determined by the Managers and the Shares to be redeemed shall be determined by lot or pro rata as may be determined by the Managers or by any other method that may be determined by the Managers in their sole discretion to be equitable.

(iv) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the Series A Preferred Shares to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (A) the redemption date; (B) the number of Shares to be redeemed and, if fewer than all the Shares held by such holder are to be redeemed, the number of such Shares to be redeemed from such holder; (C) the redemption price; (D) the place or places where certificates for such Shares are to be surrendered for payment of the redemption price; and (E) that dividends on the Shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Member received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series A Preferred Shares shall not affect the validity of the proceedings for the redemption of any other Series A Preferred Shares that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the Shares called for redemption shall surrender the certificate evidencing such Shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the Shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed Shares.

(v) The Series A Preferred Shares shall not be subject to the operation of any purchase, retirement or sinking fund.

(i) Ranking. The Series A Preferred Shares shall rank pari passu with all other classes of the Company's Preferred Shares (other than any such classes of Preferred Shares the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Shares as to such matters.

(j) Amendment. At any time that any Series A Preferred Shares are outstanding, this Agreement and the Articles of Organization of the Company shall not be amended in any manner

which would materially alter or change the powers, preferences or special rights of the Series A Preferred Shares so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding Series A Preferred Shares, voting separately as a class.

(k) Fractional Shares. Series A Preferred Shares may be issued in fractions of a Share that shall entitle the holder, in proportion to such holder's fractional Shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Shares.

ARTICLE V

RIGHTS AND OBLIGATIONS OF MEMBERS

5.1 Limitation of Members' Responsibility, Liability. A Member shall not be personally liable for any amount in excess of its Capital Contribution, and shall not be liable for any of the debts or losses of the Company, except to the extent that a liability of the Company is founded upon or results from an unauthorized act or activity of such Member. In addition, each Member's liability shall be limited as set forth in the Texas Act and other applicable law.

5.2 Return of Distributions. In accordance with Article 5.09 of the Texas Act, a Member will be obligated to return any distribution from the Company only as provided by applicable law.

5.3 Priority and Return of Capital. Except as may be provided in this Agreement, no Member shall have priority over any other Member, either as to the return of Capital Contributions or as to profits, losses or distributions; provided that this Section 5.3 shall not apply to loans (as distinguished from Capital Contributions) that a Member has made to the Company.

ARTICLE VI

MEETINGS OF MEMBERS; AMENDMENTS

6.1 Meetings. Meetings of the Members, for any purpose or purposes, unless otherwise prescribed by statute, may be called by any Manager or by any Member or group of Members holding, in the aggregate, 25% or more of the Capital Percentages.

6.2 Place of Meetings. The Members may designate any place as the place of meeting for any meeting of the Members. If no designation is made, the meeting shall be held at the principal offices of the Company.

6.3 Notice of Meetings. Except as provided in Section 6.4, written notice stating the place, day and hour of the meeting and the purpose or purposes for which the meeting is called shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the Manager or Person calling the meeting, to each Member entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Member at his address as it

appears on the books of the Company, with postage thereon prepaid. If transmitted by way of facsimile, such notice shall be deemed to be delivered on the date of such facsimile transmission to the fax number, if any, for the respective Member that has been supplied by such Member to the Managers and identified as such Member's facsimile number.

6.4 Meeting of All Members. If all of the Members shall meet at any time and place and consent to the holding of a meeting at such time and place, such meeting shall be valid without call or notice, and at such meeting lawful action may be taken.

6.5 Record Date. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members, the Managers may set a record date. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Section, such determination shall apply to any adjournment thereof.

6.6 Quorum. Members holding at least a majority of the outstanding Shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of Members. In the absence of a quorum at any such meeting, Members holding a majority of the Shares so represented may adjourn the meeting from time to time for a period not to exceed 60 days without further notice. However, if the adjournment is for more than 60 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting.

At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed. The Members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal during such meeting of Members holding that number of Shares whose absence would cause less than a quorum.

6.7 Manner of Acting. If a quorum is present, the affirmative vote of the Requisite Interest on the subject matter shall be the act of the Members, unless the vote of a greater or lesser proportion or number is otherwise required by the Texas Act, by the Articles of Organization or by this Agreement.

6.8 Proxies. At all meetings of Members, a Member may vote in person or by proxy executed in writing by the Member or by a duly authorized attorney-in-fact. Such proxy shall be filed with the Managers of the Company before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy.

6.9 Action by Members Without a Meeting. Action required or permitted to be taken at a meeting of Members may be taken without a meeting, without prior notice and without a vote if the action is evidenced by one or more written consents describing the action taken, signed by Members entitled to vote thereon holding not fewer than the minimum number of Shares that would be necessary to take the action at a meeting at which all Members entitled to vote on the action were present and voted, and delivered to the Managers of the Company for inclusion in the minutes or for filing with the Company records. Action taken under this Section 6.9 is effective when all Members entitled to vote thereon holding not fewer than the minimum number of Shares that would be necessary to take such action have signed the consent,

unless the consent specifies a different effective date. The record date for determining Members entitled to take action without a meeting shall be the date the first Member signs a written consent.

6.10 Waiver of Notice. When any notice is required to be given to any Member, a waiver thereof in writing signed by the Person entitled to such notice, whether before, at or after the time stated therein, shall be equivalent to the giving of such notice.

6.11 Special Prohibitions and Limitations. Without the prior approval of the Requisite Interest, the Company shall not (i) sell, exchange or otherwise dispose of all or substantially all of the assets of the Company outside the ordinary course of business of the Company (provided, however, that this provision shall not be interpreted to preclude or limit the mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the assets of the Company and shall not apply to any forced sale of any or all of the assets of the Company pursuant to the foreclosure of (or in lieu of foreclosure), or other realization upon, any such encumbrance; and provided, further, that no approval shall be required for any action taken in connection with the restructuring of the Corporation and its subsidiaries into a holding company structure, including, but not limited to, the conveyances of the Company's assets to CenterPoint Energy, Inc., Utility Holding or any of the subsidiaries of CenterPoint Energy, Inc. or Utility Holding), (ii) merge, consolidate or combine with any other Person, or (iii) issue additional Common Shares.

6.12 Amendments to be Adopted Solely by the Managers. The Managers, without the consent at the time of any Member, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Company or the location of the principal place of business of the Company;

(b) the admission, substitution or withdrawal of Members in accordance with this Agreement;

(c) a change that is necessary or advisable in the opinion of the Managers to qualify the Company as a company in which members have limited liability under the laws of any state or other jurisdiction or to ensure that the Company will not be treated as an association taxable as a corporation for federal income tax purposes;

(d) a change that (i) in the sole discretion of the Managers does not adversely affect the Members in any material respect, (ii) is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute or (iii) is required or contemplated by this Agreement;

(e) a change in any provision of this Agreement that requires any action to be taken by or on behalf of the Company or the Members pursuant to the requirements of Texas law if the provisions of Texas law are amended, modified or revoked so that the taking of such action

is no longer required; provided that this Section 6.12(e) shall be applicable only if such changes are not materially adverse to the Members;

(f) a change that is necessary or desirable in connection with the issuance of any class of Shares pursuant to Section 4.3; or

(g) any other amendments similar to the foregoing.

