UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from ______________ to _______________.

Commission file number 1-31447

CENTERPOINT ENERGY, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of November 8, 2002, CenterPoint Energy, Inc. had 304,338,469 shares of common stock outstanding, including 5,505,577 ESOP shares not deemed outstanding for financial statement purposes and excluding 166 shares held as treasury stock.

CENTERPOINT ENERGY, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

THREE MONTHS ENDED NINE MONTHS ENDED SEPTEMBER 30,
SEPTEMBER 30, ------------------------- ----------------
--------- 2001 2002 2001 2002 ----------- ----------- ----
------- ----------- REVENUES
....
$ 2,300,068 $ 1,922,872 $ 8,648,316 $ 5,805,566 ----------
- ----------- ----------- ----------- EXPENSES: Fuel and
cost of gas sold ....
832,798 813,197 4,288,686 2,718,872 Purchased power
.... 229,109
34,955 1,005,426 87,906 Operation and maintenance
.... 444,674 388,375
1,311,201 1,155,011 Taxes other than income taxes
.... 142,424 94,734
415,636 312,872 Depreciation
....
72,731 135,311 215,237 401,518 Amortization
....
143,546 25,162 316,555 59,157 ----------- ----------- ----
------- ----------- Total
....
1,865,282 1,491,734 7,552,741 4,735,336 ----------- ------
----- ----------- ----------- OPERATING INCOME
....
434,786 431,138 1,095,575 1,070,230 ----------- ----------
- ----------- ----------- OTHER INCOME (EXPENSE): Loss on
AOL Time Warner investment ....
(512,447) (82,189) (44,464) (530,000) Gain on indexed debt
securities 503,077
86,622 38,845 508,578 Interest expense
....
(141,266) (170,234) (422,374) (427,870) Distribution on
trust preferred securities ....
(13,900) (13,898) (41,699) (41,647) Other, net
....
11,382 3,220 44,328 22,305 ----------- ----------- -------
---- ----------- Total
....
(153,154) (176,479) (425,364) (468,634) ----------- ------
----- ----------- ----------- INCOME FROM CONTINUING
OPERATIONS BEFORE INCOME TAXES, CUMULATIVE EFFECT OF
ACCOUNTING CHANGE AND PREFERRED DIVIDENDS ... 281,632
254,659 670,211 601,596 Income Tax Expense
.... 98,562
93,208 242,714 207,345 ----------- ----------- -----------
----------- INCOME FROM CONTINUING OPERATIONS BEFORE
CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED
DIVIDENDS 183,070 161,451 427,497
394,251 Income from Discontinued Operations, net of tax
.... 172,002 47,708 447,927 82,157 Loss on
Disposal of Discontinued Operations ....
-- (4,333,652) -- (4,333,652) Cumulative Effect of
Accounting Change, net of tax .... -- -- 58,556
-- ----------- ----------- ----------- ----------- INCOME
(LOSS) BEFORE PREFERRED DIVIDENDS
.... 355,072 (4,124,493) 933,980
(3,857,244) Preferred Dividends
.... 97 -- 292 -
- ----------- ----------- ----------- ----------- NET
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS
.... $ 354,975 $(4,124,493) $ 933,688
$(3,857,244) =========== =========== ===========
=========== BASIC EARNINGS PER SHARE: Income from
Continuing Operations Before Cumulative Effect of
Accounting Change
.... $ 0.63 $
0.54 $ 1.48 $ 1.32 Income from Discontinued Operations,
net of tax .... 0.59 0.16 1.55 0.28 Loss on
Disposal of Discontinued Operations ....
-- (14.50) -- (14.56) Cumulative Effect of Accounting
Change, net of tax .... -- -- 0.20 -- ---------
-- ----------- ----------- ----------- Net Income (Loss)
Attributable to Common Stockholders .... $ 1.22 $
(13.80) $ 3.23 $ (12.96) =========== ===========
=========== =========== DILUTED EARNINGS PER SHARE: Income
from Continuing Operations Before Cumulative Effect of
Accounting Change
.... $ 0.63 $
0.54 $ 1.46 $ 1.32 Income from Discontinued Operations,
net of tax .... 0.58 0.16 1.54 0.27 Loss on
Disposal of Discontinued Operations ....
-- (14.47) -- (14.51) Cumulative Effect of Accounting
Change, net of tax .... -- -- 0.20 -- ---------

-- ----------- ----------- ----------- Net Income (Loss)
Attributable to Common Stockholders .... $ 1.21 $
(13.77) $ 3.20 $ (12.92) =========== ===========
=========== ===========

See Notes to the Company's Interim Financial Statements

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

ASSETS

	DECEMBER 31, 2001	SEPTEMBER 30, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,500	$ 123,784
Investment in AOL Time Warner common stock	826,609	253,191
Accounts receivable, net	604,222	578,238
Accrued unbilled revenues	221,829	125,554
Fuel stock and petroleum products	198,000	170,427
Materials and supplies	207,638	196,163
Non-trading derivative assets	6,996	29,483
Prepaid expenses	24,157	34,112
Current assets of discontinued operations	4,657,187	--
Other	10,382	45,415
Total current assets	6,792,520	1,556,367
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	19,325,484	19,724,376
Less accumulated depreciation and amortization	(8,125,979)	(8,366,006)
Property, plant and equipment, net	11,199,505	11,358,370
OTHER ASSETS:		
Goodwill	1,740,510	1,740,510
Other intangibles, net	62,294	63,209
Regulatory assets	3,276,800	3,747,593
Non-trading derivative assets	2,234	4,666
Non-current assets of discontinued operations	7,642,276	--
Other	550,224	517,347
Total other assets	13,274,338	6,073,325
TOTAL ASSETS	$ 31,266,363	$ 18,988,062

See Notes to the Company's Interim Financial Statements

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 2001	SEPTEMBER 30, 2002
CURRENT LIABILITIES:		
Short-term borrowings	$ 3,528,614	$ 3,704,969
Current portion of long-term debt	636,987	273,884
Indexed debt securities derivative	730,225	196,331
Accounts payable	526,758	502,918
Taxes accrued	286,668	201,405
Interest accrued	111,629	89,078
Non-trading derivative liabilities	72,744	37,664
Regulatory liabilities	154,783	169,776
Accumulated deferred income taxes, net	315,571	244,148
Current liabilities of discontinued operations	3,737,636	--
Other	346,846	288,832
Total current liabilities	10,448,461	5,709,005
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,359,990	2,653,198
Unamortized investment tax credits	247,407	233,564
Non-trading derivative liabilities	9,825	3,713
Benefit obligations	420,356	420,208
Regulatory liabilities	1,205,099	906,915
Non-current liabilities of discontinued operations	3,616,498	--
Other	605,569	566,767
Total other liabilities	8,464,744	4,784,365
LONG-TERM DEBT	4,909,491	5,882,059
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 13)		
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,744	706,029
STOCKHOLDERS' EQUITY:		
Common stock (295,873,820 shares and 299,418,905 shares outstanding at December 31, 2001 and September 30, 2002, respectively)	3,029	3,043
Additional paid-in capital	3,894,272	3,045,772
Unearned ESOP stock	(131,888)	(91,717)
Retained earnings (deficit)	3,176,533	(949,781)
Accumulated other comprehensive loss	(204,023)	(100,713)
Total stockholders' equity	6,737,923	1,906,604
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 31,266,363	$ 18,988,062

See Notes to the Company's Interim Financial Statements

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	$ 485,761	$ 394,251
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	531,792	460,675
Deferred income taxes	(79,005)	189,053
Investment tax credits	(13,748)	(13,843)
Cumulative effect of accounting change	(58,556)	--
Loss on AOL Time Warner investment	44,464	530,000
Gain on indexed debt securities	(38,845)	(508,578)
Changes in other assets and liabilities:		
Accounts receivable and accrued unbilled revenues, net	1,714,452	(28,158)
Inventory	(49,316)	39,048
Accounts payable	(1,162,932)	(23,840)
Fuel cost over recovery	169,265	188,858
Net non-trading derivative assets and liabilities	25,704	(146,746)
Interest and taxes accrued	521,502	(107,920)
Net regulatory assets and liabilities	(58,334)	(822,983)
Other current assets	(14,763)	(44,327)
Other current liabilities	(81,012)	(59,073)
Other assets	26,402	26,018
Other liabilities	(23,988)	31,567
Other, net	73,277	21,888
Net cash provided by operating activities	2,012,120	125,890
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(839,336)	(659,348)
Other, net	67,702	116,001
Net cash used in investing activities	(771,634)	(543,347)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	544,632	3,397
(Decrease) increase in short-term borrowing, net	(1,130,633)	1,026,355
Payments of long-term debt	(406,411)	(220,766)
Payment of common stock dividends	(324,956)	(276,010)
Proceeds from issuance of stock	91,798	5,113
Other, net	(53,475)	(45,770)
Net cash (used in) provided by financing activities	(1,279,045)	492,319
NET CASH (USED IN) PROVIDED BY DISCONTINUED OPERATIONS	(20,594)	13,422
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(59,153)	88,284
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	102,071	35,500
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 42,918	$ 123,784
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest	$ 415,564	$ 471,224
Income taxes	3,639	81,766

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q (Form 10-Q) for CenterPoint Energy, Inc. (CenterPoint Energy), together with its subsidiaries (collectively, the Company), are CenterPoint Energy's consolidated interim financial statements and notes (Interim Financial Statements) including these companies' wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the amended Annual Report on Form 10-K/A (Amendment No. 1) of Reliant Energy, Incorporated (Reliant Energy) (Reliant Energy Form 10-K/A) for the year ended December 31, 2001 which was filed with the Securities and Exchange Commission (SEC) on July 5, 2002, and the Quarterly Reports on Form 10-Q of Reliant Energy for the quarters ended March 31, 2002 (First Quarter 10-Q) and June 30, 2002 (Second Quarter 10-Q) (commission File No. 1-3187).

RESTRUCTURING

CenterPoint Energy is a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy that implemented certain requirements of the Texas electric restructuring law described below. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources), which, at the time, was a wholly owned subsidiary of Reliant Energy. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger pursuant to which the following steps occurred on August 31, 2002 (which is referred to herein as the Restructuring):

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

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

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

On September 5, 2002, CenterPoint Energy announced that its Board of Directors had declared a distribution of all of the shares of Reliant Resources common stock owned by CenterPoint Energy to its common shareholders on a pro rata basis (the Distribution). The Distribution was made on September 30, 2002 to shareholders of record of CenterPoint Energy common stock as of the close of business on September 20, 2002.

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

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

- Texas Genco Holdings, Inc. (Texas Genco), which owns and operates the Texas generating plants formerly belonging to the integrated electric utility that was a part of Reliant Energy. The Company intends to distribute approximately 19% of the outstanding common stock of Texas Genco to the Company's shareholders in late 2002 or early 2003.

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

In June 1999, the Texas legislature enacted a law that substantially amended the regulatory structure governing electric utilities in Texas in order to implement retail electric competition (Texas electric restructuring law). Under this law, the power generation and retail sales functions of integrated utilities in Texas ceased to be subject to traditional cost-based regulation and utilities were required to separate their generation, retail and transmission and distribution functions into separate units. Since January 1, 2002, Texas Genco has been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. The Company's transmission and distribution services remain subject to rate regulation. The Company does not engage in retail electric sales.

BASIS OF PRESENTATION

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

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

The Interim Financial Statements have been prepared to reflect the effects of the Restructuring and Distribution as described above on the CenterPoint Energy financial statements. The Interim Financial Statements present the Reliant Resources businesses (previously reported as the Wholesale Energy, European Energy, and Retail Energy business segments and related corporate costs) as discontinued operations, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). Accordingly, the Interim Financial Statements reflect these operations as discontinued operations for the three and nine months ended September 30, 2001 and 2002.

The following notes to the consolidated financial statements in the Reliant Energy Form 10-K/A (Reliant Energy 10-K/A Notes) relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference:

Reliant Energy 10-K/A Notes: Note 2(e) (Long-Lived Assets and Intangibles), Note 2(f) (Regulatory Assets and Liabilities), Note 4 (Regulatory Matters), Note 5 (Derivative Financial Instruments), Note 8 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities) and Note 14 (Commitments and Contingencies).

For information regarding certain legal, tax and regulatory proceedings and environmental matters, see Note 13.

RETAIL ELECTRIC DEREGULATION

During 2001, the Electric Operations business segment was comprised of regulated electric utility operations in Texas, including generation, transmission and distribution, and retail electric sales. As of January 1, 2002, with the opening of the Texas market to full retail electric competition, generation and retail sales were deregulated. Retail electric sales involve the sale of electricity and related services to end users of electricity and were included as part of the bundled regulated electric utility business prior to 2002. Although the Company's former retail sales business is now conducted by Reliant Resources, retail customers remained regulated customers of Reliant Energy HL&P, an unincorporated division of Reliant Energy prior to the restructuring of Reliant Energy, through the date of their first meter reading in January 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission and Distribution business segment.

Beginning in 2002, CenterPoint Energy is reporting two new business segments for what was the former Electric Operations business segment:

- Electric Transmission and Distribution; and

- Electric Generation.

The transmission and distribution function is now reported separately in the Electric Transmission and Distribution business segment, which also includes all revenues and the effects from generation-related regulatory assets recoverable by the regulated utility, including the Excess Cost Over Market (ECOM) true-up component of stranded costs. The previously regulated generation operations in Texas, Texas Genco, are being reported in the new Electric Generation business segment. For additional information regarding regulatory matters affecting the Company's electric segments, see Note 4 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, and Note 4 below.

(2) DISCONTINUED OPERATIONS

On September 30, 2002, CenterPoint Energy distributed to its shareholders 240 million shares of Reliant Resources common stock, which represented CenterPoint Energy's approximately 83% ownership interest in Reliant Resources, by means of a tax-free spin-off in the form of a dividend.

Holders of CenterPoint Energy common stock on the record date received 0.788603 shares of Reliant Resources common stock for each share of CenterPoint Energy stock that they owned on the record date. The total value of the distribution, after the impairment charge discussed below, was $847 million, or $2.84 per diluted share of CenterPoint Energy stock.

As a result of the spin-off of Reliant Resources, CenterPoint Energy recorded a non-cash loss on disposal of discontinued operations of $4.3 billion in the third quarter of 2002. This loss represents the excess of the carrying value of CenterPoint Energy's net investment in Reliant Resources over the market value of Reliant Resources' common stock. CenterPoint Energy's financial statements reflect Reliant Resources as "discontinued operations" for all periods shown. Through the date of the spin-off, Reliant Resources' assets and liabilities are shown in CenterPoint Energy's balance sheet as "current and non-current assets and liabilities of discontinued operations".

Reliant Resources' revenues included in discontinued operations for the three months ended September 30, 2001 and 2002 were $2.5 billion and $5.4 billion, respectively, and $5.7 billion and $9.5 billion for the nine months ended September 30, 2001 and 2002, respectively. Income from discontinued operations for the three months ended September 30, 2001 and 2002 is reported net of income tax expense of $150 million and $142 million, respectively, and $301 million and $290 million for the nine months ended September 30, 2001 and 2002, respectively. These amounts have been restated to reflect Reliant Resources' adoption of Emerging Issues Task force (EITF) Issue No. 02-3, "Recognition and Reporting Gains and Losses on Energy Trading Contracts under Issues No. 98-10 and 00-17."

Restatement

Also as more fully described in Note 1 to the Reliant Energy 10-K/A Notes, which is incorporated herein by reference, on May 9, 2002, Reliant Resources determined that it had engaged in 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). The personnel who effected these transactions apparently did so with the sole objective of increasing volumes. Reliant Resources commenced a review to quantify the amount and assess the impact of these trades. The Audit Committees of each of the Board of Directors of Reliant Resources and Reliant Energy (Audit Committees) also directed an internal investigation by outside legal counsel, with assistance by outside accountants, of the facts and circumstances relating to the round trip trades and related matters.

Prior to the third quarter of 2002, Reliant Resources reported all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Therefore, the round trip trades were reflected in both the Company's revenues and expenses. The round trip trades should not have been recognized in revenues or expenses (i.e., they should have been reflected on a net basis). However, since the round trip trades were done at the same volume and substantially the same price, they had no impact on the Company's reported cash flows, operating income or net income.

Based on its review, Reliant Resources determined that it engaged in such round trip trades in 1999, 2000 and 2001. The results of the Audit Committees' investigation were consistent with the results of Reliant Resources' review. The round trip trades were for 20 million megawatt hours (MWh) of power and 61 million MWh of power for the three and nine months ended September 30, 2001, respectively, and 46 Billion cubic feet (Bcf) of natural gas for the nine months ended September 30, 2001.

These round trip trades, collectively, had the effect of increasing each of revenues and purchased power expense by $847 million for the three months ended September 30, 2001 and increasing revenues, fuel and cost of gas sold expense and purchased power expense by $3.5 billion, $180 million and $3.3 billion, respectively, for the nine months ended September 30, 2001.

In the course of Reliant Resources' review, Reliant Resources also identified and determined that it should record on a net basis several transactions for energy related services (not involving round trip trades) that totaled $13 million and $30 million for the three and nine months ended September 30, 2001, respectively. These transactions were originally recorded on a gross basis.

In addition, during the May 2001 through September 2001 time frame, Reliant Resources entered into four structured transactions involving a series of forward or swap contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003 (four structured transactions). The four structured transactions were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. Each series of contracts in a structure were executed with the same counterparty. The contracts in each structure were offsetting in the aggregate in terms of physical attributes. The transactions that settled during the three and nine months ended September 30, 2001 were previously recorded on a gross basis with such transactions being reported in revenues and expenses which resulted in $700 million of revenues, $206 million in fuel and cost of gas sold and $494 million of purchased power expense, and $1.0 billion of revenues, $367 million in fuel and cost of gas sold and $656 million of purchased power expense being recognized in each period, respectively. These transactions should have been accounted for on a net basis.

Reliant Resources' consolidated financial statements for the three and nine months ended September 30, 2001 have been restated from amounts previously reported to reflect the transactions discussed above on a net basis. The restatement decreased Reliant Resources' revenues and operating expenses for the three months ended September 30, 2001 by $1.6 billion from total revenues of $4.1 billion as previously reported, to $2.5 billion, as restated, and total operating expenses of $3.7 billion as previously reported, to $2.1 billion, as restated. The restatement decreased Reliant Resources' revenues and operating expenses for the nine months ended September 30, 2001 by $4.5 billion from total revenues of $10.2 billion, as previously reported, to $5.7 billion, as restated, and total operating expenses of $9.5 billion as previously reported, to $5.0 billion, as restated.

In addition to the round trip trades described above, Reliant Resources' review and the Audit Committees' investigation also considered other transactions executed on the same day at the same volume, price and delivery terms and with the same counterparty. These transactions were executed in the normal course of Reliant Resources' trading and marketing activities, and were historically reported on a gross basis, and were not material.

Also as more fully described in Note 1 to the Reliant Energy 10-K/A Notes, during the fourth quarter of 2000, two power generation swap contracts with a fair value of $261 million were terminated by Reliant Resources and replaced with a substantially similar contract providing for physical delivery and designated to hedge electric generation. The termination of the original contracts and execution of the replacement contract represented a substantive modification to the original contract. As a result, upon termination of the original contracts, a contractual liability representing the fair value of the original contracts and a deferred asset of equal amount should have been recorded. As of January 1, 2001, in connection with the adoption of SFAS No. 133, the deferred asset should have been recorded as a transition adjustment to other comprehensive loss totaling $170 million. The liability and transition adjustment should have been amortized on a straight-line basis over the term of the power generation contract replacing the terminated power generation contracts (through May 2004). Reliant Resources previously did not give accounting recognition to these transactions. As a result, the Company restated its Consolidated Balance Sheets as of December 31, 2000 and 2001 and the Statement of Consolidated Stockholder's Equity and Comprehensive Income for the year ended December 31, 2001 in the Reliant Energy Form 10-K/A. The Company has restated its comprehensive income disclosure related to its Reliant Resources' discontinued operations for the three and nine months ended September 30, 2001 from amounts previously reported, to effect this transaction as described above (Note 7). The restatement increased comprehensive income by $14 million from a total comprehensive income of $147 million, as previously reported, to $161 million, as restated, for the three months ended September 30, 2001 and decreased comprehensive income by $132 million (including the $170 million transition adjustment discussed above) from a total comprehensive income of $954 million, as previously reported, to $822 million, as restated, for the nine months ended September 30, 2001. The restatement had no impact on the Company's reported consolidated cash flows, operating income or net income.

Furthermore, in September 2002, during Reliant Resources' review of certain trading transactions in connection with various pending investigations, Reliant Resources identified four natural gas financial swap transactions that should not have been reflected in its financial statements. Reliant Resources has concluded, based on the offsetting nature of the transactions and manner in which the transactions were documented, that none of the transactions should have been given accounting recognition. Reliant Resources accounted for the transactions in its financial statements as a reduction in revenues in December 2000 and an increase in revenues in January 2001, with the effect of decreasing net income in the fourth quarter of 2000 and increasing net income in the first quarter of 2001, in each case by $20 million pre-tax ($13 million after-tax), and the effect of increasing basic and diluted earnings per share by $0.04 in the first quarter of 2001. There were no cash flows associated with the transactions. The Company has further concluded, after considering both qualitative and quantitative factors, that a restatement of its financial statements for this item is not required.

(3) NEW ACCOUNTING PRONOUNCEMENTS

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

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. The Company plans to adopt SFAS No. 143 on January 1, 2003, and is in the process of determining the effect of adoption on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more future dispositions being reported as discontinued operations than would previously have been permitted. The Company adopted SFAS No. 144 on January 1, 2002. As a result of the adoption of SFAS No. 144, the Company's remaining Latin America operations have been presented on a gross basis in the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. The Company has applied this guidance prospectively.

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

See Note 5 for a discussion of the Company's adoption of SFAS No. 133 on January 1, 2001 and adoption of subsequent cleared guidance. See Note 6 for a discussion of the Company's adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142) on January 1, 2002.

(4) REGULATORY MATTERS

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

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

The capacity auctions were consummated at market-based prices that are substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. The Texas electric restructuring law provides for the recovery in a "true-up" proceeding in 2004 (2004 True-Up Proceeding) of any difference between market power prices and the earlier estimates of those market prices by the Texas Utility Commission, using the prices received in the auctions required by the Texas Utility Commission as the measure of market prices (ECOM True-Up). For the three months and nine months ended September 30, 2002, respectively, CenterPoint Energy recorded approximately $240 million and $551 million in revenue related to the recovery of the difference between the market power prices and the Texas Utility Commission's earlier estimates. For additional information regarding the capacity auctions and the related true-up proceeding, please read Note 4(a) to the Reliant Energy 10-K/A Notes, which is incorporated herein by reference.

(b) Generation Asset Impairment Contingency.

The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144. As of September 30, 2002, no impairment had been indicated in its Texas generation assets. The Company anticipates that future events, such as the trading price of the stock after the expected distribution to the Company's shareholders of up to 20% of the outstanding stock of Texas Genco, a change in the estimated holding period of the Texas generation assets, or a change in market demand for electricity, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and may not be fully recoverable through the 2004 True-Up Proceeding.

The Texas electric restructuring law provides for the Company to recover the regulatory book value of its Texas generating assets to the extent the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset, will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of September 30, 2002, the recorded book value was $638 million in excess of the regulatory book value. This amount declines as the recorded book value is depreciated and increases by the amount of non-environmental capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4(a) to the Reliant Energy 10-K/A Notes.

(c) Regulatory Assets Contingency.

As of September 30, 2002, in contemplation of the 2004 True-up Proceeding, CenterPoint Houston has recorded a regulatory asset of $2.0 billion representing the estimated future recovery of previously incurred stranded costs, which includes $1.0 billion of previously recorded accelerated depreciation (an amount equal to earnings above a stated overall annual rate of return on invested capital that was used to recover the Company's investment in generation assets) plus redirected depreciation, both reversed in 2001. Offsetting this regulatory asset is a $1.0 billion regulatory liability to refund the excess mitigation to ratepayers. This estimated recovery is based upon current projections of the market value of the Company's Texas generation assets to be covered by the 2004 True-up Proceeding calculations. The regulatory liability reflects a current refund obligation arising from prior mitigation of stranded costs deemed excessive by the Texas Utility Commission. CenterPoint Houston began refunding excess mitigation credits with January 2002 bills. These credits are to be refunded over a seven year period. Because accounting principles generally accepted in the United States of America require the Company to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs in the 2004 True-Up Proceeding are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the unrecoverable balance of such assets as a charge against earnings.

(d) Fuel Reconciliation Contingency.

CenterPoint Houston filed its final fuel reconciliation proceeding with the Texas Utility Commission on July 1, 2002, and subsequently amended its filing on October 2, 2002 and on November 8, 2002. Although previous fuel reconciliation proceedings have generally covered three-year periods, this filing covers fuel expense and interest incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance as of July 31, 1997 as approved in CenterPoint Houston's last fuel reconciliation. CenterPoint Houston's filing related to this proceeding covers $8.5 billion in fuel revenues and $8.6 billion in expenses and interest, resulting in a current under-collection, including interest, of $128 million, which is recorded as a regulatory asset in our consolidated balance sheet at September 30, 2002. A procedural schedule has been set with a hearing scheduled to begin January 28, 2003. Any over- or under-recovery, plus interest thereon, will be either returned to or recovered from CenterPoint Houston's customers, as appropriate, as a component of the 2004 True-Up Proceeding.

(e) Arkansas Rate Case.

In November 2001, CenterPoint Energy Arkla (Arkla) filed a rate request in Arkansas seeking rates to yield approximately $47 million in additional annual gross revenue. On August 9, 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) which will result in an increase in base rates of approximately $32 million annually. In addition, the APSC approved a gas main replacement surcharge which is expected to provide $2 million of additional gross revenue in 2003 and additional amounts in subsequent years. The new rates included in the final settlement were effective with all bills rendered on and after September 21, 2002.

(f) Oklahoma Rate Case.

On May 28, 2002, Arkla filed a request in Oklahoma to increase its base rates by $13.7 million annually. In filed testimony, the Oklahoma Corporate Commission staff and the Oklahoma Attorney General have recommended annual base rate increases of $4.6 million and $7.5 million, respectively. Completion of the case is expected sometime during late December 2002 with new rates becoming effective in January 2003.

(g) City of Tyler, Texas Hearing on Gas Costs.

By letter to CenterPoint Energy Entex (Entex) dated July 31, 2002, the City of Tyler, Texas expressed "serious concerns" regarding amounts that Entex has paid for gas purchased for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas. In the July 31 letter, the city forwarded various computations of what it believes to be excessive costs ranging from approximately $2.8 million to $39.2 million. The City had called a hearing for September 25, 2002. The Company filed a Petition for Injunction and Declaratory Relief in Travis County District Court and a Petition for a Declaratory Order at the Railroad Commission of Texas. In response to these filings, the City agreed to indefinitely postpone its hearing. As reflected in its petitions, the Company believes (i) that all gas costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs, (ii) that the City has no legal or factual support for the statements made in its letter and (iii) that the City has no authority to require or demand refunds of any amounts Entex has charged its customers in the City of Tyler.

(5) DERIVATIVE FINANCIAL INSTRUMENTS

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $59 million and a cumulative after-tax increase in accumulated other comprehensive income of $38 million. For additional information regarding the adoption of SFAS No. 133 and the Company's accounting policies for derivative financial instruments, see Note 5 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference.

Cash Flow Hedges. During the nine months ended September 30, 2002, there was no hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges, except for the settlement of forward-starting interest rate swaps discussed below. No component of the derivative instruments' gain or loss was excluded from this assessment of effectiveness. During the nine months ended September 30, 2002, a $0.9 million deferred loss was recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur. As of September 30, 2002, the Company expects $8 million in accumulated other comprehensive loss to be reclassified into net income during the next twelve months.

Interest Rate Swaps. As of September 30, 2002, the Company had outstanding interest rate swaps with an aggregate notional amount of $750 million to fix the interest rate applicable to floating rate short-term debt. These swaps do not qualify as cash flow hedges under SFAS No. 133, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. During the three months ended September 30, 2002, the Company settled its forward-starting interest rate swaps having an aggregate notional amount of $1.5 billion at a cost of $156 million, which was recorded in other comprehensive income and will be amortized into interest expense in the same period during which the forecasted interest payments affect earnings. Should the forecasted interest payments no longer be probable, any remaining deferred amount will be recognized immediately as an expense. During the nine months ended September 30, 2002, there was $5.3 million in hedge ineffectiveness recognized in earnings related to these forward-starting interest rate swaps.

(6) GOODWILL AND INTANGIBLES

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

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

	THREE MONTHS ENDED SEPTEMBER 30,	
(IN MILLIONS, EXCEPT PER SHARE)	2001	2002
Reported Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 183	$ 161
Add: Goodwill amortization	12	--
Adjusted Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 195	$ 161
Basic Earnings Per Share From Continuing Operations Before Cumulative Effect of Accounting Change:		
Reported Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.63	$ 0.54
Add: Goodwill amortization	0.04	--
Adjusted Basic Earnings From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.67	$ 0.54
Diluted Earnings Per Share From Continuing Operations Before Cumulative Effect of Accounting Change:		
Reported Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.63	$ 0.54
Add: Goodwill amortization	0.04	--
Adjusted Diluted Earnings From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.67	$ 0.54

	NINE MONTHS ENDED SEPTEMBER 30,	
(IN MILLIONS, EXCEPT PER SHARE)	2001	2002
Reported Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 427	$ 394
Add: Goodwill amortization	37	--
Adjusted Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 464	$ 394
Basic Earnings Per Share From Continuing Operations Before Cumulative Effect of Accounting Change:		
Reported Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.48	$ 1.32
Add: Goodwill amortization	0.13	--
Adjusted Basic Earnings From Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.61	$ 1.32
Diluted Earnings Per Share From Continuing Operations Before Cumulative Effect of Accounting Change:		
Reported Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.46	$ 1.32
Add: Goodwill amortization	0.13	--
Adjusted Diluted Earnings From Continuing Operations Before Cumulative Effect of Accounting Change	$ 1.59	$ 1.32

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

	DECEMBER 31, 2001		SEPTEMBER 30, 2002	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(IN MILLIONS)			
Land Use Rights	$ 59	$ (11)	$ 59	$ (12)
Other	16	(2)	18	(2)
Total	$ 75	$ (13)	$ 77	$ (14)

The Company recognizes specifically identifiable intangibles, including land use rights and permits, when specific rights and contracts are acquired. The Company has no intangible assets with indefinite lives recorded as of September 30, 2002. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 40 to 75 years for land rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for the three months ended September 30, 2001 and 2002 was $0.2 million and $0.5 million, respectively. Amortization expense for other intangibles for the nine months ended September 30, 2001 and 2002 was $1.0 million and $1.4 million, respectively. Estimated amortization expense for the remainder of 2002 and the five succeeding fiscal years is as follows (in millions):

2002......................................	$ 1
2003......................................	2
2004......................................	2
2005......................................	2
2006......................................	2
2007......................................	3
Total....................................	$ 12

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

	AS OF SEPTEMBER 30, 2002
Natural Gas Distribution.......	$ 1,085
Pipelines and Gathering........	601
Other Operations...............	54
Total.........................	$ 1,740

The Company completed its review during the second quarter of 2002 pursuant to SFAS No. 142 for its reporting units in the Natural Gas Distribution, Pipelines and Gathering and Other Operations business segments. No impairment was indicated as a result of this assessment.

(7) COMPREHENSIVE INCOME (LOSS)

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Net income (loss) attributable to common stockholders	$ 355	$ (4,124)	$ 934	$ (3,857)
Other comprehensive (loss) income:				
Other comprehensive (loss) income from discontinued operations	(160)	(101)	(49)	162
Foreign currency translation adjustments	--	--	--	(3)
Additional minimum non-qualified pension liability adjustment	(3)	--	4	--
Cumulative effect of adoption of SFAS No. 133	--	--	38	--
Net deferred losses from cash flow hedges	(8)	(46)	(60)	(59)
Reclassification of deferred (gain) loss from cash flow hedges realized in net income	(23)	--	(45)	3
Other comprehensive (loss) income	(194)	(147)	(112)	103
Comprehensive income (loss)	$ 161	$ (4,271)	$ 822	$ (3,754)

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

Credit Facilities. As of September 30, 2002, CenterPoint Energy and its subsidiaries had credit facilities that provided for an aggregate of $5.2 billion in committed credit. As of September 30, 2002, $4.6 billion was outstanding under these facilities including $0.9 billion of commercial paper supported by the facilities, borrowings of $3.7 billion and letters of credit of $6.5 million. The weighted average interest rate on these short-term borrowings at December 31, 2001 and September 30, 2002 was 2.9% and 4.7%, respectively. In July 2002, the termination dates of facilities aggregating $4.7 billion were extended from July 12, 2002 to October 10, 2002. Upon the Restructuring, CenterPoint Energy became the borrower under facilities aggregating $4.3 billion, CenterPoint Houston remained the borrower under its $400 million facility and CERC Corp. remained both the borrower under its $350 million revolver and the seller under its $150 million receivables facility.