Each Member hereby appoints each Manager as its attorney-in-fact to execute any amendment permitted by this Section 6.12.

6.13 Amendments. A proposed amendment to this Agreement (other than one permitted by Section 6.12) shall be effective upon its adoption by Members holding at least 80% of the issued and outstanding Shares entitled to vote on such amendment. The Company shall notify all Members upon final adoption or rejection of any proposed amendment to this Agreement.

ARTICLE VII

RIGHTS AND DUTIES OF MANAGERS

7.1 Management. The powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under, its Managers. In addition to the powers and authorities expressly conferred by this Agreement upon the Managers, the Managers may exercise all such powers of the Company and do all such lawful acts and things as are not directed or required to be exercised or done by the Members by the Texas Act, the Articles of Organization of the Company or this Agreement.

7.2 Number and Qualifications. The number of Managers of the Company shall initially be one; but the number of Managers may be changed by unanimous agreement of the Members. Managers need not be residents of the State of Texas or Members of the Company. The Managers, in their discretion, may elect a chairman of the Managers who shall preside at any meetings of the Managers.

7.3 Powers of the Managers. Without limiting the generality of Section 7.1, the Managers shall have power and authority, acting in accordance with this Agreement, to cause the Company to do and perform all acts as may be necessary or appropriate to the conduct of the Company's business.

7.4 Initial Managers. The initial Manager shall be David M. McClanahan. The Members shall have the right to take action pursuant to a meeting of the Members or unanimous written consent of the Members to designate one or more Managers and to remove, replace or fill any vacancy occurring for any reason of any Manager.

7.5 Place of Meetings. All meetings of the Managers of the Company or committees thereof may be held either within or without the State of Texas. Any Manager may participate in a meeting by means of conference telephone or similar equipment, and participation by such means shall constitute presence in person at the meeting.

7.6 Meetings of Managers. Meetings of the Managers may be called by any Manager on two days' notice to each Manager, either personally or by mail, telephone or telegram.

7.7 Quorum. At all meetings of the Managers, the presence of a majority of the Managers shall be necessary and sufficient to constitute a quorum for the transaction of business unless a greater number is required by law. The act of a majority of the Managers present at a meeting at which a quorum is present shall be the act of the Managers, except as otherwise provided by law, the Articles of Organization or this Agreement. If a quorum shall not be present at any meeting of the Managers, the Managers present at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

7.8 Attendance and Waiver of Notice. Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Managers need be specified in the notice or waiver of notice of such meeting.

7.9 Action by Managers Without a Meeting. Action required or permitted to be taken at a meeting of Managers may be taken without a meeting, without prior notice and without a vote if the action is evidenced by one or more written consents describing the action taken, signed by the Managers having not fewer than the minimum number of votes that would be necessary to take the action at a meeting at which all Managers entitled to vote on the action were present and voted, and included in the Company minutes or records. Action taken under this Section 7.9 is effective when the requisite number of the Managers have signed the consent, unless the consent specifies a different effective date. The record date for determining Managers entitled to take action without a meeting shall be the date the first Manager signs a written consent.

7.10 Compensation of Managers. Managers, as such, shall not receive any stated salary for their services, but shall receive such compensation for their services as may be from time to time approved by the Members, provided that nothing contained in this Agreement shall preclude any Manager from serving the Company in any other capacity and receiving compensation for service. In addition, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each meeting of the Managers.

7.11 Committees. The Managers may, by resolution, designate from among the Managers one or more committees, each of which shall be comprised of one or more Managers, and may designate one or more of the Managers as alternate members of any committee, who may, subject to any limitations imposed by the Managers, replace absent or disqualified Managers at any meeting of that committee. Such committee shall have and may exercise all of the authority of the Managers, subject to the limitations set forth in this Agreement and under the Texas Act.

7.12 Liability of Managers. A Manager shall not be liable under any judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company

by reason of his acting as a Manager of the Company. A Manager of the Company shall not be personally liable to the Company or its Members for monetary damages for breach of fiduciary duty as a Manager, except for liability for any acts or omissions that involve intentional misconduct, fraud or a knowing violation of law or for a distribution in violation of Texas law as a result of the willful or grossly negligent act or omission of the Manager. If the laws of the State of Texas are amended after the date of this Agreement to authorize action further eliminating or limiting the personal liability of Managers, then the liability of a Manager of the Company, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended laws of the State of Texas. Any repeal or modification of this Section 7.12 by the Members of the Company shall be prospective only, and shall not adversely affect any limitation on the personal liability of a Manager of the Company existing at the time of such repeal or modification or thereafter arising as a result of acts or omissions prior to the time of such repeal or modification.

7.13 Officers. The Managers of the Company may elect the officers of the Company, who shall hold offices specified by the Managers for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Managers; and each officer of the Company shall hold office until his successor is chosen and qualified or until his earlier resignation or removal. Any officer elected by the Managers may be removed at any time by the affirmative vote of at least a majority of the Managers. Any vacancy occurring in any office of the Company may be filled by the affirmative vote of at least a majority of the Managers. The salaries of all officers of the Company shall be fixed by the Managers but must be approved by the Members.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification. Subject to the approvals required by Sections 8.5 and 8.6, each Person who at any time shall be, or shall have been, a Member, Manager, officer, employee or agent of the Company, or any Person who is or was serving at the request of the Company as a director, member, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of an Entity (but excluding Persons providing trustee, fiduciary or custodial services on a fee-for-services basis), shall be entitled to indemnification as provided herein and to the fullest extent permitted by the provisions of Texas law or any successor statutory provisions, as from time to time amended (any such Person serving in any of the aforesaid capacities who was or is or is threatened to be made a party or a witness to any action or proceeding as described in Sections 8.2, 8.3 or 8.5 by reason of his status as such, being hereinafter referred to as an "Indemnitee"). Any repeal of this Section 8.1 shall be prospective only, and shall not adversely affect any right of indemnification existing at the time of such repeal or modification or thereafter arising as a result of acts or omissions prior to the time of such repeal or modification. If any provision or provisions of this Agreement relating to indemnification shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid,

illegal or unenforceable, including, without limitation, by allowing indemnification by vote of the Members or Managers or the disinterested minority thereof.