The following table summarizes amounts available under credit facilities of CenterPoint Energy and its subsidiaries at September 30, 2002 (in millions):

BORROWER / SELLER	TYPE OF FACILITY	TOTAL COMMITTED CREDIT	UNUSED AMOUNT AT 9/30/02
CenterPoint Energy	Revolvers/Term Loans	$ 4,300	$ 234
CenterPoint Houston	Revolver	400	13
CERC Corp.	Revolver	350	347
CERC Corp.	Receivables	150	44
Total			

$ 5,200	$ 638
============	============

On October 10, 2002, the agreements relating to $4.3 billion of bank facilities at CenterPoint Energy and $400 million of bank facilities at CenterPoint Houston were amended and extended. Effective October 10, 2002, the commitments and unused amounts under the bank facilities of CenterPoint Energy and its subsidiaries were as follows (in millions):

BORROWER / SELLER	TYPE OF FACILITY	TERMINATION DATE	TOTAL COMMITTED CREDIT	UNUSED AMOUNT ON 10/10/02
CenterPoint Energy	Revolver/Term Loans	October 9, 2003 (1)	$ 3,850	$ --
CenterPoint Houston	Term Loans	October 9, 2003 (1)	850	--
CERC Corp.	Revolver	March 31, 2003	350	--
CERC Corp.	Receivables	November 15, 2002	150	44
Total			$ 5,200	$ 44
			============	============

(1) CenterPoint Houston arranged a $1.3 billion loan on November 12, 2002, as discussed further below. A portion of the $1.3 billion loan was used to repay in full the $850 million in term loans outstanding under the CenterPoint Houston facility and the facility was terminated. As a result of the $1.3 billion loan arranged on November 12, 2002, $850 million of short-term borrowings have been classified as long-term debt as of September 30, 2002 in the Consolidated Balance Sheet. The CenterPoint Energy bank facilities aggregating $3.85 billion have the following mandatory commitment reductions, and to the extent necessitated by the lower commitment levels, principal payment obligations:

DATE	BORROWER	AMOUNT OF COMMITMENT REDUCTION
		(in millions)
February 28, 2003	CenterPoint Energy	$ 600
June 30, 2003	CenterPoint Energy	600
Total		$ 1,200

On October 10, 2002, cash aggregating $606 million was invested in a money market fund.

The $850 million bank facility of CenterPoint Houston was secured by $850 million aggregate principal amount of CenterPoint Houston's general mortgage bonds issued under the General Mortgage Indenture dated as of October 10, 2002 between CenterPoint Houston and JPMorgan Chase Bank, as trustee. The lien of the general mortgage indenture is junior to that of the Mortgage and Deed of Trust dated as of November 1, 1944 between CenterPoint Houston (successor of Houston Lighting & Power Company) and JPMorgan Chase Bank (successor of South Texas Commercial National Bank), as trustee. The $850 million of general mortgage bonds were released by the banks upon the November 2002 repayment and termination of the facility.

Under the CenterPoint Energy credit facilities and the former CenterPoint Houston facility, if any capital stock or indebtedness is issued, proceeds are to be applied (subject to a $100 million basket, and other limited exceptions) to repay bank loans and reduce bank commitments. If we receive cash proceeds from a sale of assets of more than $30 million or, if less, a group of sales aggregating more than $100 million, then such proceeds are to be applied to prepay bank loans and to reduce bank commitments, except that proceeds of up to $120 million (including the $100 million basket discussed above) can be reinvested in our businesses. Proceeds of $850 million from the $1.3 billion loan arranged in November 2002 were used to repay $850 million of loans under the CenterPoint Houston facility and the facility was terminated. Proceeds of $300 million from the $1.3 billion loan will be used to repay $300 million of debt maturing on November 15, 2002. Proceeds of $100 million from the $1.3 billion loan are expected to be used to purchase $100 million of pollution control bonds that are subject to mandatory tender on December 1, 2002. Because remaining proceeds from the $1.3 billion loan were used to pay transaction costs, CenterPoint Energy continues to have a $100 million basket under its $3.9 billion bank facility.

In October 2002, the termination date of the $150 million CERC Corp. receivables facility was extended to November 15, 2002. The facility is expected to be replaced with a one-year receivables facility in November 2002. The $350 million CERC Corp. revolving credit facility expires March 31, 2003. We expect to refinance borrowings under the revolving credit facility of CERC Corp. on or prior to the March 31, 2003 expiration date of the facility. Refinancings may be accomplished through the issuance of long-term debt, short-term debt or a combination.

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

At the beginning of the second quarter, commercial paper programs aggregated $5 billion. In July 2002, the aggregate amount of the commercial paper programs was reduced to $3.2 billion. In October 2002, the aggregate amount of the commercial paper programs was further reduced to $1.9 billion. In each case, the reduction in the size of the commercial paper programs occurred because revolving credit facilities were converted to term loan facilities. Revolving credit facilities are needed to support commercial paper programs. As of October 10, 2002, the revolving credit facility of CenterPoint Energy supports a commercial paper program at CenterPoint Energy of $1.5 billion and the revolving credit facility of CERC Corp. supports a commercial paper program at CERC Corp. of

$350 million. The maximum amount of each issuer's outstanding commercial paper is limited to the amount of its revolving credit facility less any direct loans or letters of credit obtained under its revolver. Short-term borrowing needs in the third quarter were met with a combination of commercial paper and bank loans. In October 2002, all commercial paper was repaid with proceeds from bank loans. The extent to which commercial paper will be issued in lieu of bank loans will depend, in part, on market conditions and the credit ratings of the commercial paper issuers.

Long-Term Debt. On November 12, 2002, CenterPoint Houston entered into a $1.3 billion loan maturing November 2005. The interest rate on the loan is the London inter-bank offered rate (LIBOR) plus 9.75 percent, subject to a minimum LIBOR rate of 3 percent. The loan is secured by CenterPoint Houston's general mortgage bonds. Proceeds from the loan were used to repay CenterPoint Houston's $850 million term loan and to pay costs of issuance. Additional proceeds from the loan are expected to be used to repay $300 million of debt that will mature on November 15, 2002 and to repay intercompany notes to the Company, which will use the proceeds to purchase or retire $100 million of pollution control bonds on December 1, 2002. As a result of the $1.3 billion loan arranged on November 12, 2002, the $300 million current portion of subsidiary debt due November 15, 2002 and $850 million of outstanding indebtedness under the Company's credit facilities have been classified as long-term debt as of September 30, 2002 in the Consolidated Balance Sheet. The loan agreement contains various business and financial covenants including a covenant restricting CenterPoint Houston's debt as a percent of its total capitalization to 68%. The loan agreement also limits incremental secured debt that may be issued at CenterPoint Houston to $300 million.

(9) EXCHANGE OF ZERO-PREMIUM EXCHANGEABLE SUBORDINATED NOTES DUE 2029 (ZENS).

From January 1, 2002 through September 30, 2002, holders of approximately 16% of the 17.2 million ZENS units originally issued exercised their right to exchange their ZENS for cash, resulting in aggregate cash payments by CenterPoint Energy of approximately $45 million. Holders of ZENS submitted for exchange are entitled to receive a cash payment equal to 95% of the market value of the reference shares of AOL Time Warner (AOL TW) common stock. There are 1.5 reference shares of AOL TW common stock for each of the 17.2 million ZENS units originally issued. The exchange market value is calculated using the average closing price per share of AOL TW common stock on the New York Stock Exchange on one or more trading days following the notice date. Payment must be made no later than ten trading days following the notice date. The Company recorded a net pre-tax gain of $12 million related to the ZENS exchanged.

A subsidiary of CenterPoint Energy owns the reference shares of AOL TW common stock and elected to liquidate a portion of such holdings to make the cash payments. In connection with exchanges from January 1, 2002 through September 30, 2002, CenterPoint Energy has received net proceeds of approximately $43 million from the liquidation of approximately 4.1 million shares of AOL TW common stock at an average price of $10.56 per share.

(10) EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic EPS Calculation:				
Income from continuing operations before cumulative effect of accounting change	$ 183	$ 161	$ 427	$ 394
Income from discontinued operations, net of tax	172	48	448	82
Loss on disposal of discontinued operations	--	(4,333)	--	(4,333)
Cumulative effect of accounting change, net of tax	--	--	59	--
Net income (loss) attributable to common stockholders	$ 355	$ (4,124)	$ 934	$ (3,857)
Weighted average shares outstanding	290,318,000	298,794,000	289,143,000	297,580,000
Basic EPS:				
Income from continuing operations before cumulative effect of accounting change	$ 0.63	$ 0.54	$ 1.48	$ 1.32
Income from discontinued operations, net of tax	0.59	0.16	1.55	0.28
Loss on disposal of discontinued operations	--	(14.50)	--	(14.56)
Cumulative effect of accounting change, net of tax	--	--	0.20	--
Net income (loss) attributable to common stockholders	$ 1.22	$ (13.80)	$ 3.23	$ (12.96)
Diluted EPS Calculation:				
Net income (loss) attributable to common stockholders	$ 355	$ (4,124)	$ 934	$ (3,857)
Plus: Income impact of assumed conversions:				
Interest on 6 1/4% convertible trust preferred securities	--	--	--	--
Total earnings effect assuming dilution	$ 355	$ (4,124)	$ 934	$ (3,857)
Weighted average shares outstanding	290,318,000	298,794,000	289,143,000	297,580,000
Plus: Incremental shares from assumed conversions(1):				
Stock options	1,147,000	1,000	1,942,000	194,000
Restricted stock	733,000	822,000	733,000	822,000
6 1/4% convertible trust preferred securities	14,000	12,000	14,000	12,000
Weighted average shares assuming dilution	292,212,000	299,629,000	291,832,000	298,608,000
Diluted EPS:				
Income from continuing operations before cumulative effect of accounting change	$ 0.63	$ 0.54	$ 1.46	$ 1.32
Income from discontinued operations, net of tax	0.58	0.16	1.54	0.27
Loss on disposal of discontinued operations	--	(14.47)	--	(14.51)
Cumulative effect of accounting change, net of tax	--	--	0.20	--
Net income (loss) attributable to common stockholders				

$ 1.21	$ (13.77)	$ 3.20	$ (12.92)
=============	=============	=============	=============

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(1) For the three months ended September 30, 2001 and 2002, the computation of diluted EPS excludes 2,319,488 and 9,971,384 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $31.73 to $50.00 per share and $12.87 to $36.25 per share for the third quarter 2001 and 2002, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

For the nine months ended September 30, 2001 and 2002, the computation of diluted EPS excludes 2,005,338 and 6,182,661 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $39.53 to $50.00 per share and $16.15 to $36.25 per share for the first nine months of 2001 and 2002, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

(11) CAPITAL STOCK

Effective with the restructuring of Reliant Energy, all outstanding shares of Reliant Energy no par value stock were exchanged for CenterPoint Energy shares with a par value of $0.01 per share. The capital accounts of CenterPoint Energy have been restated as of December 31, 2001 to give effect to the change in par value per share. CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, comprised of 1,000,000,000 shares of $0.01 par value common stock and 20,000,000 shares of $0.01 par value preferred stock. At December 31, 2001, 302,943,709 shares of Reliant Energy common stock were issued and 295,873,820 shares of Reliant Energy common stock were outstanding. At September 30, 2002, 304,335,457 shares of CenterPoint Energy common stock were issued and 299,418,905 shares of CenterPoint Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to CenterPoint Energy's Employee Stock Ownership Plan (7,069,889 and 4,916,552 at December 31, 2001 and September 30, 2002, respectively) and (b) treasury shares (-0- and 166 at December 31, 2001 and September 30, 2002, respectively). CenterPoint Energy, or Reliant Energy prior to August 31, 2002, declared dividends of $0.375 per share and $0.16 per share in the third quarter of 2001 and 2002, respectively and $1.125 per share and $0.91 per share in the first nine months of 2001 and 2002, respectively.

(12) TRUST PREFERRED SECURITIES

(a) CenterPoint Energy.

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

TRUST	AGGREGATE LIQUIDATION AMOUNT DECEMBER 31, 2001	AGGREGATE LIQUIDATION AMOUNT SEPTEMBER 30, 2002	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
REI Trust I	$ 375	$ 375	7.20%	March 2048	7.20% Junior Subordinated Debentures
HL&P Capital Trust I	$ 250	$ 250	8.125%	March 2046	8.125% Junior Subordinated Deferrable Interest Debentures Series A
HL&P Capital Trust II	$ 100	$ 100	8.257%	February 2037	8.257% Junior Subordinated

Deferrable
Interest
Debentures
Series B

For additional information regarding these securities, see Note 11 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference. The sole asset of each trust consists of junior subordinated debentures of CenterPoint Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities, and the principal amounts corresponding to the common and preferred securities or capital securities issued by that trust.

(b) CERC Corp.

A statutory business trust created by CERC Corp. (RERC Trust) has issued convertible trust preferred securities, the terms of which, and the related series of convertible junior subordinated debentures, are described below (in millions):

AGGREGATE
LIQUIDATION
AMOUNT ----

DISTRIBUTION
MANDATORY
DECEMBER
31,
SEPTEMBER
30, RATE/
REDEMPTION
DATE/
JUNIOR
SUBORDINATED
TRUST 2001
2002
INTEREST
RATE
MATURITY
DATE
DEBENTURES
- ---------
-------- --

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

RERC Trust
$ 1 $ 1
6.25% June
2026 6.25%
Convertible
Junior
Subordinated
Debentures

For additional information regarding the convertible preferred securities, see Note 11 to the Reliant Energy 10-K/A Notes. The sole asset of the trust consists of convertible junior subordinated debentures of CERC having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities, and the principal amount corresponding to the common and convertible preferred securities issued by the trust.

(13) COMMITMENTS AND CONTINGENCIES

(a) Legal Matters.

The Company's predecessor, Reliant Energy, and certain of its former subsidiaries have been named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and Reliant Resources, the Company and its subsidiaries are entitled to be indemnified by Reliant Resources for any losses arising out of the lawsuits described under "Southern California Class Actions," "Northern California Class Actions" and "Trading and Marketing Activities," including attorneys' fees and other costs. Pursuant to the indemnification obligation, Reliant Resources is defending the Company and its subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

Reliant Energy Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. Plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. A jury trial of the original claimant cities (but not the class of cities) in the 269th Judicial District Court for Harris County, Texas, ended in April 2000 (the Three Cities case). Although the jury found for Reliant Energy on many issues, 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. 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. The Company believes that the damage award resulted from serious errors of law and that it will be set aside by the Texas appellate courts. In addition, the Company believes that because of an agreement between the parties limiting fees to a percentage of the damages, reversal of the award of attorneys' fees 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. The Company estimates the range of possible outcomes for recovery by the plaintiffs in the Three Cities case to be between zero and $18 million inclusive of interest and attorneys' fees.

Southern California Class Actions. Reliant Energy, Reliant Energy Services, Inc. (Reliant Energy Services), Reliant Energy Power Generation, Inc. (REPG) and several other subsidiaries of Reliant Resources, as well as two former officers and one present officer of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. 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. On July 30, 2001, 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. On March 4, 2002, Judge Sammartino adopted a schedule proposed by the parties that would result in a trial beginning on March 1, 2004. On March 8, 2002, the plaintiffs filed a single, consolidated complaint naming numerous defendants, including Reliant Energy Services and other Reliant Resources' subsidiaries, that restated the allegations described above and alleged that damages against all defendants could be as much as $1 billion. On April 22 and 23, 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 cases once again to federal court where it was reassigned to Judge Whaley. On July 10, 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.

On March 11, 2002, the California Attorney General filed a civil lawsuit in San Francisco Superior Court naming Reliant Energy, Reliant Resources, Reliant Energy Services, REPG, and several other 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.

On April 15, 2002, the California Attorney General filed a lawsuit in San Francisco County Superior Court against Reliant Energy, Reliant Resources, Reliant Energy Services and several other subsidiaries of Reliant Resources. The complaint alleges that defendants violated their tariffs by failing to file transaction specific information, violated Federal Energy Regulatory Commission regulations concerning rate filings and charged unjust and unreasonable prices for electricity. The complaint also alleges that Reliant Resources consistently charged unjust and unreasonable prices for electricity, and that each instance of overcharge violated California law. The lawsuit seeks fines, under California law, 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 has been assigned to Judge Vaughn Walker in the Northern District of California.

On April 15, 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 two 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.

Northern California Class Actions. In the wake of the filing of the Attorney General cases, there have been seven new class action cases 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 assigned to Judge Whaley by the Panel on Multi-District Litigation.

Neither the Company nor Reliant Resources has answered any of these cases; however, they have moved to dismiss the cases on the grounds that the claims are barred by federal preemption and by the filed rate doctrine.

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 Reliant Resources. Their ultimate outcome and their effect on the Company 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. The Company understands that the investigation is focused on Reliant Resources' 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 the Company are cooperating with the SEC staff.