8.2 Power to Indemnify in Actions, Suits or Proceedings Other Than Those by or in the Right of the Company. Without limiting the provisions of Section 8.1 and subject to the approvals required by Sections 8.5 and 8.6, the Company shall indemnify an Indemnitee who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company) by reason of the Indemnitee's status as such against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnitee in connection with such action, suit or proceeding, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnitee did not act in good faith and in a manner that the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the Indemnitee's conduct was unlawful.

8.3 Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Company. Without limiting the provisions of Section 8.1 and subject to the approvals required by Sections 8.5 and 8.6, the Company shall indemnify an Indemnitee who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, administrative or investigative, by or in the right of the Company to procure a judgment in its favor by reason of the Indemnitee's status as such against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnitee in connection with such action, suit or proceeding, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification shall be made in respect of any claim, issue or matter as to which the Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnification for such expenses that the court shall deem proper.

8.4 Good Faith Defined. For purposes of any determination under this Article VIII, an Indemnitee shall be deemed to have acted in good faith and in a manner such Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such Indemnitee's conduct was unlawful, if such Indemnitee's action is based upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any of the Members, Managers, officers, employees or committees of the Company or by any other Person as to matters the Indemnitee reasonably believes are within such Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and

amount of assets, liabilities, profits or losses of the Company or any other facts pertinent to the existence and amount of assets from which distributions to the Members might properly be paid. The provisions of this Section 8.4 shall not be deemed to be exclusive or to limit in any way the circumstances in which an Indemnitee may be deemed to have met the applicable standards of conduct set forth in the provisions of the Texas Act, or in Section 8.2 or Section 8.3, as the case may be.

8.5 Advancement or Reimbursement of Expenses. The Company may pay in advance or reimburse expenses actually or reasonably incurred or anticipated by an Indemnitee in connection with an appearance as a witness or other participation in a proceeding whether or not such Indemnitee is a named defendant or a respondent in the proceeding. To obtain reimbursement or an expense advance, the requesting Indemnitee shall submit to the Company a written request with such information as is reasonably available. If the expense advance is to be paid prior to final disposition of the proceeding, there shall be included a written statement of such Indemnitee's good faith belief that such indemnification is appropriate under the circumstances and that such Indemnitee has met the necessary standard of conduct under Section 8.2 or Section 8.3 as applicable or otherwise has met any applicable standard of conduct under the Texas Act and an undertaking to repay any amount paid if it is ultimately determined that those conduct requirements were not met. Upon receipt of the request, the Managers (by unanimous agreement), shall determine whether such Indemnitee is entitled to such reimbursement or an expense advance. If the request is rejected, the Company shall notify such Indemnitee of the reason therefor. If, within sixty days of the Company's receipt of the request, the request for payment is not acted on, such Indemnitee shall have the right to an adjudication in any court of competent jurisdiction of such Indemnitee's entitlement to such indemnification or expense advance.

8.6 Nonexclusivity and Survival of Indemnification. The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this Article VIII shall not be deemed exclusive of any other rights to which an Indemnitee may be entitled under applicable law, this Agreement, any other agreement, by vote of the disinterested Members or Managers or otherwise, both as to action in an official capacity and as to action in any other capacity while an Indemnitee, it being the policy of the Company that, if the Managers unanimously approve, indemnification specified in this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any Person who is not specified in this Article VIII but whom the Company has the power or obligation to indemnify under the provisions of the Texas Act or otherwise.

8.7 Insurance. The Company may purchase and maintain insurance on behalf of any Person who is or was a Member, Manager, officer, employee or agent of the Company, or any other Person, as the Managers may determine, against any liability that may be asserted against and incurred by such Person in connection with the Company's activities or such Person's activities on behalf of the Company, whether or not the Company would have the power or the obligation to indemnify such Person against such liability under the provisions of this Article VIII.

8.8 Interested Party Transactions. Without limiting the generality of any other provision hereof, the Company may (except as otherwise specifically provided for in this

Agreement) enter into any contract, arrangement or transaction between the Company and one or more Members, Managers or officers, or between the Company and an Entity that is an Affiliate of one or more Members, Managers or officers or in which a Member, Manager or officer has an interest or serves as a director, member, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary and such contract, arrangement or transaction shall not, because of such interest by or position of a Member, Manager or officer, be void or voidable nor impose on any such Person any burden or obligation to show the fairness of the contract, arrangement or transaction, but shall instead be accorded the same treatment as a contract, arrangement or understanding between the Company and an unrelated party.

ARTICLE IX

ISSUANCE OF CERTIFICATES

9.1 Issuance of Certificates. Upon the issuance of Shares, the Company shall issue one or more Certificates in the name of the Members owning such Shares. Upon the transfer of a Share, the Company shall issue replacement Certificates according to such procedures as the Company may reasonably establish.

9.2 Lost, Stolen or Destroyed Certificates. The Company shall issue a new Certificate in place of any Certificate previously issued if the registered owner of the Certificate:

(a) makes proof by affidavit, in form and substance satisfactory to the Company, that a previously issued Certificate has been lost, destroyed or stolen;

(b) requests the issuance of a new Certificate before the Company has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(c) if requested by the Company, delivers to the Company a bond, in form and substance satisfactory to the Company, with such surety or sureties and with fixed or open penalty as the Company may direct to indemnify the Company against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(d) satisfies any other reasonable requirements imposed by the Company.

When a Certificate has been lost, destroyed or stolen, and the Member fails to notify the Company within a reasonable time after he has notice of it, and a transfer of the Shares represented by the Certificate is registered before the Company receives such notification, the Member shall be precluded from making any claim against the Company for such transfer or for a new Certificate.

9.3 Registered Owners. The Company shall be entitled to treat the registered owner of any Shares as the Person that owns such Shares and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Shares on the part of any other Person, regardless of whether it shall have actual or other notice thereof, except as otherwise provided by law.

ARTICLE X

DISTRIBUTIONS AND ALLOCATIONS

10.1 Distributions.

(a) Operating Distributions. Except as provided in Section 14.3, from time to time the Managers by unanimous agreement may determine to what extent (if any) the Company's cash on hand exceeds its current and anticipated needs, including, without limitation, for operating expenses, debt service, acquisitions, and a reasonable contingency reserve, and if such an excess exists, cause the Company to distribute an amount in cash equal to that excess to the Members as follows:

(1) First, to Finco to the extent of the excess of (1) the aggregate Dividends for the current Fiscal Year, over (2) the aggregate amount previously distributed to Finco pursuant to this Section 10.1(a)(1) and Section 14.3(b)(7)(A);

(2) Second, to Finco to the extent of the excess of (1) the sum of any accrued but unpaid Dividends for all prior Fiscal Years, over (2) the aggregate amount previously distributed to Finco pursuant to this Section 10.1(a)(2) and Section 14.3(b)(7)(B); and

(3) Third, to the Members in accordance with their respective Capital Percentages.