In connection with the Texas Utility Commission's industry-wide investigation into potential manipulation of the Electric Reliability Council of Texas, Inc. (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, ten class action lawsuits were filed in federal court for the Southern District of Texas in Houston and one class action lawsuit was filed in federal court for the Eastern District of Texas in Texarkana on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy. Reliant Resources and certain 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 initial public offering of Reliant Resources. One lawsuit names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The dates of filing of these lawsuits are as follows: two lawsuits on May 15, 2002; two lawsuits on May 16, 2002; one lawsuit on May 17, 2002; one lawsuit on May 20, 2002; one lawsuit on May 21, 2002; one lawsuit on May 23, 2002; one lawsuit on June 19, 2002; one lawsuit on June 20, 2002; and one lawsuit on July 1, 2002. The complaints allege that the defendants overstated the revenues of Reliant Energy and Reliant Resources by including transactions involving the purchase and sale of commodities with the same counterparty at the same price and that Reliant Energy and Reliant Resources 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 federal district court for the Southern District of Texas in Houston. 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.

Fourteen of the fifteen securities cases were filed in the United States District Court for the Southern District of Texas, Houston Division. By Order dated August 1, 2002, the Court consolidated ten of the Houston cases. By Order dated August 27, 2002, the Court consolidated the remaining four Houston cases. In the same Order, the Court appointed the Boca Raton Police & Firefighters Retirement System and the Louisiana Retirement Funds to be lead plaintiffs in the consolidated securities cases.

By Order dated August 22, 2002, the remaining securities case was transferred from the United States District court of the Eastern District of Texas, Texarkana Division, to the Southern District of Texas, Houston Division. By Order dated September 20, 2002, the Court consolidated the case originally filed in the Texarkana Division with the fourteen cases previously consolidated in the Houston Division.

In May 2002, three class action lawsuits were filed in federal district court for the Southern District of Texas in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Reliant Energy and its directors are named as defendants in all of the lawsuits. The lawsuits were filed on May 29, 2002, May 30, 2002, and May 31, 2002. Two of the lawsuits have been dismissed without prejudice. The remaining lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaints seek monetary damages for losses suffered by a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution.

Reliant Resources is defending the Company and its subsidiaries in these class action suits relating to Reliant Resources' trading and marketing activities pursuant to its indemnification obligations under the master separation agreement between Reliant Resources and Reliant Energy.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claim Act against RERC Corp. and certain of its subsidiaries alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case was consolidated, together with the other similar False Claim Act cases filed and transferred to the District of Wyoming. Motions to dismiss were denied. The defendants intend to vigorously contest this case.

In addition, RERC Corp., Reliant Energy Gas Transmission Company (REGT), Reliant Energy Field Services, Inc. (REFS) and Mississippi River Transmission Corporation (MRT) have been named as defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants, including certain Reliant Energy entities, for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Plaintiffs initially sued Reliant Energy Services, but that company was dismissed without prejudice on June 8, 2001. Other Reliant Energy entities that were misnamed or duplicative have also been dismissed. MRT and REFS have filed motions to dismiss for lack of personal jurisdiction and are currently responding to discovery on personal jurisdiction. All four Reliant Energy defendants have joined in a motion to dismiss.

The defendants plan to raise significant affirmative defenses based on the terms of the applicable contracts, as well as on the broad waivers and releases in take or pay settlements that were granted by the producer-sellers of natural gas who are putative class members.

Other Proceedings. On October 2, 2002, John and Heather Maher filed a suit in the 23rd Judicial District Court in Wharton County, Texas, against the Company, CERC, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utility Code and civil conspiracy. The plaintiffs seek class certification, but no class has been certified at this time. The plaintiffs allege that defendants inflated the prices charged to consumers for the sale of natural gas for residential purposes. The plaintiffs seek actual, exemplary and statutory damages and civil penalties. The Company has been served but has not yet filed an answer. The ultimate outcome of the lawsuit cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in this lawsuit and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

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

(b) Environmental Matters.

Clean Air Standards. Based on current limitations of the Texas Commission on Environmental Quality (TCEQ) regarding emission of oxides of nitrogen (NOx) in the Houston area, the Company anticipates investing up to $672 million for emission control equipment through 2005, including $519 million expended from January 1, 1999 through September 30, 2002, with possible additional expenditures after 2005.

The Texas electric restructuring law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements. Incurred costs include costs for which contractual obligations have been made. The Texas Utility Commission has determined that the Company's emission control plan is the most effective control option and that up to $699 million is eligible for cost recovery, the exact amount to be determined in the 2004 True-up Proceeding. In addition, the Company is required to provide $16.2 million in funding for certain NOx reduction projects associated with East Texas pipeline companies. These funds are also eligible for cost recovery.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company, Inc. (REGT), Reliant Energy Pipeline Services, Inc., RERC Corp., Reliant Energy Services, other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of July 29, 2002, there were 649 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties (Docket No. 465, 944-Div. "B") in the same court.

The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of REGT in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of September 30, 2002, the Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

Manufactured Gas Plant Sites. CERC and its predecessors operated a manufactured gas plant (MGP) until 1960 adjacent to the Mississippi River in Minnesota, formerly known as Minneapolis Gas Works (MGW). CERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. CERC is negotiating clean-up of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, CERC believes that two were neither owned nor operated by CERC. CERC believes it has no liability with respect to the sites it neither owned nor operated.

At September 30, 2002, CERC had accrued $23 million for remediation of the Minnesota sites. At September 30, 2002, the estimated range of possible remediation costs was $10 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Other Minnesota Matters. At September 30, 2002, CERC had recorded accruals of $5 million for other environmental matters in Minnesota for which remediation may be required. At September 30, 2002, the estimated range of possible remediation costs was $3 million to $8 million.

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

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

(c) Other Legal and Environmental Matters.

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

(d) Nuclear Insurance.

The Company's Texas Genco subsidiary has a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), which consists of two 1,250 MW nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. The South Texas Project is owned as a tenancy in common among its four co-owners, with each owner retaining its undivided ownership interest in the two nuclear-fueled generating units and the electrical output from those units. Texas Genco and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $9.3 billion as of September 30, 2002. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to $88 million per reactor. The owners are jointly and severally liable at a rate not to exceed $10 million per incident per year.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

(e) Nuclear Decommissioning.

The Company contributed $14.8 million in 2001 to trusts established to fund its share of the decommissioning costs for the South Texas Project. At the Restructuring, beneficial ownership of this trust was transferred to Texas Genco as the licensee of the Company's interest in the South Texas Project. Pursuant to an October 3, 2001 Order from the Texas Utility Commission, beginning in 2002, CenterPoint Houston will collect $2.9 million per year relating to decommissioning funding from customers and will transfer these amounts collected to Texas Genco for deposit into the decommissioning trusts. There are various investment restrictions imposed upon the Company by the Texas Utility Commission and the Nuclear Regulatory Commission (NRC) relating to the nuclear decommissioning trusts. Additionally, the boards of directors of the Company and Texas Genco have appointed the Nuclear Decommissioning Trust Investment Committee to establish the investment policy of the trusts and oversee the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of $160 million as of September 30, 2002, of which approximately 50% were debt securities and the remaining 50% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trusts, see Note 2(l) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference. In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the current funding levels exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission and distribution customers.

Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources and the applicable NRC regulations, the responsibility for the decommissioning trusts transferred to Texas Genco at the time of the Restructuring.

(14) REPORTABLE BUSINESS SEGMENTS

The Company's determination of reportable business segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The Company has identified the following reportable business segments: Electric Transmission and Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering, and Other Operations. Effective with the deregulation of the Texas electric industry beginning January 1, 2002, the basis of business segment reporting has changed for the Company's electric operations. Although retail sales are now conducted by Reliant Resources, retail customers remained regulated customers of Reliant Energy HL&P through the date of their first meter reading in January 2002. Sales of electricity in 2002 prior to such meter reading are reflected in the Electric Transmission and Distribution business segment. The Texas generation operations of Reliant Energy's former integrated electric utility, Reliant Energy HL&P, are now a separate reportable business segment, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function is now reported separately in the Electric Transmission and Distribution business segment, which also includes all impacts from generation-related regulatory assets recoverable by the regulated utility, including the ECOM true-up component of stranded costs. In 2001, Latin America was a separate business segment, but beginning in 2002 is reported in the Other Operations business segment. Reportable business segments from 2001 have been restated to conform to the 2002 presentation. Reportable business segments presented herein do not include Wholesale Energy, European Energy and Retail Energy as these business segments have operated within Reliant Resources which is presented as discontinued operations within these Interim Financial Statements. Note that estimates have been used to separate historical, (pre-January 1, 2002) Electric Generation business segment data from the Electric Transmission and Distribution segment data (see notes to the following tables). For descriptions of these reportable business segments, see Note 1 to the Reliant Energy 10-K/A Notes.

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

Financial data for the reportable business segments are as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001		
	REVENUES FROM NON-AFFILIATES(3)	NET INTERSEGMENT REVENUES	EBIT
	(IN MILLIONS)		
Electric Transmission and Distribution (1)	$ 1,608	$ --	$ 345
Electric Generation (2)	--	898	117
Natural Gas Distribution	604	4	(20)
Pipelines and Gathering	65	27	34
Other Operations	23	--	(26)
Eliminations	--	(929)	(13)
Consolidated	$ 2,300	$ --	$ 437

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2002		
	REVENUES FROM NON-AFFILIATES(3)	NET INTERSEGMENT REVENUES	EBIT
	(IN MILLIONS)		
Electric Transmission and Distribution (1)	$ 660	$ --	$ 407
Electric Generation (2)	526	--	7
Natural Gas Distribution	670	11	--
Pipelines and Gathering	60	28	43
Other Operations	7	--	(8)
Eliminations	--	(39)	(10)
Consolidated	$ 1,923	$ --	$ 439

	AS OF FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001			AS OF DECEMBER 31, 2001
	NET REVENUES FROM NON-AFFILIATES(3)	INTERSEGMENT REVENUES	EBIT	TOTAL ASSETS
	(IN MILLIONS)			
Electric Transmission and Distribution (1) ..	$ 4,521	$ --	$ 787	$ 7,689
Electric Generation (2)	--	2,832	242	4,323
Natural Gas Distribution	3,814	5	76	3,732
Pipelines and Gathering	237	81	107	2,361
Other Operations	76	--	(45)	1,238
Discontinued Operations	--	--	--	12,299
Eliminations	--	(2,918)	(33)	(376)
Consolidated	$ 8,648	$ --	$ 1,134	$ 31,266

	AS OF FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002			AS OF SEPTEMBER 30, 2002
	NET REVENUES FROM NON-AFFILIATES(3)	INTERSEGMENT REVENUES	EBIT	TOTAL ASSETS
	(IN MILLIONS)			
Electric Transmission and Distribution (1) ..	$ 1,757	$ --	$ 943	$ 8,837
Electric Generation (2)	1,210	56	(71)	4,451
Natural Gas Distribution	2,629	29	124	3,608
Pipelines and Gathering	194	88	122	2,409
Other Operations	16	--	(30)	1,026
Eliminations	--	(173)	(17)	(1,343)
Consolidated	$ 5,806	$ --	$ 1,071	$ 18,988

- ----------

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

(2) For 2001, revenues were derived based on an allowed regulatory rate of return on rate base with Reliant Energy HL&P being the sole customer of the Electric Generation business segment. Expenses, such as fuel and cost of gas sold, operations and maintenance and depreciation and amortization, and assets, such as property, plant and equipment and inventory, were specifically identified by function and reported accordingly. Various allocations were used to disaggregate other common expenses, assets and liabilities between the Electric Generation and the Electric Transmission

and Distribution business segments. Interest expense was calculated based upon an allocation methodology that charged the Electric Generation business segment with financing and equity costs from Reliant Energy in proportion to its share of total net assets prior to the effects of deregulation. For 2002, the Electric Generation business segment's operations reflect market prices for power established by capacity auctions.

(3) Included in Revenues from Non-Affiliates are revenues from sales to Reliant Resources, a former affiliate, of $16 million and $651 million for the three months ended September 30, 2001 and 2002, respectively, and $149 million and $1.5 billion for the nine months ended September 30, 2001 and 2002, respectively.

Reconciliation of Operating Income to EBIT and EBIT to Net Income (Loss) Attributable to Common Stockholders:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating income	$ 435	$ 431	$ 1,095	$ 1,070
Loss on AOL Time Warner investment	(512)	(82)	(44)	(530)
Gain on indexed debt securities	503	87	39	509
Other income, net	11	3	44	22
EBIT	437	439	1,134	1,071
Interest expense	(141)	(171)	(422)	(428)
Distribution on trust preferred securities	(14)	(14)	(42)	(42)
Income tax expense	(99)	(93)	(243)	(207)
Income from continuing operations before cumulative effect of accounting change	183	161	427	394
Income from discontinued operations, net of tax ...	172	48	448	82
Loss on disposal of discontinued operations	--	(4,333)	--	(4,333)
Cumulative effect of accounting change	--	--	59	--
Net income (loss) attributable to common stockholders	$ 355	$ (4,124)	$ 934	$ (3,857)

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

The following discussion and analysis should be read in combination with our Interim Financial Statements contained in this Form 10-Q.

OVERVIEW

We are a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) in compliance with requirements of the Texas electric restructuring law. We are the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. Our wholly owned operating subsidiaries own and operate electric generation plants, electric transmission and distribution facilities, natural gas distribution facilities and natural gas pipelines. We are subject to regulation as a "registered holding company" under the Public Utility Holding Company Act of 1935 (1935 Act). Our wholly owned subsidiaries include:

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

- Texas Genco Holdings, Inc. (Texas Genco), which owns and operates our Texas generating plants; and

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

Our 83%-ownership interest in Reliant Resources, Inc. (Reliant Resources) was distributed to our shareholders on September 30, 2002 (the Distribution).

In this section we discuss our results from continuing operations on a consolidated basis and individually for each of our business segments. We also discuss our liquidity, capital resources and critical accounting policies. Our financial reporting business segments include the following:

- Electric Transmission and Distribution;

- Electric Generation;

- Natural Gas Distribution;

- Pipelines and Gathering; and

- Other Operations.

Effective with the full deregulation of sales of electric energy to retail customers in Texas beginning January 1, 2002, power generators and retail electric providers in Texas ceased to be subject to traditional cost-based regulation. Since that date, we have sold generation capacity, energy and ancillary services related to power generation at prices determined by the market. Our transmission and distribution services remain subject to rate regulation.

Beginning January 1, 2002, the basis of business segment reporting has changed for our Texas electric operations. Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of our former integrated electric utility, Reliant Energy HL&P, through the date of their first meter reading in 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission and Distribution business segment. The Texas generation operations of Reliant Energy HL&P are now a separate reportable business segment, Electric Generation, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function is now reported separately in the Electric Transmission and Distribution business segment. In 2001, Latin America was a separate business segment, but is now reported in the Other Operations business segment beginning in 2002. Reportable business segments from 2001 have been restated to conform to the 2002 presentation. For business segment reporting information, please read Notes 1 and 14 to our Interim Financial Statements, which notes are incorporated by reference herein.

The Interim Financial Statements have been prepared to reflect the effect of the Distribution as described above on the CenterPoint Energy financial statements. The Interim Financial Statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) as discontinued operations, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Accordingly, the Interim Financial Statements reflect these operations as discontinued operations for the three and nine months ended September 30, 2001 and 2002.

As a result of the spin-off of Reliant Resources, we recorded a non-cash loss on disposal of discontinued operations of $4.3 billion in the third quarter of 2002. This loss represents the excess of the carrying value of our net investment in Reliant Resources over the market value of Reliant Resources' common stock. Through the date of the spin-off, Reliant Resources' assets and liabilities are shown in our balance sheet as "current and non-current assets and liabilities of discontinued operations."

The Restructuring

In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, which, at the time, was a wholly owned subsidiary of Reliant Energy. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger pursuant to which the following occurred on August 31, 2002 (which we refer to herein as the Restructuring):

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

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

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

After the Restructuring, we distributed the shares of common stock of Reliant Resources that we owned to our shareholders (which we refer to herein as the Distribution) in a tax-free transaction.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered public utility holding company system under the 1935 Act. The 1935 Act directs the SEC to regulate, among other things, financings, sales or acquisitions of assets and intra-system transactions.

In connection with the Restructuring, in order to enable CenterPoint Energy to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act, we have obtained authority from our state regulators to divide the gas distribution businesses conducted by CERC Corp.'s three unincorporated gas distribution divisions, CenterPoint Energy Entex, CenterPoint Energy Arkla and CenterPoint Energy Minnegasco, among three separate entities. The entity that would hold the CenterPoint Energy Entex assets would also hold ownership of CERC's natural gas pipelines and gathering business. We must also receive approval of these transactions under the 1935 Act. Although we expect this business restructuring of CERC may be completed, we can provide no assurance that this will, in fact, occur, or that we will ultimately be exempt from registration under the 1935 Act. For further information on the CERC restructuring, see "Our Business --RERC Corp. Restructuring" in Item 1 of the Reliant Energy Form 10-K/A, which is incorporated by reference herein.

Recent Plant Mothballing

In October 2002, Texas Genco announced a plan to temporarily remove from service, or "mothball," approximately 3,400 MW of our gas-fired generating units through at least May 2003. We decided to mothball these units because of unfavorable market conditions in the ERCOT market, including a surplus of generating capacity and a lack of bids for the output of these units in previous capacity auctions. In connection with our plan, the ERCOT independent system operator has determined that the mothballed units are not required to remain in service for reliability reasons through May 2003.

The mothballed units represent approximately one third of our total gas-fired generating capacity. The capacity to be mothballed includes all 2,213 MW of capacity at the P.H. Robinson facility, 229 MW of capacity at the T.H.

Wharton facility, 406 MW of capacity at the Greens Bayou facility, 374 MW of capacity at the Webster facility and all 174 MW of capacity at the Deepwater facility. We may decide to mothball additional gas-fired generating units through May 2003 if market demand for units continuing in service is insufficient. Given the results of our recent capacity auctions, we expect to return some or all of the mothballed facilities to service during the summer.

In connection with the decision to mothball these units, Texas Genco extended a voluntary early retirement package in November 2002 to approximately 140 Texas Genco employees. The Company does not believe the cost of this package will have a material impact on its results of operations or cash flows.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Revenues	$ 2,300	$ 1,923	$ 8,648	$ 5,806
Operating Expenses	(1,865)	(1,492)	(7,553)	(4,736)
Operating Income	435	431	1,095	1,070
Loss on AOL Time Warner Investment	(512)	(82)	(44)	(530)
Gain on Indexed Debt Securities	503	87	39	509
Other Income, net	11	3	44	22
Earnings Before Interest and Taxes	437	439	1,134	1,071
Interest Expense	(141)	(171)	(422)	(428)
Distribution on Trust Preferred Securities	(14)	(14)	(42)	(42)
Income Tax Expense	(99)	(93)	(243)	(207)
Income From Continuing Operations Before Cumulative Effect of Accounting Change	183	161	427	394
Income from Discontinued Operations, net of tax	172	48	448	82
Loss on Disposal of Discontinued Operations	--	(4,333)	--	(4,333)
Cumulative Effect of Accounting Change, net of tax	--	--	59	--
Net Income (Loss) Attributable to Common Stockholders	$ 355	$ (4,124)	$ 934	$ (3,857)
BASIC EARNINGS PER SHARE:				
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.63	$ 0.54	$ 1.48	$ 1.32
Income From Discontinued Operations, net of tax	0.59	0.16	1.55	0.28
Loss on Disposal of Discontinued Operations	--	(14.50)	--	(14.56)
Cumulative Effect of Accounting Change, net of tax	--	--	0.20	--
Net Income (Loss) Attributable to Common Stockholders	$ 1.22	$ (13.80)	$ 3.23	$ (12.96)
DILUTED EARNINGS PER SHARE:				
Income From Continuing Operations Before Cumulative Effect of Accounting Change	$ 0.63	$ 0.54	$ 1.46	$ 1.32
Income From Discontinued Operations, net of tax	0.58	0.16	1.54	0.27
Loss on Disposal of Discontinued Operations	--	(14.47)	--	(14.51)
Cumulative Effect of Accounting Change, net of tax	--	--	0.20	--
Net Income (Loss) Attributable to Common Stockholders	$ 1.21	$ (13.77)	$ 3.20	$ (12.92)

Three months ended September 30, 2001 compared to three months ended September 30, 2002

Income from Continuing Operations. We reported income from continuing operations before the cumulative effect of accounting change of $161 million ($0.54 per diluted share) for the three months ended September 30, 2002. For the same period of 2001, and prior to the full implementation of the Texas electric restructuring law, income from continuing operations before the cumulative effect of accounting change was $183 million ($0.63 per diluted share). Effective January 1, 2002, we discontinued amortizing goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). During the third quarter of 2001, we recognized $12 million of goodwill amortization expense. The decrease in income from continuing operations before the cumulative effect of accounting change for the third quarter of 2002 as compared to the third quarter of 2001 was primarily due to the following:

- a $41 million decrease in earnings before interest and taxes (EBIT) from our Electric business segments, reflecting the movement of a portion of this business to Reliant Resources' Retail Energy business segment and depressed capacity auction prices for our generation products; and

- a $30 million increase in interest expense from higher borrowing costs.

The above items were partially offset by:

- a $14 million positive impact related to our investment in AOL Time Warner securities and related indexed debt securities;

- a $20 million increase in EBIT from our Natural Gas Distribution business segment; and

- a $9 million increase in EBIT from our Pipelines and Gathering business segment.

Earnings Before Interest and Income Taxes. For an explanation of changes in EBIT, please read the discussion below under "- Earnings Before Interest and Income Taxes by Business Segment."

Interest Expense. We incurred interest expense of $171 million during the three months ended September 30, 2002 compared to $141 million in the same period of 2001. The increase in interest expense of $30 million resulted primarily from higher borrowing costs and increased debt levels.

Income Tax Expense. During the three months ended September 30, 2002 and 2001, our effective tax rate was 36.6% and 35.0%, respectively. The increase in the effective tax rate for the third quarter of 2002 compared to the third quarter of 2001 was primarily due to an increase in state taxes, offset by the discontinuance of goodwill amortization in accordance with SFAS No. 142.

Nine months ended September 30, 2001 compared to nine months ended September 30, 2002

Income from Continuing Operations. We reported income from continuing operations before the cumulative effect of accounting change of $394 million ($1.32 per diluted share) for the nine months ended September 30, 2002 compared to $427 million ($1.46 per diluted share) for the nine months ended September 30, 2001. Effective January 1, 2002, we discontinued amortizing goodwill in accordance with SFAS No. 142. During the first nine months of 2001, we recognized $37 million of goodwill amortization expense. The decrease in income from continuing operations before the cumulative effect of accounting change for the nine months ended September 30, 2002 as compared to the same period in 2001 was primarily due to the following:

- a $136 million decrease in EBIT from our Electric business segments, reflecting the movement of a portion of this business to Reliant Resources' Retail Energy business segment and depressed capacity auction prices for our generation products;

- a $16 million negative impact related to our investment in AOL Time Warner securities and related indexed debt securities; and

- a $6 million increase in interest expense from higher borrowing costs.

The above items were partially offset by:

- a $48 million increase in EBIT from our Natural Gas Distribution business segment;

- a $15 million increase in EBIT from our Pipelines and Gathering business segment;

- a $15 million increase in EBIT from our Other Operations business segment; and

- a $36 million decrease in income tax expense.

Earnings Before Interest and Income Taxes. For an explanation of changes in EBIT, please read the discussion below under "- Earnings Before Interest and Income Taxes by Business Segment."

Interest Expense. We incurred interest expense of $428 million during the nine months ended September 30, 2002 compared to $422 million in the same period of 2001. The increase in interest expense of $6 million resulted primarily from higher borrowing costs.

Income Tax Expense. During the nine months ended September 30, 2002 and 2001, our effective tax rate was 34.5% and 36.2%, respectively. The decrease in the effective tax rate for the first nine months of 2002 compared to the first nine months of 2001 was primarily due to the discontinuance of goodwill amortization in accordance with SFAS No. 142 and increased benefits related to the Employee Stock Ownership Plan.

Cumulative Effect of Accounting Change. The 2001 results reflect a $59 million after-tax non-cash gain from the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). For additional discussion of the adoption of SFAS No. 133, please read Note 5 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference.

EARNINGS BEFORE INTEREST AND INCOME TAXES BY BUSINESS SEGMENT

The following table presents EBIT for each of our business segments for the three and nine months ended September 30, 2001 and 2002. EBIT represents earnings (loss) before interest expense, distribution on trust preferred securities, and income taxes. EBIT, as defined, is shown because we believe it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. We expect that some analysts and investors will want to review EBIT when evaluating our Company. It is not defined under generally accepted accounting principles, and should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with accounting principles generally accepted in the United States (GAAP) and is not indicative of operating income from operations as determined under GAAP. Additionally, our computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion. For a reconciliation of our business segments' operating income (loss) to EBIT and EBIT to net income (loss), please read Note 14 to our Interim Financial Statements.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Electric Transmission and Distribution	$ 345	$ 407	$ 787	$ 943
Electric Generation	117	7	242	(71)
Natural Gas Distribution	(20)	--	76	124
Pipelines and Gathering	34	43	107	122
Other Operations	(26)	(8)	(45)	(30)
Eliminations	(13)	(10)	(33)	(17)
Total Consolidated EBIT	$ 437	$ 439	$ 1,134	$ 1,071

ELECTRIC BUSINESS SEGMENTS

For information regarding factors that may affect the future results of operations of our Electric business segments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Electric Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following tables provide summary data, including EBIT, of our Electric business segments for the three months and nine months ended September 30, 2001 and 2002:

(IN MILLIONS)	THREE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2001
Operating Revenues	$ 1,608	$ 4,521
Operating Expenses:		
Fuel and Purchased Power	634	2,132
Operation and Maintenance	255	736
Depreciation and Amortization	161	369
Other Operating Expenses	115	313
Total Operating Expenses	1,165	3,550
Operating Income	443	971
Other Income, net	12	37
Earnings Before Interest and Income Taxes	$ 455	$ 1,008
Electric Sales Including Unbilled (GWh(1)):		
Residential	7,710	17,445
Commercial	5,232	13,741
Industrial	7,908	23,853
Other	99	777
Total Sales Including Unbilled	20,949	55,816

- ----------

(1) Gigawatt hours

THREE MONTHS ENDED SEPTEMBER 30, 2002

ELECTRIC TRANSMISSION ELECTRIC &
DISTRIBUTION GENERATION ELIMINATIONS
TOTAL --------------- --------------
--------------- --------------- (IN
MILLIONS) Operating Revenues:
Electric Revenues
.... $ 420 $
526 $ -- $ 946 ECOM True-Up
.... 240 -
- -- 240 --------------- ------------
--- -------------- --------------
Total Operating Revenues
.... 660 526 -- 1,186 --
------------- -------------- -------
-------- --------------- Operating
Expenses: Fuel and Purchased Power
.... -- 372 -- 372
Operation and Maintenance
.... 130 98 -- 228
Depreciation and Amortization
.... 75 39 -- 114 Other
Operating Expenses
.... 56 10 -- 66 -----
---------- -------------- ----------
----- --------------- Total Operating
Expenses .... 261 519 --
780 -------------- -------------- -
-------------- --------------
Operating Income
.... 399 7 -
- 406 Other Income, net
.... 8 -- --
8 --------------- --------------- ---
------------ --------------- Earnings
Before Interest and Income Taxes ....
$ 407 $ 7 $ -- $ 414 ===============
=============== ===============
=============== Throughput Data
Including Unbilled (GWh): Residential
....
7,966 Commercial
....
5,148 Industrial
....
7,766 Other
....
37 --------------- Total Throughput
Including Unbilled 20,917
=============== Physical Electric
Generation Power Sales (in GWh)
.... 15,476
===============

NINE MONTHS ENDED SEPTEMBER 30, 2002 -------

---------------- ELECTRIC TRANSMISSION
ELECTRIC & DISTRIBUTION GENERATION
ELIMINATIONS TOTAL -------------- ----------
--- ------------- ------------- (IN
MILLIONS) Operating Revenues: Electric
Revenues .... $
1,206 $ 1,266 $ (56) $ 2,416 ECOM True-Up
.... 551 -
- -- 551 ------------- ------------- -------
------ ------------- Total Operating
Revenues 1,757
1,266 (56) 2,967 ------------- -------------
------------- ------------- Operating
Expenses: Fuel and Purchased Power
.... 56 901 (56) 901
Operation and Maintenance
.... 401 272 -- 673
Depreciation and Amortization
.... 204 118 -- 322 Other
Operating Expenses
.... 168 49 -- 217 ---
---------- ------------- ------------- -----
-------- Total Operating Expenses
.... 829 1,340 (56)
2,113 ------------- ------------- ----------
--- ------------- Operating Income (Loss)
.... 928 (74) --
854 Other Income, net
.... 15 3 --
18 ------------- ------------- -------------
------------- Earnings (Loss) Before

Interest and Income Taxes .... $ 943 $ (71)
$ -- $ 872 ============= =============
============= ============= Throughput Data
Including Unbilled (GWh): Residential
....
18,736 Commercial
....
13,911 Industrial
....
20,536 Other
....
116 ------------- Total Throughput Including
Unbilled 53,299
============= Physical Electric Generation
Power Sales (in GWh)
.... 41,923
=============

During 2001, our Electric Operations business segment reflected the regulated electric utility business, including generation, transmission and distribution, and retail electric sales. As of January 1, 2002, with the opening of the Texas market to full retail electric competition, generation and retail sales are no longer subject to cost of service regulation. Retail electric sales involve the sale of electricity and related services to end users of electricity and were included as part of the bundled regulated service prior to 2002.

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

- Electric Transmission and Distribution; and

- Electric Generation.

The Electric Transmission and Distribution business segment will report results from two sources. This business segment includes the regulated electric transmission and distribution operations as well as impacts of generation-related stranded costs recoverable by the regulated utility. The previously regulated generation operations in Texas are being reported in the new Electric Generation business segment.

As a result of the implementation of deregulation and the corresponding new business segments, the regulated transmission and distribution utility recovers the cost of its service through an energy delivery charge, and not as a component of the prior bundled rate, which included energy and delivery charges. Accordingly, there are no meaningful comparisons for these business segments against prior periods. The design of the new energy delivery rate differs from the prior bundled rate. The winter/summer rate differential for residential customers has been eliminated and the energy component of the rate structure has been removed, which will tend to lessen some of the pronounced seasonal variation of revenues which has been experienced in prior periods. For estimates of historical Electric Generation revenues, please read Note 14 to our Interim Financial Statements.

Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of Reliant Energy HL&P through the date of their first meter reading in 2002. Operations during this transition period, reflected in the Electric Transmission and Distribution business segment, produced a $4 million loss before interest and taxes for the three months ended September 30, 2002 and EBIT of $3 million for the nine months ended September 30, 2002. We expect to incur additional transition expenses during the remainder of the year which are expected to offset a substantial portion of the earnings from retail sales in January 2002.

The new Electric Generation business segment, Texas Genco, is comprised of over 14,000 megawatts of electric generation located entirely in the state of Texas. This business segment reported EBIT of $7 million for the three months ended September 30, 2002 and a loss before interest and taxes of $71 million for the nine months ended September 30, 2002, primarily due to low natural gas prices and ample generating capacity in Texas, which created a weak price environment when the capacity auctions described below were conducted in late 2001 and early 2002.

The new Electric Transmission and Distribution business segment, CenterPoint Houston, reported EBIT of $407 million for the three months ended September 30, 2002, consisting of EBIT of $171 million for the regulated electric transmission and distribution business, loss before interest and taxes of $4 million from retail sales during the transition period as discussed above and EBIT of $240 million associated with certain generation-related regulatory assets, or Excess Cost Over Market (ECOM), recorded pursuant to the Texas electric restructuring law as explained below. The Electric Transmission and Distribution business segment reported EBIT of $943 million for the nine months ended September 30, 2002, consisting of EBIT of $389 million for the regulated electric transmission and distribution business, EBIT of $3 million from retail sales during the transition period as discussed above and EBIT of $551 million associated with the ECOM true-up.

Under the Texas electric restructuring law, each power generator that is unbundled from an integrated electric utility in Texas has an obligation to conduct state-mandated capacity auctions of 15% of its capacity. In addition, under a master separation agreement between CenterPoint Energy and Reliant Resources, Texas Genco is contractually obligated to auction all capacity in excess of the state-mandated capacity auctions. The auctions conducted periodically between September 2001 and October 2002 were consummated at prices below those used in the ECOM model by the Public Utility Commission of Texas (Texas Utility Commission). Under the Texas electric restructuring law, a regulated utility may recover in a regulatory proceeding scheduled for 2004 any difference between market prices received through the state-mandated auctions and the Texas Utility Commission's earlier estimates of those market prices. This difference, recorded as a regulatory asset, produced $240 million of EBIT in the third quarter of 2002 and $551 million of EBIT in the first nine months of 2002.

In the Electric Transmission and Distribution business segment, throughput remained level during the third quarter of 2002, and declined 5% during the nine months ended September 30, 2002 as compared to the prior periods in 2001. The decrease was primarily due to reduced energy delivery in the industrial sector resulting from self-generation by several major customers, partially offset by increased residential usage due to warmer weather and increased demand from non-weather related factors such as price elasticity. Additionally, despite a slowing economy, total metered customers continued to grow at an approximate annual growth rate of 2% during the quarter.