(b) Special Distribution. Notwithstanding anything in this Article X to the contrary, the Members acknowledge and agree that on August 31, 2002, at 11:55 p.m., Houston time, the Company will distribute to Utility Holding all of the outstanding stock owned by the Company of each of the following entities: Reliant Resources, Inc., Reliant Energy Resources Corp., Reliant Energy International, Inc., Texas Genco Holdings, Inc., Houston Industries Funding Company, HL&P Capital Trust I, HL&P Capital Trust II, REI Trust I, HL&P Receivables, Inc., Reliant Energy Investment Management, Inc., Reliant Energy Power Systems, Inc., Reliant Energy Properties, Inc., Reliant Energy Products, Inc., Reliant Energy Water, Inc., NorAm Energy Corp., Utility Rail Services, Inc., Houston Industries Energy (UK), Inc., Reliant Energy Thermal Systems, Inc. and CenterPoint Energy, Inc., a Delaware corporation.

10.2 Allocations.

(a) Net Income shall be allocated as follows:

(1) First, to Finco to the extent of the excess of (A) the aggregate amount previously distributed to Finco pursuant to Section 10.1(a)(1), Section 10.1(a)(2), Section 14.3(b)(7)(A) and Section 14.3(b)(7)(B), over (B) the aggregate amount of Net Income previously allocated to Finco pursuant to this Section 10.2(a)(1);

(2) Second, to Finco to the extent of the excess of (A) the aggregate amount of Net Loss previously allocated to Finco pursuant to Section 10.2(b)(2), over (B) the aggregate amount of Net Income previously allocated to Finco pursuant to this Section 10.2(a)(2); and

(3) Finally, to the Members in accordance with their respective Capital Percentages.

(b) Net Loss shall be allocated as follows:

(1) First, to the Members in accordance with their respective Capital Percentages to the extent of the excess of (A) the aggregate amount of Net Income previously allocated to such Members pursuant to Section 10.2(a)(3), over (B) the aggregate amount of Net Loss previously allocated to such Members pursuant to this Section 10.02(b)(1);

(2) Second, to Finco to the extent of the excess of (A) the sum of (I) the Outstanding Liquidation Preference, and (II) the aggregate amount of Net Income allocated to Finco pursuant to Section 10.2(a)(2), over (B) the aggregate amount of Net Loss allocated to Finco pursuant to this Section 10.2(b)(2); and

(3) Finally, to the Members in accordance with their respective Capital Percentages.

10.3 Capital Accounts.

(a) A Capital Account shall be maintained for each Member, which account shall be increased (credited) by (i) the amount of money and the fair market value of property contributed and deemed contributed by such Member to the Company (net of liabilities secured by such property that the Company is considered to assume or take subject to under section 752 of the Code), and (ii) the amount of income and gain (or items thereof) of the Company allocated to such Member, including income and gain exempt from tax and gain described in Regulations section 1.704-1(b)(2)(iv)(g), but excluding income and gain described in Regulations section 1.704-1(b)(4)(i); and decreased (debited) by (iii) the amount of money and the fair market value of property distributed to such Member (net of liabilities secured by such property that such Member is considered to assume or take subject to under section 752 of the Code), (iv) such Member's distributive share of expenditures of the Company described in section 705(a)(2)(B) of the Code, and (v) the amount of loss and deduction (or items thereof) of the Company allocated to such Member, including loss and deduction described in Regulations section 1.704-1(b)(2)(iv)(g), but excluding items described in clause (iv) above and loss and deduction described in Regulations sections 1.704-1(b)(4)(i) or 1.704-1(b)(4)(iii), and otherwise adjusted in accordance with the additional rules set forth in Regulations section 1.704-1(b)(2)(iv). In addition, a Member's Capital Account may be adjusted as provided in Section 14.3(b)(2) hereof. The Capital Accounts of all Members shall be adjusted as required under Regulations sections 1.704-1(b)(2)(iv)(f) or 1.704-1(b)(2)(iv)(m), as applicable, to reflect any aggregate net adjustment to the values of Company assets as permitted by the Code or the relevant Regulations.

(b) A single Capital Account shall be maintained for each Member, which Capital Account shall reflect all allocations, distributions, or other adjustments required by this Article X with respect to Company interests owned by such Member, regardless of whether such Member owns more than one class of Company interest.

(c) If, pursuant to Regulations sections 1.704-1(b)(2)(iv)(d) or 1.704-1(b)(2)(iv)(f), Company property is reflected on the books of the Company at a book value that differs from the adjusted tax basis of such property, the Members' Capital Accounts shall be adjusted in accordance with Regulations section 1.704-1(b)(2)(iv)(g) for allocations of depreciation, depletion, amortization, and gain or loss, as computed for book purposes, with respect to such property.

(d) Upon any transfer of all or part of a Company interest, as permitted by this Agreement, the Capital Account (or portion thereof) of the transferor that is attributable to the transferred interest (or portion thereof) shall carry over to the transferee, as prescribed by Regulations section 1.704-1(b)(2)(iv)(l).

10.4 Regulatory Allocations. Notwithstanding the provisions of Section 10.2, Net Income and Net Loss of the Company (or items of income, gain, loss, deduction or credit, as the case may be) shall be allocated in accordance with the following provisions of this Section 10.4 to the extent such provisions shall be applicable.

(a) Notwithstanding any other provision of Section 10.2 hereof, but subject to the exceptions set forth in Regulations section 1.704-2(f)(2), (3), (4) or (5), if there is a net decrease in the Minimum Gain of the Company during any Company fiscal year, each Member shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) in proportion to, and to the extent of, an amount equal to that Member's share of the net decrease in Minimum Gain, within the meaning of Regulations section 1.704-2(g)(2). The Minimum Gain chargeback shall consist first of income and gain from the disposition of Company assets subject to nonrecourse liabilities of the Company, with the remainder of the Minimum Gain chargeback, if any, made up of a pro rata portion of the Company's other items of income and gain for such year, and shall be determined in accordance with Regulations sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provisions. If such income and gain from the disposition of Company assets exceeds the amount of the Minimum Gain chargeback, a proportionate share of each item of such income and gain shall constitute a part of the Minimum Gain chargeback. The provisions of this Section 10.4(a) are intended to comply with the minimum gain chargeback requirement of Regulations section 1.704-2(f) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(b) Notwithstanding any other provision of Section 10.2 hereof or this Section 10.4 other than Section 10.3(a), but subject to the exceptions referenced in Regulations section 1.704-2(i)(4), if there is a net decrease in Member Nonrecourse Debt Minimum Gain during any fiscal year, each Member that has a share of such Member Nonrecourse Debt Minimum Gain, determined in accordance with Regulations section 1.704-2(i)(5), as of the beginning of such year shall be specially allocated items of Company income and gain for such year (and, if necessary, for succeeding years) equal to such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain. The items to be so allocated shall be determined in accordance with Regulations section 1.704-2(i)(4) or any successor provision. The provisions of this Section 10.4(b) are intended to comply with the Member Nonrecourse Debt Minimum Gain chargeback requirement of Regulations section 1.704-2(i)(4) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(c) If any Member receives any adjustments, allocations, or distributions described in Regulations sections 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year) shall be specially allocated to such Member in an amount and manner sufficient to eliminate as quickly as possible the Adjusted Capital Account Deficit of such Member, if any, to the extent required by the Regulations. The provisions of this Section 10.3(c) are intended to comply with the "qualified income offset" requirement of Regulations section 1.704-1(b)(2)(ii)(d)(3) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(d) Nonrecourse Deductions of the Company for any fiscal year shall be specially allocated to the Members in accordance with the allocation of Net Income or Net Loss for such fiscal year pursuant to Section 10.2 of this Agreement. Member Nonrecourse Deductions of the Company for any fiscal year shall be specially allocated to the Member who bears the economic risk of loss for the liability in question. The provisions of this Section 10.4(d) are intended to satisfy the requirements of Regulations sections 1.704-2(e)(2) and 1.704-2(i)(1) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(e) No net loss shall be allocated to a Member pursuant to Section 10.2 hereof to the extent that such loss would cause such Member to have an Adjusted Capital Account Deficit at the end of any fiscal year. Instead, any such loss shall be allocated to each other Member to the extent that such allocation would not cause such other Member to have an Adjusted Capital Account Deficit.

(f) Net Income and Net Loss of the Company shall not be allocated in accordance with Section 10.2 hereof or any paragraph of this Section 10.4 other than this paragraph (f) if and to the extent that any such allocation would cause the Company's allocations not to have substantial economic effect for purposes of section 704(b)(2) of the Code under the economic effect equivalence test set forth in Regulations section 1.704-1(b)(2)(ii)(i), and any such Net Income and Net Loss shall instead be allocated to and among the Members in the amounts and in the manner necessary to cause the Company's allocations to comply with such economic effect equivalence test. For purposes of this Section 10.4(f) only, it shall be assumed that no Member is obligated to contribute to the Company any cash or property to eliminate the deficit balance existing in its Capital Account upon the liquidation of the Company except to the extent that such Member is personally liable under law or by contract to satisfy a Company liability.

(g) The allocations set forth in this Section 10.4 (the "Regulatory Allocations") are intended to comply with certain requirements of Regulations sections 1.704-1(b) and 1.704-2. Notwithstanding any other provision of this Article X (other than the Regulatory Allocations), the Regulatory Allocations shall be taken into account in making allocations among the Members of Net Income and Net Loss (and items thereof) of the Company other than the Regulatory Allocations such that, to the extent possible, the net amount of such allocations of Net Income and Net Loss (and items thereof) other than the Regulatory Allocations, together with the Regulatory Allocations, shall equal the net amount that would have been allocated to and among the Members had the Regulatory Allocations not occurred.

(h) It is intended that the allocations set forth in Section 10.2 satisfy the substantial economic effect requirement of section 704(b) of the Code. However, in the event that counsel to the Company or any Member determines that such requirements are not satisfied, the Members shall modify such allocations in order to comply with such requirements.

10.5 Limitation on Distributions. Notwithstanding anything herein to the contrary, no distribution may be made to the Members if such distribution would violate the terms of Article 5.09 of the Texas Act.

ARTICLE XI

ACCOUNTING PERIOD, RECORDS AND REPORTS

11.1 Accounting Period. The Company's accounting period shall be the Fiscal Year.

11.2 Records, Audits and Reports. At the expense of the Company, the Managers shall maintain records and accounts of all operations and expenditures of the Company.

11.3 Inspection. The books and records of the Company shall be maintained at the principal place of business of the Company and shall be open to inspection by the Members at all reasonable times during any business day.

ARTICLE XII

TAX MATTERS

12.1 Tax Returns and Elections. The Managers or their designees shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code, if any, and all other tax returns and other tax filings and elections that the Managers or their designees deem necessary. Copies of such returns, or pertinent information therefrom, shall be furnished to the Members as promptly as practicable after filing.

12.2 State, Local or Foreign Income Taxes. In the event state or foreign income taxes are applicable, any references to federal income taxes or to "income taxes" contained herein shall refer to federal, state, local and foreign income taxes. References to the Code or Regulations shall be deemed to refer to corresponding provisions that may become applicable under state, local or foreign income tax statutes and regulations.

12.3 Assignments and Issuance of Additional Shares. The Company shall allocate taxable items attributable to a Share that is assigned or newly issued during a Fiscal Year between the assignor and the assignee of such Share or the existing Members and the new Members by closing the books of the Company as of the end of the day prior to the day in which such Shares are assigned or issued.

ARTICLE XIII

RESTRICTIONS ON TRANSFERABILITY; ADMISSION OF SUBSTITUTE MEMBERS

13.1 Generally. All Shares at any time and from time to time outstanding shall be held subject to the conditions and restrictions set forth in this Article XIII, which conditions and restrictions shall apply equally to the Members and their respective transferees (except as otherwise expressly stated), and each Member by executing this Agreement or by accepting a certificate or other indicia of ownership therefor from the Company agrees with the Company and with each other Member to such conditions and restrictions. Without limiting the generality of the foregoing, the Company shall require as a condition to the transfer of record ownership of Shares that the transferee of such Shares execute and deliver the form attached hereto as Exhibit D as evidence that such Shares are held subject to the terms, conditions and restrictions set forth herein.

13.2 Restriction on Transfer. No Shares shall be sold, assigned, given, transferred, exchanged, devised, bequeathed, pledged or otherwise disposed of to any Person except in accordance with the terms of this Agreement. All certificates representing the respective Shares shall contain conspicuous notation on such certificate indicating that the transfer of such Shares is subject to the terms and restrictions of this Agreement, and each Member consents to the placement of such legend on the certificate or certificates representing the Shares owned by such Member.

13.3 Substituted Members. Any Person that acquires any Common Shares that is not already a Member shall not have the right to participate in the management of the business and affairs of the Company, to vote such Shares, or to become a Member of the Company unless the Members of the Company unanimously consent to such Person becoming a Member of the Company. Any Person that acquires any Shares (other than Common Shares) that is not already a Member shall not have the right (if any such right is provided pursuant to the terms of such Shares): (i) to participate in the management of the business and affairs of the Company, (ii) to vote such Shares, or (iii) to become a Member of the Company unless such person and a Manager execute and deliver the form attached as Exhibit D. If such Person is not admitted as a Member of the Company, such Person only is entitled to receive the share of profits, distributions, and allocations of income, gain, loss, deduction, credit, or similar item to which the Person would be entitled if such Person were a Member of the Company.