Operation and maintenance expenses decreased by $27 million and $63 million for the quarter and nine months ended September 30, 2002, respectively, compared to the same periods in 2001. The decrease was primarily due to the elimination of factoring expense ($17 million and $43 million for the quarter and nine months, respectively) as a result of the termination of an agreement under which the former Electric Operations business segment had sold its customer accounts receivable and fewer plant outages in 2002 ($5 million and $21 million for the quarter and nine months, respectively), partially offset by higher benefits expense ($5 million and $11 million for the quarter and nine months, respectively).

Depreciation and amortization decreased $47 million for both the three and nine months ended September 30, 2002, compared to the same periods in 2001. The decrease was primarily due to decreased amortization of the impairment loss recorded in June 1999, which was fully amortized in December 2001, offset by the discontinuance of redirection of depreciation expense related to Electric Transmission and Distribution assets.

Other operating expense in the third quarter of 2002 decreased $49 million compared to the same period in 2001. The decrease was primarily due to lower gross receipts taxes ($19 million) which became the responsibility of the retail electric provider upon deregulation and lower franchise fees ($11 million). Other operating expense decreased $96 million in the nine months ended September 30, 2002, compared to the same period in 2001, primarily due to lower property ($17 million) and gross receipts taxes ($52 million) and lower franchise fees ($24 million).

NATURAL GAS DISTRIBUTION

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

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of RERC's Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of our Natural Gas Distribution business segment for the three months and nine months ended September 30, 2001 and 2002:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 608	$ 681	$ 3,819	$ 2,658
Operating Expenses:				
Natural Gas	437	509	3,139	1,997
Operation and Maintenance	139	125	420	381
Depreciation and Amortization	37	32	110	94
Other Operating Expenses	20	19	88	72
Total Operating Expenses	633	685	3,757	2,544
Operating (Loss) Income	(25)	(4)	62	114
Other Income, net	5	4	14	10
(Loss) Earnings Before Interest and Income Taxes	$ (20)	$ --	$ 76	$ 124
Throughput Data (in Bcf (1)):				
Residential and Commercial Sales	36	35	225	216
Industrial Sales	13	9	36	33
Transportation	10	14	36	42
Non-rate regulated Commercial and Industrial	100	130	339	346
Total Throughput	159	188	636	637

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(1) Billion cubic feet.

Our Natural Gas Distribution business segment's EBIT increased $20 million and $48 million for the three months and nine months ended September 30, 2002, respectively, as compared to the same periods in 2001. The increase for the three months ended September 30, 2002 was primarily due to a reduction in bad debt expense as a result of improved collections and lower gas costs in 2002 and the discontinuance of goodwill amortization in 2002. For the nine months ended September 30, 2002, the increase was primarily due to a significant reduction in bad debt expense in the second and third quarters of 2002 as a result of improved collections and lower gas prices in 2002 and changes in estimates of unbilled revenues and deferred gas costs in 2001, as well as the discontinuance of goodwill amortization in 2002. For the nine months ended September 30, 2002, the above increases were partially offset by decreased earnings due to significantly milder weather and the resulting decreased usage in 2002 as compared to 2001. Depreciation and amortization expense decreased approximately $5 million and $16 million for the three months and nine months ended September 30, 2002, respectively, primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 6 to our Interim Financial Statements, which note is incorporated by reference herein. Goodwill amortization was $8 million and $23 million for the three months and nine months ended September 30, 2001, respectively. Other operating expenses remained flat in the third quarter but decreased $16 million for the nine months ended September 30, 2002 as compared to the same period in 2001, due primarily to reduced franchise fees as a result of decreased revenues.

PIPELINES AND GATHERING

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

For information regarding factors that may affect the future results of operations of our Pipelines and Gathering business segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of RERC's Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of our Pipelines and Gathering business segment for the three months and nine months ended September 30, 2001 and 2002:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 92	$ 88	$ 318	$ 282
Operating Expenses:				
Natural Gas	7	3	65	20
Operation and Maintenance	31	27	90	99
Depreciation and Amortization	15	11	44	31
Other Operating Expenses	5	4	13	13
Total Operating Expenses	58	45	212	163
Operating Income	34	43	106	119
Other Income, net	--	--	1	3
Earnings Before Interest and Income Taxes ...	$ 34	$ 43	$ 107	$ 122
Throughput Data (in Bcf):				
Natural Gas Sales	2	1	11	12
Transportation	174	192	613	633
Gathering	76	72	223	213
Elimination (1)	(1)	(1)	(2)	(2)
Total Throughput	251	264	845	856

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(1) Elimination of volumes both transported and sold.

Our Pipelines and Gathering business segment's EBIT for the three months and nine months ended September 30, 2002 compared to the same periods in 2001, increased $9 million and $15 million, respectively. Operation and maintenance expenses decreased $4 million for the three months ended September 30, 2002 and increased $9 million for the nine months ended September 30, 2002, compared to the same periods in 2001 primarily due to project work consisting of construction management, material acquisition, engineering, project planning and other services. Project work expenses are offset by revenues billed for these services. Depreciation and amortization expense decreased $4 million and $13 million for the three months and nine months ended September 30, 2002, respectively, as compared to the same periods in 2001, primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 6 to our Interim Financial Statements. Other income increased $2 million for the nine months ended September 30, 2002 as compared to the same periods in 2001, primarily due to interest accrued on a fuel-related sales tax refund.

OTHER OPERATIONS

Our Other Operations business segment includes our Latin America operations, the operations of CenterPoint Energy Management Services, Inc., CenterPoint Energy Power Systems, Inc., office buildings and other real estate used in our business operations and unallocated corporate costs.

The following table shows EBIT of our Other Operations business segment for the three months and nine months ended September 30, 2001 and 2002:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 23	$ 7	$ 76	$ 16
Operating Expenses	40	21	119	32
Operating Loss	(17)	(14)	(43)	(16)
Other Income (Expense), net	(9)	6	(2)	(14)
Loss Before Interest and Income Taxes	$ (26)	$ (8)	$ (45)	$ (30)

Our Other Operations business segment's loss before interest and income taxes decreased by $18 million and $15 million for the three months and nine months ended September 30, 2002, respectively, compared to the same periods in 2001. The decline in loss before interest and income taxes for the three months was primarily due to a net gain of $5 million in 2002 as compared to a $9 million net loss in 2001 on our AOL Time Warner investment and related indexed debt securities. The decline in loss before interest and income taxes for the nine months was primarily due to reduced other operating costs partially offset by an increased net loss of $16 million on our AOL Time Warner investment and related indexed debt securities for 2002 as compared to 2001.

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, including information relating to an anticipated decline in earnings of our electric business segments due to deregulation of the Texas electric industry, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

In addition to the factors incorporated from the Reliant Energy 10-K/A, increased borrowing costs and increased pension expense are expected to negatively impact our earnings in 2003.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2001 and 2002:

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2002
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ 2,012	$ 126
Investing activities	(772)	(543)
Financing activities	(1,279)	492

Net cash provided by operating activities during the nine months ended

September 30, 2002 decreased $1.9 billion compared to the same period in 2001 primarily due to (a) significant reductions in accounts receivable and accounts payable during the nine months ended September 30, 2001 compared to the same period in 2002 as a result of higher natural gas prices experienced in late 2000 and early 2001, (b) a decrease in current taxes payable primarily due to the deferral of taxes related to the ECOM true-up and excess mitigation refund revenue components of our Electric Transmission and Distribution business segment; and (c) an increase in net regulatory assets and liabilities of our Electric Transmission and Distribution business segment primarily due to a $722 million increase in the ECOM true-up component of revenue as discussed in Note 4 to our Interim Financial Statements and $121 million refunds of excess mitigation costs to our ratepayers.

Net cash used in investing activities decreased $228 million during the nine months ended September 30, 2002 compared to the same period in 2001 primarily due to a decrease in capital expenditures related to our Electric Transmission and Distribution business segment attributed to fewer transmission interconnection projects and fewer infrastructure and facilities projects required prior to deregulation and business separation.

Cash flows provided by financing activities increased $1.8 billion during the nine months ended September 30, 2002 compared to the same period in 2001 primarily due to a $2.2 billion increase in short-term borrowings, partially offset by a $541 million decrease in proceeds from long-term debt.

FUTURE SOURCES AND USES OF CASH FLOWS

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

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

We purchased $75 million principal amount of outstanding pollution control bonds on November 1, 2002 at 100% of their principal amount. On December 1, 2002, we will remarket, purchase or retire $100 million principal amount of outstanding 5.2% pollution control bonds in connection with mandatory tender provisions. If market conditions permit, we will remarket the $75 million principal amount of pollution control bonds purchased in November and the $100 million principal amount of pollution control bonds that will be purchased in December in either the fourth quarter of 2002 or the first quarter of 2003. Maturities during the balance of 2002 include $300 million of notes of a financing subsidiary of CenterPoint Houston that mature on November 15, 2002. CenterPoint Houston provides limited credit support for these notes.

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

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

We have $840 million of outstanding Zero-Premium Exchangeable Subordinated Notes (ZENS) that may be exchanged for cash at any time. Holders of ZENS submitted for exchange are entitled to receive a cash payment equal to 95% of the market value of the reference shares of AOL Time Warner (AOL TW) common stock. There are 1.5 reference shares of AOL TW common stock for each of the 17.2 million ZENS units originally issued (of which approximately 16% were exchanged for cash of approximately $45 million in 2002). The exchange market value is calculated using the average closing price per share of AOL TW common stock on the New York Stock Exchange on one or more trading days following the notice date. One of our subsidiaries owns the reference shares of AOL TW common stock and generally liquidates such holdings to the extent of ZENS exchanged. Cash proceeds from such liquidations are used to fund ZENS exchanged for cash. Although proceeds from the sale of AOL TW stock offset the cash paid on exchanges, ZENS exchanges result in a cash outflow because deferred taxes related to the ZENS and AOL TW stock become current tax obligations when ZENS are exchanged and AOL TW stock is sold. Current tax obligations in 2002 increased by $58 million as a result of the exchanges, during the nine months ended September 30, 2002, of ZENS having a principal amount of $160 million and the related sale of 4.1 million shares of AOL TW stock.

CenterPoint Houston has issued approximately $1.2 billion aggregate principal amount of first mortgage bonds and approximately $1.8 billion aggregate principal amount of general mortgage bonds, of which approximately $1.1 billion combined aggregate principal amount of first mortgage bonds and general mortgage bonds collateralizes debt of CenterPoint Energy, Inc. The general mortgage bonds are issued under the General Mortgage Indenture dated as of October 10, 2002 between CenterPoint Houston and JPMorgan Chase Bank, as trustee. The lien of the general mortgage indenture is junior to that of the Mortgage and Deed of Trust dated as of November 1, 1944 between CenterPoint Houston (successor of Houston Lighting & Power Company) and JPMorgan Chase Bank (successor of South Texas Commercial National Bank), as trustee, pursuant to which the first mortgage bonds are issued. The aggregate amount of general mortgage bonds and first mortgage bonds that could be issued is approximately $3.9 billion based on estimates of the value of property encumbered by the general mortgage, the cost of such property and the 70% bonding ratio contained in the general mortgage. As of November 13, 2002, outstanding first mortgage bonds and general mortgage bonds aggregated approximately $3.0 billion.

Short-Term Debt. During the balance of 2002 and 2003, the following bank facilities are scheduled to terminate, or may terminate pursuant to their terms, on the dates indicated.

BORROWER/SELLER	AMOUNT OF FACILITY	TERMINATION DATE	TYPE OF FACILITY
	(in millions)		
CenterPoint Energy	$ 3,850	October 9, 2003 (1)	Revolver/Term Loan
CERC Corp.	150	November 15, 2002	Receivables
CERC Corp.	350	March 31, 2003	Revolver
Total	$ 4,350		

(1) The bank facilities aggregating $3.85 billion have the following mandatory commitment reductions and, to the extent necessitated by lower commitment levels, principal payment obligations:

DATE	BORROWER	AMOUNT OF COMMITMENT REDUCTION
		(in millions)
February 28, 2003	CenterPoint Energy	$ 600
June 30, 2003	CenterPoint Energy	600
Total		$1,200

Borrowings under the CenterPoint Energy facility bear interest based on LIBOR rates under a pricing grid tied to our credit rating. Interest rates for the term loans at our current ratings would be the LIBOR rate plus 450 basis points. As part of these agreements, (1) we paid a one percent fee upon closing, (2) we paid approximately $14 million upon the termination of the CenterPoint Houston facility and (3) we will pay an additional $38.5 million on November 15, 2002, approximately $41 million at the end of February 2003, and approximately $20 million at the end of June 2003.

On October 31, 2002, CERC Corp. had received proceeds from the sale of receivables of approximately $120 million under its $150 million receivables facility and our remaining bank facilities were fully drawn or utilized in the form of letters of credit. On such date, we had $646 million of temporary investments.

Under the CenterPoint Energy credit facilities, if we issue any capital stock or indebtedness, proceeds are to be applied (subject to a $100 million basket, and other limited exceptions) to repay bank loans and reduce bank commitments. If we receive cash proceeds from a sale of assets of more than $30 million or, if less, a group of sales aggregating more than $100 million, then such proceeds are to be applied to prepay bank loans and to reduce bank commitments, except that proceeds of up to $120 million (including the $100 million basket discussed above) can be reinvested in our businesses. Proceeds of $850 million from the $1.3 billion loan arranged in November 2002 were used to repay $850 million of loans under the CenterPoint Houston facility and the facility was terminated. Proceeds of $300 million from the $1.3 billion loan will be used to repay $300 million of debt maturing on November 15, 2002. Proceeds of $100 million from the $1.3 billion loan are expected to be used to purchase $100 million of pollution control bonds that are subject to mandatory tender on December 1, 2002. Because remaining proceeds from the $1.3 billion loan were used to pay costs of issuance, CenterPoint Energy continues to have a $100 million basket under its $3.9 billion bank facility.

Capital Requirements. We expect capital requirements to be met with cash flows from operations as well as proceeds from debt offerings and other borrowings. We anticipate investing up to $3.3 billion in capital expenditures during the years 2002 through 2006, including $659 million expended during the nine months ended September 30, 2002. We anticipate capital expenditures to be approximately $860 million and $675 million in 2002 and 2003, respectively.

The largest component of our estimated construction expenditures are additions to our electric distribution network arising from estimated load growth comprising approximately $120 million per year over the next five years.

Refunds to CenterPoint Houston Customers. An order issued by the Texas Utility Commission on October 3, 2001 (October 3, 2001 Order) established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that CenterPoint Houston had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets (an amount equal to earnings above a stated overall rate of return on rate base that was used to recover our investment in generation assets) as provided under the 1998 transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston is required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. Per the October 3, 2001 Order, CenterPoint Houston recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. CenterPoint Houston began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven year period. The annual cash flow impact of the reversal of both redirected and accelerated depreciation is a decrease of approximately $225 million. Under the Texas electric restructuring law, a final settlement of these stranded costs will occur in 2004.

Cash Requirements in 2002 and 2003. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. Our principal cash requirements during the fourth quarter of 2002 include the following:

- transaction costs of approximately $175 million related to debt financings;

- approximately $200 million of capital expenditures;

- $300 million of debt of our indirect subsidiary Reliant Energy FinanceCo II LP maturing November 15, 2002;

- an estimated $60 million which we are obligated to return to customers as a result of the Texas Utility Commission's finding of over-mitigation of stranded costs;

- $175 million of pollution control bonds on which we pay debt service and which we must remarket, purchase or retire;

- the repurchase of receivables under a $150 million receivables facility at CERC Corp. or the cessation of sales of receivables unless a replacement facility is arranged; and

- a dividend payment of $48 million.

Our principal cash requirements during 2003 include the following:

- $167 million of maturing long-term debt;

- approximately $675 million of capital expenditures;

- an estimated $240 million which we are obligated to return to customers as a result of the Texas Utility Commission's findings of over-mitigation of stranded costs;

- remarketing or refinancing of $500 million of debt of CERC Corp.;

- repayments of short-term debt as a result of mandatory commitment reductions of $1.2 billion under our bank facilities;

- payments in connection with the termination of bank facilities expected to aggregate $3.2 billion at the time of the termination unless a replacement facility is arranged;

- credit agreement payments of $41 million in February 2003 and $20 million in June 2003; and

- expected dividend payments of $193 million.

We expect to meet our capital requirements through cash flows from operations, short-term borrowings and proceeds from debt and/or equity offerings. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from short-term borrowings, including the renewal, extension or replacement of existing bank facilities, and anticipated sales of securities in the capital markets will be sufficient to meet our cash needs.

The following table lists shelf registration statements existing at September 30, 2002 for securities that may be sold in public offerings. The estimated market value of common stock is based on the number of shares registered as of September 30, 2002 and the closing market price of CenterPoint Energy common stock on that date.