ARTICLE XIV

DISSOLUTION AND TERMINATION

14.1 Dissolution. The Company shall dissolve upon the occurrence of any of the following events:

(a) if all of the Members so agree in writing;

(b) if the Requisite Interest votes to dissolve the Company; or

(c) as provided in Section 2.5 hereto.

14.2 Effect of Dissolution. Upon the occurrence of any of the events specified in this Article XIV effecting the dissolution of the Company, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until Articles of Dissolution have been issued by the Secretary of State of the State of Texas or until a decree dissolving the Company has been entered by a court of competent jurisdiction.

14.3 Winding Up, Liquidating and Distribution of Assets.

(a) Upon dissolution, an accounting shall be made of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Managers shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, or if a deemed liquidation within the meaning of Section 4.12(g)(iii) shall occur, the Managers shall (1) sell or otherwise liquidate all of the Company's assets as promptly as practicable (except to the extent the Managers may determine to distribute any assets in kind to the Members), (2) allocate any income or loss resulting from such sales to the Members in accordance with this Agreement, (3) discharge all liabilities to creditors in the order of priority as provided by law, (4) discharge all liabilities of the Members (other than liabilities to Members or for Capital Contributions to the extent unpaid in breach of an obligation to do so), including all costs relating to the dissolution, winding up and liquidation and distribution of assets, (5) establish such reserves as the Managers may determine to be reasonably necessary to provide for contingent liabilities of the Company, (6) discharge any liabilities of the Company to the Members other than on account of their interests in Company capital or profits and (7) distribute the remaining assets to the Members, either in cash or in kind, as determined by the Managers, as follows:

(A) first, to Finco to the extent of the excess of (1) the aggregate Dividends for the current Fiscal Year, over (2) the aggregate amount previously distributed to Finco pursuant to this Section 14.3(b)(7)(A) and Section 10.1(a)(1);

(B) second, to Finco to the extent of the excess of (1) the sum of any accrued but unpaid Dividends for all prior Fiscal Years, over (2) the aggregate amount previously distributed to Finco pursuant to this Section 14.3(b)(7)(B) and Section 10.1(a)(2);

(C) third, to Finco to the extent of its Outstanding Liquidation Preference; and

(D) finally, to the Members in accordance with their respective Capital Percentages.

If any assets of the Company are to be distributed in kind, the net fair market value of such assets as of the date of dissolution shall be determined by independent appraisal or by agreement of the Managers.

(c) Notwithstanding anything to the contrary in this Agreement, upon a liquidation of the Company no Member shall have any obligation to make any contribution to the capital of the Company other than any Capital Contributions such Member agreed to make in accordance with this Agreement.

(d) Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated.

(e) The Managers shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets.

14.4 Articles of Dissolution. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor and all of the remaining property and assets have been distributed to the Members, Articles of Dissolution shall be executed and filed with the Secretary of State of the State of Texas, which Articles shall set forth the information required by the Texas Act.

14.5 Return of Contribution Non-recourse to Other Members. Except as provided by law, upon dissolution, each Member shall look solely to the assets of the Company for the return of the Member's Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash or other property contribution of one or more Members, such Member or Members shall have no recourse against any other Member.

ARTICLE XV

MISCELLANEOUS PROVISIONS

15.1 Notices. Any notice, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served for all purposes if delivered personally to the party or to an executive officer of the party to whom the same is directed or if sent by registered or certified mail, postage and charges prepaid, addressed to the Member's and/or Company's address, as appropriate, which is set forth in this Agreement. If mailed, any such notice shall be deemed to be delivered two calendar days after being deposited in the United States mail with postage thereon prepaid, addressed and sent as aforesaid.

15.2 Books of Account and Records. Proper and complete records and books of account in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company shall be kept or shall be caused to be kept by the Company. Such books and records shall be maintained as provided in Section 11.3.

15.3 Application of Texas Law. This Agreement, and the application of interpretation hereof, shall be governed exclusively by its terms and by the laws of the State of Texas, and specifically the Texas Act.

15.4 Waiver of Action for Partition. Each Member irrevocably waives, during the term of the Company, any right that such Member may have to maintain any action for partition with respect to the property and assets of the Company.

15.5 Execution of Additional Instruments. Each Member hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

15.6 Gender and Number. Whenever required by the context, as used in this Agreement, the singular number shall include the plural and the neuter shall include the masculine or feminine gender, and vice versa.

15.7 Headings. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

15.8 Waivers. No waiver of any right under this Agreement shall be effective unless evidenced in writing and executed by the Person entitled to the benefits thereof. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent another act or omission, which would have originally constituted a violation, from having the effect of an original violation.

15.9 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other rights or remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, rule, regulation or otherwise.

15.10 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

15.11 Heirs, Successors and Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

15.12 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company or any creditor of any Member of the Company.

15.13 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

EXECUTED to be effective as of the date first above written.

UTILITY HOLDING, LLC

By: /s/ Patricia F. Genzel

Patricia F. Genzel, Manager

RELIANT ENERGY FINANCECO II LP

By: RELIANT ENERGY FINANCECO II GP, LLC, its General Partner

By: /s/ Marc Kilbride

Marc Kilbride, Treasurer

EXHIBIT A

Member	Shares Held	Class of Shares	Capital Percentage	
Utility Holding, LLC	1,000	Common	100.0%	c/o Belfint Lyons & Sherman, P.A. 200 West Ninth Street Wilmington, Delaware 19801
Reliant Energy FinanceCo II LP	3,160	Series A Preferred	None	1111 Louisiana Houston, Texas 77002

EXHIBIT B

EXHIBIT C

EXHIBIT D

AMENDMENT TO THE
LIMITED LIABILITY COMPANY REGULATIONS FOR
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PROVIDING FOR THE ISSUANCE OF ADDITIONAL SHARES

Simultaneously with the execution of this Amendment to the Limited Liability Company Regulations for CenterPoint Energy Houston Electric, LLC Providing for the Issuance of Additional Shares (this "Amendment"), the Person executing this Amendment below as "Additional Member" (the "Additional Member") is making a Capital Contribution to the Company in the form and amount set forth below in exchange for Shares of the type and amount set forth below. By execution of this Amendment, the Additional Member agrees to become (or, if such person is already a Member of the Company receiving additional Shares, to continue to be) a Member of the Company and to be bound as such by all of the terms and provisions of the Limited Liability Company Regulations for CenterPoint Energy Houston Electric, LLC, as amended and hereafter amended (the "Agreement"). Attached hereto is an amended Exhibit A to the Agreement giving effect to this Amendment and the admittance of the undersigned as an Additional Member holding the Shares issued pursuant to this Amendment.

Unless otherwise defined, all capitalized terms in this Amendment shall have the meanings given such terms in the Agreement.

Capital Contribution	Shares Issued	
	No.	Type

Date:

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth immediately above.

ADDITIONAL MEMBER

Signature block for entities:

[print or type name of entity receiving Shares]

By:

Name:

Title:

Signature for individuals:

[print or type name of individual receiving Shares]

MANAGER, PURSUANT TO SECTION 4.3(c)
OF THE AGREEMENT

Name:

EXHIBIT 99.1

INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In June 1999, the Texas legislature enacted an electric restructuring law which substantially amended the regulatory structure governing electric utilities in Texas in order to encourage retail electric competition. In response to the Texas electric restructuring law, Reliant Energy, Incorporated (Reliant Energy) submitted a business separation plan to the Public Utility Commission of Texas (Texas Utility Commission) which, as amended, provided that Reliant Energy would restructure its businesses into two separate publicly traded companies that would be independent of each other; CenterPoint Energy, Inc. (CenterPoint Energy) and Reliant Resources, Inc. (Reliant Resources). The Texas Utility Commission issued a final order approving Reliant Energy's business separation plan in April 2001.

As an initial step in implementing its business separation plan, Reliant Energy transferred substantially all of its unregulated businesses to a newly organized, wholly owned subsidiary, Reliant Resources, Inc., in order to separate its regulated and unregulated operations. Reliant Resources completed an initial public offering of approximately 20% of its common stock in May 2001.

In further response to the Texas electric restructuring law and with the approval of its shareholders received in December 2001, Reliant Energy consummated a restructuring transaction, effective August 31, 2002, as a result of which it became an indirect wholly owned subsidiary of CenterPoint Energy and each share of its common stock was converted into one share of common stock of CenterPoint Energy. Also, as part of the restructuring, (i) Reliant Energy conveyed its Texas electric generation assets and certain buildings and related assets to wholly owned subsidiaries, (ii) Reliant Energy was converted into a Texas limited liability company named CenterPoint Energy Houston Electric, LLC, (iii) the capital stock of all of Reliant Energy's former subsidiaries (other than certain financing subsidiaries), including the subsidiaries that acquired the Texas electric generation assets and buildings and the approximately 83% ownership interest in Reliant Resources, was distributed to CenterPoint Energy. Upon completion of the restructuring, CenterPoint Energy, with its subsidiaries, became subject to regulation as a registered holding company under the Public Utility Holding Company Act of 1935, which directs the SEC to regulate, among other things, financings, sales or acquisitions of assets, and intra-corporate transactions.

Under the Texas electric restructuring law, since January 1, 2002, all retail electric customers previously served by Reliant Energy became entitled to purchase their electricity from any of a number of "retail electric providers" which have been certified by the Texas Utility Commission. Beginning January 1, 2002, Reliant Resources' unregulated retail electric operations began to provide retail electric service to all of the approximately 1.7 million customers of Reliant Energy who did not take action to select another retail electric provider. Also since January 1, 2002, electric power generators have ceased to be subject to traditional cost-based regulation in Texas and now sell their generation capacity to wholesale purchasers at prices determined by the market. Reliant Energy's former electric transmission and distribution business, which is now conducted by CenterPoint Energy Houston Electric, LLC (CenterPoint

Houston), continues to be subject to cost-of-service rate regulation and is responsible for the delivery of electricity sold to retail customers through retail electric providers.

The following unaudited pro forma condensed consolidated financial statements have been prepared to reflect the effect of the restructuring as described above as it relates to CenterPoint Houston. The following unaudited pro forma condensed consolidated financial statements of CenterPoint Houston for each of the three years in the period ended December 31, 2001 and the six months ended June 30, 2002, have been prepared based upon Reliant Energy's historical consolidated financial statements.

The unaudited pro forma condensed consolidated financial statements present the former subsidiaries of Reliant Energy that were distributed to CenterPoint Energy in the restructuring and unallocated corporate costs as discontinued operations, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). Accordingly, the following unaudited pro forma condensed consolidated financial statements of CenterPoint Houston reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2001 and as of and for the six months ended June 30, 2002. Additionally, the conveyance of Reliant Energy's Texas generation assets to Texas Genco Holdings, Inc. (Texas Genco), a newly established subsidiary of Reliant Energy (subsequently acquired in the restructuring by CenterPoint Energy), has been reflected as discontinued operations in accordance with SFAS No. 144 for each of the three years in the period ended December 31, 2001 and as of and for the six months ended June 30, 2002.

The unaudited pro forma condensed consolidated financial statements do not purport to present the Company's actual results of operations as if the transactions described above had occurred at the beginning of each period, as applicable, nor are they indicative of the Company's financial position or results of operations that may be achieved in the future.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2002

	CENTERPOINT ENERGY, INCORPORATED	HOUSTON ELECTRIC LLC	RELIANT ENERGY HISTORICAL	DISCONTINUED OPERATIONS	PRO FORMA BALANCE
			(IN MILLIONS)		
Cash and cash equivalents	$ 721	$ 703	$ 18		
Restricted cash	376	376			
Investment in AOL Time Warner common stock	379	379			
Accounts and notes receivable, net	3,087	2,064	1,023		
Inventories	657	582	75		
Trading and marketing assets	1,368	1,368			
Non-trading derivative assets	478	478			
Other current assets	432	428	4		
Total current assets	7,498	6,378	1,120		
Property, Plant and Equipment, net	20,201	16,378	3,823		
Goodwill, net	4,124	4,124			
Other intangibles, net	469	430	39		
Regulatory assets	3,372	28	3,344		
Trading and marketing assets	656	656			
Non-trading derivative assets	350	350			
Equity investments in unconsolidated subsidiaries	290	290			
Stranded costs indemnification receivable	227	227			
Other assets	1,017	932	85		
Total other assets	10,505	7,037	3,468		
Total Assets	$ 38,204	$ 29,793	$ 8,411		
Short-term borrowings and current portion of long-term debt	$ 10,962	$ 10,243	$ 719		
Indexed debt securities derivative	308	308			
Accounts payable	2,032	1,870	162		
Taxes and interest accrued	398	245	153		
Trading and marketing liabilities	1,207	1,207			
Non-trading derivative liabilities	463	463			
Regulatory liabilities	236		236		
Other current liabilities	1,037	973	64		
Total current liabilities	16,643	15,309	1,334		
Accumulated deferred income taxes	2,650	1,504	1,146		
Trading and marketing liabilities	592	592			
Non-trading derivative liabilities	396	396			
Regulatory liabilities	866	73	793		
Non-derivative stranded costs liability	227	227			
Other liabilities	1,899	1,773	126		
Total other liabilities	6,630	4,565	2,065		
Long-term Debt	5,843	3,086	2,757		
Minority Interest in Consolidated Subsidiaries	1,112	1,112			