REGISTRANT	SECURITY	AMOUNT
CenterPoint Energy	Common Stock	$129 million
CERC Corp.	Debt Securities	$ 50 million

The amount of any debt security or any security having equity characteristics that we can issue, whether registered or unregistered, or whether debt is secured or unsecured, is expected to be affected by the market's perception of our creditworthiness, market conditions and factors affecting our industry. Proceeds from the sales of securities are expected to be used primarily to repay short-term borrowings.

Principal Factors Affecting Cash Requirements in 2004 and 2005. We expect to sell Texas Genco in 2004. Proceeds from such sale, plus proceeds from the securitization in 2004 or 2005 of stranded costs related to generating assets of Texas Genco and generation related regulatory assets, are expected to aggregate in excess of $5 billion. In late 2002 or early 2003, approximately 19% of the outstanding stock of Texas Genco is expected to be distributed to holders of our common stock. The value of this publicly traded Texas Genco stock will be used to determine the value of Texas Genco for purposes of determining stranded costs.

We expect to issue securitization bonds in 2004 or 2005 to monetize and recover the balance of stranded costs relating to previously owned electric generation assets and other qualified costs as determined in the 2004 True-up Proceeding. The issuance will be done pursuant to a financing order issued by the Texas Utility Commission. As with the debt of

our existing transition bond company, payments on these new securitization bonds would also be made out of funds from non-bypassable charges assessed to retail electric customers required to take delivery service from us. The holders of the securitization bonds would not have recourse to any of our assets or revenues, and our creditors would not have recourse to any assets or revenues of the entity issuing the securitization bonds. All or a portion of the proceeds from the issuance of securitization bonds remaining after repayment of the $1.3 billion loan executed by CenterPoint Houston in November 2002 are expected to be utilized to retire our existing debt.

Impact on Liquidity of a Downgrade in Credit Ratings. As of November 4, 2002, Moody's Investors Service, Inc. (Moody's), Standard & Poor's, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to senior debt of CenterPoint Energy and certain subsidiaries:

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

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(1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook. A "stable" outlook from Moody's indicates that Moody's does not expect to put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

(2) S&P's CreditWatch "negative" indicates a potential for a downgrade within a relatively short period of time usually related to a specific event.

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

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to obtain short- and long-term financing, the cost of such financings and the execution of our commercial strategies.

A decline in credit ratings would increase commitment fees and borrowing costs under our existing bank credit facilities. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions.

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

The $150 million receivables facility of CERC Corp. requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Receivables would need to be repurchased or receivables would cease to be sold in the event a credit rating fell below the threshold. The credit thresholds contained in any receivables facility that replaces the existing facility may differ.

Each ZENS note is exchangeable at the holder's option at any time for an amount of cash equal to 95% of the market value of the reference shares of AOL TW common stock attributable to each ZENS note. If our creditworthiness were to drop such that ZENS note holders thought our liquidity was adversely affected or the market for the ZENS notes were to become illiquid, some ZENS holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the AOL TW common stock that we own or from other sources. We own shares of AOL TW common stock equal to 100% of the "reference shares" used to calculate our obligation to the holders of the ZENS notes. ZENS exchanges result in a cash outflow because deferred tax liabilities related to the ZENS and AOL TW stock become current tax obligations when ZENS are exchanged and AOL TW stock is sold.

Six of Texas Genco's contracts for the sale of capacity contain requirements potentially obliging Texas Genco to put up additional security in the event of a decline in our credit rating below investment grade. Given the recent downgrade by Moody's, the purchasers could be entitled to call upon Texas Genco to provide collateral to secure Texas Genco's obligations in a "commercially reasonable" amount within three business days of notice. Failure to provide this collateral entitles the other party to terminate the agreement and unwind all pending transactions under the agreement. Texas Genco is always the seller under these agreements, and its performance obligation in all cases is one of delivery, rather than payment. Accordingly, it is difficult to quantify the amount of collateral Texas Genco would be required to provide as assurance for these delivery obligations. We believe that any such quantification should be predicated on Texas Genco's ultimate exposure under these agreements. Texas Genco has no exposure until (1) it cannot deliver power as called for in the agreements and (2) the market cost of replacement power has increased above the contract price. In the unlikely event that Texas Genco could not deliver any of this power as agreed, we estimate that Texas Genco's total exposure under these contracts at November 8, 2002 would be approximately $2 million.

As part of its normal business operations, Texas Genco has also entered into power purchase and sale agreements with counterparties that contain similar provisions that require a party to provide additional collateral on three business days notice when that party's rating falls below BBB- from S&P or Baa3 from Moody's. Texas Genco both buys and sells under these agreements, and Texas Genco uses them whenever possible either to locate less expensive power than Texas Genco's marginal cost of generation or to sell power to another party who is willing to pay more than Texas Genco's marginal cost of generation. The risk of providing additional collateral is mitigated because most of the purchases and sales under these arrangements take place over relatively short time periods; typically these transactions are for one-day deliveries and rarely exceed periods of one month.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary of CERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. has agreements with provisions standard to the industry that establish credit thresholds and require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case), falls below those levels. The senior unsecured debt of CERC Corp. is currently rated BBB by S&P and Ba1 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to CenterPoint Energy Gas Resources Corp. by counterparties could aggregate $25 million; however, utilized credit capacity is significantly lower.

Recovery of Fuel Costs. We filed our final fuel reconciliation proceeding with the Texas Utility Commission on July 1, 2002, and subsequently amended our filing on October 2, 2002 and November 8, 2002. Although previous fuel reconciliation proceedings have generally covered three-year periods, this filing covers fuel expense and interest incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance as of July 31, 1997 as approved in our last fuel reconciliation. Our filing related to this proceeding covers $8.5 billion in fuel revenues and $8.6 billion in expenses and interest resulting in a current under-collection, including interest, of $128 million. A procedural schedule has been set with a hearing scheduled to begin January 28, 2003. Any over- or under-recovery, plus interest thereon, will be either returned to or recovered from CenterPoint Houston's customers, as appropriate, as a component of the 2004 True-Up Proceeding.

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

Pension and Postretirement Benefits Funding. We make contributions to achieve adequate funding of company sponsored pension and postretirement benefits in accordance with applicable regulations and rate orders. Due to the decline in current market value of the pension plan's assets, the value of the plan's assets is less than our accumulated pension benefit obligation. As a result, we may be required to record a non-cash minimum pension liability adjustment to other comprehensive income during the fourth quarter of 2002, which could be material. Recording a minimum liability adjustment will not affect our results of operations during 2002 or our ability to meet any existing financial covenants related to our debt facilities. Additionally, we are not required to make any pension contribution in 2002 and 2003.

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

- the need to provide cash collateral in connection with certain contracts;
- acceleration of payment dates on certain gas supply contracts under certain circumstances;
- various regulatory actions; and
- the ability of Reliant Resources and its subsidiaries to satisfy its obligations as a principal customer of CenterPoint Houston and Texas Genco and in respect of its indemnity obligation to us.

Money Pool. We have a "money pool" through which we and our participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money pool's net funding requirements are generally met with commercial paper and/or bank loans. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act.

Capitalization. Factors affecting our capitalization include:

- covenants in our and our subsidiaries' bank facilities and other borrowing agreements; and
- limitations imposed on us as a registered public utility holding company.

The bank facilities of CenterPoint Houston and CERC Corp. restrict debt as a percentage of total capitalization. Our $3.85 billion credit agreement limits dividend payments to $0.16 per share of common stock per quarter, contains a debt to EBITDA covenant, an EBITDA to interest covenant and restrictions on the use of proceeds from debt issuances and asset sales.

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

- the aggregate amount of CenterPoint Houston's external borrowings has been limited to $3.55 billion;
- the aggregate amount of CERC Corp.'s external borrowings has been limited to $2.7 billion; and
- the aggregate amount of Texas Genco's external borrowings has been limited to $500 million.

In connection with our registration as a public utility holding company under the 1935 Act, the SEC has placed limitations on our dividends and the dividends of our subsidiaries which require that common equity as a percentage of total capitalization for CenterPoint Houston, CERC Corp. and Texas Genco must be at least 30% after the payment of such dividends.

We have obtained authority from our state regulators to restructure the businesses of CERC in order to enable us to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act. We must also receive approval under the 1935 Act. Although we expect that this business restructuring of CERC Corp. can be completed, we can provide no assurance that it will, in fact, occur, or that we will ultimately be exempt from registration under the 1935 Act.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operations and requires management to make difficult, subjective or complex judgments. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be perceived with certainty. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

We believe the following are the most significant estimates used in the preparation of our consolidated financial statements.

ACCOUNTING FOR RATE REGULATION

SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated entities account for and report assets and liabilities consistent with the recovery of those incurred costs in rates if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Our rate-regulated businesses follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected in the Consolidated Balance Sheets are $3.3 billion and $1.4 billion at December 31, 2001, respectively, and $3.7 billion and $1.1 billion at September 30, 2002, respectively.

Application of SFAS No. 71 to the generation portion of our business was discontinued as of June 30, 1999. Only the electric transmission and distribution business, the natural gas distribution companies and one of our interstate pipelines are subject to SFAS No. 71 after January 1, 2002. We have recorded regulatory assets and liabilities related to stranded costs associated with our electric generation operations. Under the Texas electric restructuring law, a final settlement of these stranded costs will occur in 2004. In the event that regulation significantly changes the probability for us to recover our costs in the future, a write-down of all or a portion of our existing regulatory assets and liabilities could result.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, which include property, plant and equipment, goodwill and other intangibles and equity investments comprise a significant amount of our total assets. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, the carrying values of these assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. This requires us to make long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts require assumptions about demand for our products and services, future market conditions and regulatory developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period.

UNBILLED ENERGY REVENUES

Revenues related to the sale and/or delivery of electricity or gas (energy) are generally recorded when energy is delivered to customers. However, the determination of the energy sales to individual customers is based on the reading of their meters which are read on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled electric delivery revenue is estimated each month based on daily supply volumes, applicable rates and analyses reflecting significant historical trends and experience. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of December 31, 2001 were $33 million related to our Electric Transmission and Distribution business segment and $188 million related to our Natural Gas Distribution business segment. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of September 30, 2002 were $83 million related to our Electric Transmission and Distribution business segment and $42 million related to our Natural Gas Distribution business segment.

NEW ACCOUNTING PRONOUNCEMENTS

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

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. We plan to adopt SFAS No. 143 on January 1, 2003, and are in the process of determining the effect of adoption on our consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods used by us to measure impairment losses on long-lived assets, but may result in more future dispositions being reported as discontinued operations than would previously have been permitted. We adopted SFAS No. 144 on January 1, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. The Company has applied this guidance prospectively.

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

SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. We will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

See Note 5 to our Interim Financial Statements for a discussion of our adoption of SFAS No. 133 on January 1, 2001 and adoption of subsequent cleared guidance. See Note 6 to our Interim Financial Statements for a discussion of our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets".

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

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

The sensitivity analysis performed on our Energy Derivatives measures the potential loss based on a hypothetical 10% movement in energy prices. A decrease of 10% in the market prices of energy commodities from their September 30, 2002 levels would have decreased the fair value of our Energy Derivatives from their levels on those respective dates by $11 million.

We cannot assure you that market volatility, failure of counterparties to meet their contractual obligations, transactions entered into after the date of this Form 10-Q or a failure of risk controls will not lead to significant losses from our use of non-trading energy derivatives.

INTEREST RATE RISK

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

Our floating-rate obligations borrowed from third parties aggregated $4.6 billion at September 30, 2002. If the floating rates were to increase by 10% from September 30, 2002 rates, our combined interest expense to third parties would increase by a total of $1.8 million each month in which such increase continued.

At September 30, 2002, we had outstanding fixed-rate debt (excluding indexed debt securities) and Trust Preferred Securities aggregating $5.9 billion in principal amount and having a fair value of $5.8 billion. These instruments are fixed-rate and, therefore, do not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of these instruments would increase by approximately $0.3 billion if interest rates were to decline by 10% from their levels at September 30, 2002. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

As discussed in Note 14(k) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, we contributed $14.8 million in 2001 to trusts established to fund our share of the decommissioning costs for the South Texas Project. In 2002, we began contributing $2.9 million per year to these trusts. The securities held by the trusts for decommissioning costs had an estimated fair value of $160 million as of September 30, 2002, of which approximately 50% were debt securities that subject us to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at September 30, 2002, the fair value of the fixed-rate debt securities would decrease by approximately $1 million. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because we believe that our future contributions, which are currently recovered through the ratemaking process, will be adjusted for these gains and losses. For further discussion regarding the recovery of decommissioning costs pursuant to the Texas electric restructuring law, please read Note 4(a) to the Reliant Energy 10-K/A Notes.

As discussed in Note 10(b) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, CERC Corp.'s $500 million aggregate principal amount of 6 3/8% Term Enhanced Remarketable Securities

(TERMS) include an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate is below 5.66% at the time of the remarketing that would occur in anticipation of the November 1, 2003 mandatory tender date of the TERMS. At September 30, 2002, we could terminate the option at a cost of $69 million. A decrease of 10% in the September 30, 2002 level of interest rates would increase the cost of termination of the option by approximately $17 million.

As discussed in Note 8 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component of $122 million and a derivative component of $788 million. The debt component is a fixed-rate obligation and, therefore, does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately $15 million if interest rates were to decline by 10% from levels at September 30, 2002. Changes in the fair value of the derivative component will be recorded in our Statements of Consolidated Income and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from September 30, 2002 levels, the fair value of the derivative component would increase by approximately $4 million, which would be recorded as a loss in our Statements of Consolidated Income.

As of September 30, 2002, we have interest rate swaps with an aggregate notional amount of $750 million that fix the interest rate applicable to floating rate short-term debt. At September 30, 2002, the swaps relating to short-term debt could be terminated at a cost of $17 million. These swaps do not qualify as cash flow hedges under SFAS No. 133, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. A decrease of 10% in the September 30, 2002 level of interest rates would increase the cost of terminating the swaps at September 30, 2002 by $1 million.

During the three months ended September 30, 2002, we settled our forward-starting interest rate swaps having an aggregate notional amount of $1.5 billion at a cost of $156 million.

EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of approximately 22 million shares of AOL TW common stock, which we hold to facilitate our ability to meet our obligations under the ZENS. Please read Note 8 to the Reliant Energy 10-K/A Notes for a discussion of the effect of adoption of SFAS No. 133 on our ZENS obligation and our historical accounting treatment of our ZENS obligation. Subsequent to adoption of SFAS No. 133, a decrease of 10% from the September 30, 2002 market value of AOL Time Warner common stock would result in a net loss of approximately $3 million, which would be recorded as a loss in our Statements of Consolidated Income.

As discussed above under "-- Interest Rate Risk," we contribute to trusts established to fund our share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of September 30, 2002. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at September 30, 2002, the resulting loss in fair value of these securities would be approximately $8 million. Currently, the risk of an economic loss is mitigated as discussed above under "-- Interest Rate Risk."

ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting CenterPoint Energy, please read Note 13 to our Interim Financial Statements, the discussion under "Our Business -- Environmental Matters" and Item 3 of the Reliant Energy Form 10-K/A and Notes 4 and 14 to the Reliant Energy 10-K/A Notes, all of which are incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

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

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

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

- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, constraints placed on our activities or business by the Public Utility Holding Company Act of 1935, changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
  - approval of stranded costs;
  - allowed rates of return;
  - rate structures;
  - recovery of investments; and
  - operation and construction of facilities;
- non-payment for our services due to financial distress of our customers, including Reliant Resources, 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;
- the timing and extent of changes in commodity prices, particularly natural gas;
- changes in interest rates or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- weather variations and other natural phenomena;

- commercial bank and financial market conditions, our access to capital, the cost of such capital, receipt of certain approvals under the Public Utility Holding Company Act of 1935, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;

- actions by rating agencies;

- legal and administrative proceedings and settlements;

- changes in tax laws;

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

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

- changes in technology;

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

- significant changes in critical accounting policies 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 ability of Reliant Resources, Inc. to satisfy its indemnity obligations to us;

- the reliability of the systems, procedures and other infrastructure necessary to operate the retail electric business in our service territory, including the systems owned and operated by the independent system operator in the Electric Reliability Council of Texas, Inc.;

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

- other factors we discuss in the Reliant Energy Form 10-K/A, including those outlined in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings."

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

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

(a) Exhibits.