-- ------------ Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of the Company ..... 706 706 -- ------------ ------------ ------------ Stockholders' Equity ..... 7,270 5,015 2,255 ------------ ------------ ------------ Total Liabilities and Stockholders' Equity ..... $ 38,204 $ 29,793 $ 8,411 ============ ============ ============

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2002

	CENTERPOINT ENERGY, INCORPORATED	RELIANT ENERGY, HOUSTON ELECTRIC LLC	ENERGY DISCONTINUED OPERATIONS	PRO FORMA BALANCE
	(IN MILLIONS)			
Revenues	$ 18,434	$ 17,313	$ 1,121	
Expenses:				
Fuel and cost of gas sold	8,448	8,439	9	
Purchased power	6,694	6,618	76	
Operation and maintenance	1,387	1,120	267	
Taxes other than income taxes	290	178	112	
Depreciation and amortization	476	347	129	
Other	1	1	--	
Total	17,296	16,703	593	
Operating Income	1,138	610	528	
Other (Expense) Income:				
Unrealized loss on AOL Time Warner common stock	(448)	(448)	--	
Unrealized gain on indexed debt securities	422	422	--	
Income from equity investments in unconsolidated subsidiaries	9	9	--	
Interest expense	(359)	(249)	(110)	
Distribution on trust preferred securities	(28)	(28)	--	
Minority interest	(47)	(47)	--	
Other, net	36	28	8	
Total	(415)	(313)	(102)	
Income from Continuing Operations before Income Taxes	723	297	426	
Income tax expense	262	117	145	
Income from Continuing Operations	$ 461	$ 180	$ 281	

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2001

	CENTERPOINT ENERGY BALANCE(a)	RELIANT ENERGY, INCORPORATED HISTORICAL	CENTERPOINT ENERGY, HOUSTON ELECTRIC DISCONTINUED OPERATIONS	HOUSTON ELECTRIC LLC OTHER ADJUSTMENTS(b)	CENTERPOINT ENERGY, HOUSTON ELECTRIC LLC PRO FORMA BALANCE
			(IN MILLIONS)		
Revenues	$ 40,902	$ 38,808	$ 2,094	$ --	$ 2,094
Expenses:					
Fuel and cost of gas sold	19,562	19,562	--	--	--
Purchased power	15,127	15,110	17	--	17
Operation and maintenance	2,680	2,040	640	--	640
Taxes other than income taxes	545	233	312	--	312
Depreciation and amortization	918	619	299	--	299
Impairment on Latin America assets	75	75	--	--	--
Total	38,907	37,639	1,268	--	1,268
Operating Income	1,995	1,169	826	--	826
Other (Expense) Income:					
Unrealized loss on AOL Time Warner common stock	(70)	(70)	--	--	--
Unrealized gain on indexed debt securities	58	58	--	--	--
Income from equity investments in unconsolidated subsidiaries	57	57	--	--	--
Interest expense	(602)	(453)	(149)	(19)	(168)
Distribution on trust preferred securities	(56)	(38)	(18)	--	(18)
Minority interest	(81)	(81)	--	--	--
Other, net	118	64	54	--	54
Total	(576)	(463)	(113)	(19)	(132)
Income from Continuing Operations before Income Taxes	1,419	706	713	(19)	694
Income tax expense	500	275	225	(7)	218
Income from Continuing Operations	$ 919	$ 431	$ 488	$ (12)	$ 476

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2000

	CENTERPOINT ENERGY, INCORPORATED BALANCE(a)	RELIANT ENERGY HOUSTON ELECTRIC LLC OPERATIONS	HISTORICAL BALANCE	DISCONTINUED PRO FORMA
	(IN MILLIONS)			
Revenues	$ 28,327	$ 26,166	$ 2,161	
Expenses:				
Fuel and cost of gas sold	15,093	15,093	--	
Purchased power	7,580	7,565	15	
Operation and maintenance	2,389	1,818	571	
Taxes other than income taxes	501	183	318	
Depreciation and amortization	918	561	357	
Loss on disposal/impairment of Latin America assets	218	218	--	
Total	26,699	25,438	1,261	
Operating Income	1,628	728	900	
Other (Expense) Income:				
Unrealized loss on AOL Time Warner common stock	(205)	(205)	--	
Unrealized gain on indexed debt securities	102	102	--	
Income from equity investments in unconsolidated subsidiaries	43	43	--	
Interest expense	(725)	(583)	(142)	
Distribution on trust preferred securities	(54)	(25)	(29)	
Minority interest	1	1	--	
Other, net	(32)	(51)	19	
Total	(870)	(718)	(152)	
Income from Continuing Operations before Income Taxes	758			
Income tax expense (benefit)	318	84	234	
Income from Continuing Operations	$ 440	$ (118)	$ 558	

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1999

	CENTERPOINT ENERGY, HOUSTON ELECTRIC LLC HISTORICAL BALANCE(a)	RELIANT ENERGY INCORPORATED DISCONTINUED OPERATIONS	PRO FORMA BALANCE
	(IN MILLIONS)		
Revenues	$ 13,874	$ 12,207	$ 1,667
Expenses:			
Fuel and cost of gas sold	6,379	6,379	--
Purchased power	3,095		3,095
Operation and maintenance	1,804	539	1,265
Taxes other than income taxes	444	179	265
Depreciation and amortization	911	637	274
Total	12,633	11,550	1,083
Operating Income	1,241	657	584
Other (Expense) Income:			
Unrealized gain on AOL Time Warner common stock	2,452	2,452	--
Unrealized loss on indexed debt securities	(630)	(630)	--
Loss from equity investments in unconsolidated subsidiaries	(1)	(1)	--
Interest expense	(513)	(416)	(97)
Distribution on trust preferred securities	(51)		(51)
Minority interest	(23)	(28)	1
Other, net	65	51	14
Total	1,323	1,434	(111)
Income from Continuing Operations before Income Taxes	2,564	2,091	473
Income tax expense	899	749	150
Income from Continuing Operations	$ 1,665	$ 1,342	$ 323

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(a) As a result of the adoption of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Latin America operations have been presented on a gross basis in the consolidated financial statements. Accordingly, the results of operations have been restated for each of the three years in the period ended December 31, 2001 to conform to this presentation.

(b) In preparing carve-out financial statements for CenterPoint Houston, interest expense incurred prior to January 1, 2002 that had been historically recorded by Reliant Energy's electric utility was allocated to CenterPoint Houston based on the net assets of Reliant Energy's electric transmission and distribution utility. On January 1, 2002, specific debt obligations were allocated to Reliant Energy's transmission and distribution utility. Carve-out interest expense for 2001 has been adjusted to reflect this allocation of debt as if it had occurred January 1, 2001.

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