The following exhibits are filed herewith:

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

Report or
Registration
SEC File or
Exhibit
Number
Description
Statement
Registration
Number
Exhibit
References -

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Report or
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and Form 8-
K12B dated 1-
31447 4(j)
Assumption
Agreement
August 31,
2002 for the
Guarantee
filed with
the SEC
Agreements
dated as on
September 6,
of August 31,
2002 2002
between CNP
and REI
(relating to
(i) the
Guarantee
Agreement
dated as of
February 4,
1997 between
REI and The
Bank of New
York
providing for

the guaranty of certain amounts relating to the 8.125% trust preferred securities issued by 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 Form 8-K12B dated 1-31447 4(k) Assumption August 31, 2002 Agreement for the filed with the SEC Guarantee Agreement on September 6, dated as of August 2002 31, 2002 between CNP and REI (relating to the Guarantee Agreement dated as of February 26, 1999 between REI and The Bank of New York providing for the guaranty of certain amounts relating to the 7.20% Trust Originated Preferred Securities issued by REI Trust I)

Report or
Registration
SEC File or
Exhibit
Number
Description
Statement
Registration
Number
Exhibit
References
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- 4(i)
Assignment
and Form 8-
K12B dated
1-31447
4(l)
Assumption
August 31,
2002
Agreement
for the
filed with
the SEC
Expense and
on
September
6,
Liability
2002
Agreements
and the
Trust
Agreements
dated as of
August 31,
2002
between CNP
and REI
(relating
to the (i)
Agreement
as to
Expenses
and
Liabilities
dated as of
June 4,
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) 4(j)
(1) General

Mortgage
Form 10-Q
of 1-3187
4(j)(1)
Indenture,
dated as
CenterPoint
of October
10, 2002,
Houston for
the between
CenterPoint
quarter
ended
Energy
Houston
September
30, 2002
Electric,
LLC and
JPMorgan
Chase Bank,
as Trustee
4(j)(2)
First
Supplemental
Form 10-Q
of 1-3187
4(j)(2)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(3)
Second
Supplemental
Form 10-Q
of 1-3187
4(j)(3)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(4)
Third
Supplemental
Form 10-Q
of 1-3187
4(j)(4)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(5)
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Form 10-Q
of 1-3187
4(j)(5)
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to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September

30, 2002
4(j)(6)
Fifth
Supplemental
Form 10-Q
of 1-3187
4(j)(6)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(7)
Sixth
Supplemental
Form 10-Q
of 1-3187
4(j)(7)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(8)
Seventh
Supplemental
Form 10-Q
of 1-3187
4(j)(8)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002

Report or Registration SEC File or Exhibit Number Description Statement Registration Number Exhibit References - -- --------------- ------ -------- ------------- - --------------- ---- ---------- ----------- --- --------------- -- 4(j)(9) Eighth Supplemental Form 10-Q of 1-3187 4(j)(9) Indenture to Exhibit CenterPoint 4(j)(1), dated as of Houston for the October 10, 2002 quarter ended September 30, 2002 +10(a) $3,850,000,000 Amended and Restated Credit Agreement, dated as of October 10, 2002, among CenterPoint Energy, Inc. and the banks named therein +99 Items incorporated by reference from the Reliant Energy Form 10-K/A: Item 1 "Our Business - RERC Corp. Restructuring," Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and "- Certain Factors Affecting Our Future Earnings" and Notes 1 (Background and Basis of Presentation), 2(e) (Long-Lived Assets and Intangibles), 2(f) (Regulatory Assets and Liabilities), 2(l) (Investment in Other Debt and Equity Securities), 4 (Regulatory Matters), 5 (Derivative Financial Instruments), 8 (Indexed Debt

Securities (ACES and ZENS) and AOL Time Warner Securities), 10 (b) (Long-term Debt), 11 (Trust Preferred Securities), and 14 (Commitments and Contingencies).

(b) Reports on Form 8-K.

On July 5, 2002, we filed a Current Report on Form 8-K dated July 5, 2002, in order to provide updated information regarding certain investigations, litigation and governmental proceedings involving Reliant Energy and/or its subsidiaries, including its approximately 83% owned subsidiary Reliant Resources, Inc.

On July 15, 2002, we filed a Current Report on Form 8-K dated July 12, 2002, announcing the extension of $4.7 billion in credit facilities of Reliant Energy.

On July 25, 2002, we filed a Current Report on Form 8-K dated July 25, 2002, relating to the announcement of second quarter 2002 results.

On August 1, 2002, we filed a Current Report on Form 8-K dated July 31, 2002, announcing that on July 31, 2002, Moody's Investors Service, Inc. and Standard & Poor's Rating Services took various actions related to the credit ratings of Reliant Energy, Incorporated and its subsidiaries. Also on July 31, 2002, Reliant Energy announced that the Internal Revenue Service had issued a supplemental ruling confirming that the proposed spin-off of Reliant Resources from Reliant Energy will be tax-free to Reliant Energy and its shareholders.

On August 14, 2002, we filed a Current Report on Form 8-K dated August 14, 2002, furnishing certifications of our financial statements by our Chief Executive Officer and Chief Financial Officer related to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

On September 3, 2002, we filed a Current Report on Form 8-K dated August 31, 2002, to announce the restructuring of Reliant Energy, Incorporated.

On September 6, 2002, we refiled our Current Report on Form 8-K dated August 31, 2002, on Form 8-K 12B.

On September 9, 2002, we filed a Current Report on Form 8-K dated September 5, 2002, to announce that our Board of Directors had declared a stock distribution of our approximately 83% investment in Reliant Resources to CenterPoint Energy shareholders to take place on September 30, 2002.

On September 12, 2002, we filed a Current Report on Form 8-K dated September 12, 2002, to file a slide presentation to be presented to the financial and investment community.

On September 13, 2002, we filed a Current Report on Form 8-K dated September 5, 2002, to describe the distribution of our approximately 83% investment in Reliant Resources to CenterPoint Energy shareholders and to provide unaudited pro forma financial statements giving effect to the distribution.

On September 24, 2002, we filed a Current Report on Form 8-K dated September 20, 2002, to announce the distribution ratio for the spin-off of Reliant Resources.

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

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTERPOINT ENERGY, INC.

By: /s/ James S. Brian

James S. Brian
Senior Vice President and Chief Accounting Officer

Date: November 14, 2002

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

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

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

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

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

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

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

Date: November 14, 2002

By: /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive Officer

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

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

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

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

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

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

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

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

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

Date: November 14, 2002

By: /s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

The following exhibits are filed herewith:

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

Report or
Registration
SEC File or
Exhibit
Number
Description
Statement
Registration
Number
Exhibit
References -

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----- 4(a)
Fifth
Supplemental
Form 8-K12B
dated 1-31447
4(d)
Indenture
dated as
August 31,
2002 of
August 31,
2002, filed
with the SEC
among CNP,
REI and on
September 6,
JPMorgan
Chase Bank
2002
(supplementing
the
Collateral
Trust
Indenture
dated as of
September 1,
1988 pursuant
to which
REI's Series
C Medium Term
Notes were
issued) 4(b)
Supplemental
Form 8-K12B
dated 1-31447
4(e)
Indenture No.
2 August 31,
2002 dated as
of August
filed with
the SEC 31,
2002, among
on September
6, CNP, REI
and 2002
JPMorgan
Chase Bank
(supplementing
the
Subordinated
Indenture
dated as of
September 1,
1999 under
which REI's
2% Zero-
Premium
Exchangeable
Subordinated
Notes Due
2029 were
issued) 4(c)
Supplemental

Form 8-K12B
dated 1-31447
4(f)
Indenture No.
2 August 31,
2002 dated as
of August
filed with
the SEC 31,
2002, among
on September
6, CNP, REI
and The 2002
Bank of New
York
(supplementing
the Junior
Subordinated
Indenture
dated as of
February 15,
1999 under
which REI's
Junior
Subordinated
Debentures
related to
REI Trust I's
7.20% trust
originated
preferred
securities
were issued)
4(d)
Supplemental
Form 8-K12B
dated 1-31447
4(g)
Indenture No.
3 August 31,
2002 dated as
of August
filed with
the SEC 31,
2002 among
CNP, on
September 6,
REI and The
Bank of 2002
New York
(supplementing
the Junior
Subordinated
Indenture
dated as of
February 1,
1997 under
which REI's
Junior
Subordinated
Debentures
related to
8.125% trust
preferred
securities
issued by
HL&P Capital
Trust I and
8.257%
capital
securities
issued by
HL&P Capital
Trust II were
issued) 4(e)
Third
Supplemental
Form 8-K12B
dated 1-31447
4(h)
Indenture
dated as
August 31,
2002 of
August 31,
2002 filed
with the SEC
among CNP,
REI, on
September 6,
Reliant
Energy 2002
Resources
Corp.

Report or
Registration
SEC File or
Exhibit
Number
Description
Statement
Registration
Number
Exhibit
References -

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("RERC") and
The Bank of
New York
(supplementing
the Indenture
dated as of
June 15, 1996
under which
RERC's 6.25%
Convertible
Junior
Subordinated
Debentures
were issued)
4(f) Second
Supplemental
Form 8-K12B
dated 1-31447
4(i)
Indenture
dated as
August 31,
2002 of
August 31,
2002 filed
with the SEC
among CNP,
REI, on
September 6,
RERC and
JPMorgan 2002
Chase Bank
(supplementing
the Indenture
dated as of
March 1, 1987
under which
RERC's 6%
Convertible
Subordinated
Debentures
due 2012 were
issued) 4(g)
Assignment
and Form 8-
K12B dated 1-
31447 4(j)
Assumption
Agreement
August 31,
2002 for the
Guarantee
filed with
the SEC
Agreements
dated as on
September 6,
of August 31,
2002 2002
between CNP
and REI
(relating to
(i) the
Guarantee
Agreement
dated as of
February 4,
1997 between
REI and The
Bank of New
York
providing for

the guaranty
of certain
amounts
relating to
the 8.125%
trust
preferred
securities
issued by
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 Form 8-
K12B dated 1-
31447 4(k)
Assumption
August 31,
2002
Agreement for
the filed
with the SEC
Guarantee
Agreement on
September 6,
dated as of
August 2002
31, 2002
between CNP
and REI
(relating to
the Guarantee
Agreement
dated as of
February 26,
1999 between
REI and The
Bank of New
York
providing for
the guaranty
of certain
amounts
relating to
the 7.20%
Trust
Originated
Preferred
Securities
issued by REI
Trust I)

Report or
Registration
SEC File or
Exhibit
Number
Description
Statement
Registration
Number
Exhibit
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- 4(i)
Assignment
and Form 8-
K12B dated
1-31447
4(l)
Assumption
August 31,
2002
Agreement
for the
filed with
the SEC
Expense and
on
September
6,
Liability
2002
Agreements
and the
Trust
Agreements
dated as of
August 31,
2002
between CNP
and REI
(relating
to the (i)
Agreement
as to
Expenses
and
Liabilities
dated as of
June 4,
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) 4(j)
(1) General

Mortgage
Form 10-Q
of 1-3187
4(j)(1)
Indenture,
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CenterPoint
of October
10, 2002,
Houston for
the between
CenterPoint
quarter
ended
Energy
Houston
September
30, 2002
Electric,
LLC and
JPMorgan
Chase Bank,
as Trustee
4(j)(2)
First
Supplemental
Form 10-Q
of 1-3187
4(j)(2)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(3)
Second
Supplemental
Form 10-Q
of 1-3187
4(j)(3)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(4)
Third
Supplemental
Form 10-Q
of 1-3187
4(j)(4)
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to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(5)
Fourth
Supplemental
Form 10-Q
of 1-3187
4(j)(5)
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to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September

30, 2002
4(j)(6)
Fifth
Supplemental
Form 10-Q
of 1-3187
4(j)(6)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
the October
10, 2002
quarter
ended
September
30, 2002
4(j)(7)
Sixth
Supplemental
Form 10-Q
of 1-3187
4(j)(7)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
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the October
10, 2002
quarter
ended
September
30, 2002
4(j)(8)
Seventh
Supplemental
Form 10-Q
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4(j)(8)
Indenture
to Exhibit
CenterPoint
4(j)(1),
dated as of
Houston for
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10, 2002
quarter
ended
September
30, 2002

Report or Registration SEC File or Exhibit Number Description Statement Registration Number Exhibit References - -- -------------- ------ -------- ------------- - -------------- ---- ---------- ----------- --- -------------- -- 4(j)(9) Eighth Supplemental Form 10-Q of 1-3187 4(j)(9) Indenture to Exhibit CenterPoint 4(j)(1), dated as of Houston for the October 10, 2002 quarter ended September 30, 2002 +10(a) $3,850,000,000 Amended and Restated Credit Agreement, dated as of October 10, 2002, among CenterPoint Energy, Inc. and the banks named therein +99 Items incorporated by reference from the Reliant Energy Form 10-K/A: Item 1 "Our Business - RERC Corp. Restructuring," Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and "- Certain Factors Affecting Our Future Earnings" and Notes 1 (Background and Basis of Presentation), 2(e) (Long-Lived Assets and Intangibles), 2(f) (Regulatory Assets and Liabilities), 2(l) (Investment in Other Debt and Equity Securities), 4 (Regulatory Matters), 5 (Derivative Financial Instruments), 8 (Indexed Debt

Securities
(ACES and ZENS)
and AOL Time
Warner
Securities), 10
(b) (Long-term
Debt), 11
(Trust
Preferred
Securities),
and 14
(Commitments
and
Contingencies).

EXHIBIT 10(a)

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$3,850,000,000 AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of October 10, 2002

Among

CENTERPOINT ENERGY, INC.,

as Borrower,

THE BANKS PARTIES HERETO,

CITIBANK, N.A.,
as Syndication Agent,

and

JPMORGAN CHASE BANK,
as Administrative Agent

J.P. MORGAN SECURITIES INC. AND
SALOMON SMITH BARNEY, INC.,

as Sole Lead Arrangers and Bookrunners

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CREDIT AGREEMENT

This Amended and Restated Credit Agreement, dated as of October 10, 2002 (this "Agreement"), among CenterPoint Energy, Inc., a Texas corporation (the "Borrower"), the banks and other financial institutions from time to time parties hereto (individually, a "Bank" and, collectively, the "Banks"), Citibank, N.A., as syndication agent (in such capacity, the "Syndication Agent"), and JPMorgan Chase Bank, as administrative agent (in such capacity, together with any successors thereto in such capacity, the "Administrative Agent").

WHEREAS, pursuant to the $2,500,000,000 Senior A Revolving Credit and Competitive Advance Facilities Agreement, dated as of August 31, 2002 (as amended, modified or supplemented as of the Closing Date, the "Existing Senior A Credit Agreement"), among the Borrower, the Administrative Agent, and the other financial institutions parties thereto (the "Senior A Banks"), the Senior A Banks made certain loans and other extensions of credit to the Borrower on the terms and conditions set forth in the Existing Senior A Credit Agreement;

WHEREAS, pursuant to the $1,800,000,000 Senior B Credit Agreement, dated as of August 31, 2002 (as amended, modified or supplemented as of the Closing Date, the "Existing Senior B Credit Agreement"; together with the Existing Senior A Credit Agreement, the "Existing Credit Agreements"), among the Borrower, the Administrative Agent, and the other financial institutions parties thereto (the "Senior B Banks"), the Senior B Banks made certain loans and other extensions of credit to the Borrower on the terms and conditions set forth in the Existing Senior B Credit Agreement;

WHEREAS the Borrower, the Senior A Banks, the Senior B Banks and the Administrative Agent have agreed to restructure the obligations of the Borrower under the Existing Credit Agreements by means of, among other things, the execution and delivery of this Agreement;

NOW, THEREFORE, in consideration of the premises of the mutual agreements, representations and warranties herein set forth, and for other good and valuable consideration, the Borrower, each Senior A Bank, each Senior B Bank and the Administrative Agent hereby agree that on the Closing Date, the Existing Credit Agreements shall be amended and restated in their entirety as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.1. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"ABR" or "Alternate Base Rate" means, for any day, an alternate base rate calculated as a fluctuating rate per annum (rounded upwards to the nearest 1/64 of 1% if not already an integral multiple of 1/64 of 1%) as shall be in effect from time to time, equal to the greater of: (a) the Prime Rate in effect on such day; and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. As used in this definition, the term

"Prime Rate" means the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms hereof, the ABR shall be determined without regard to clause (b) above until the circumstances giving rise to such inability no longer exist. Any change in the ABR due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective as of the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"ABR Loan" means a Loan that bears interest at the ABR as provided in Section 4.3(a).

"Additional Fee" has the meaning specified in Section 4.2(c).

"Adjusted Interest Expense" means, for any period, the difference between (a) total interest expense (including that attributable to Capital Lease obligations and capitalized interest) determined in accordance with GAAP of the Borrower and its Subsidiaries for such period with respect to all outstanding Indebtedness of the Borrower and its Subsidiaries (including all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financings and net costs under Swap Agreements in respect of interest rates to the extent such net costs are allocable to such period in accordance with GAAP) less (b) the sum of the following for such period (i) total interest income determined in accordance with GAAP and (ii) (but only to the extent included in the amount calculated pursuant to clause (a) above): (x) interest expense on Hybrid Preferred Securities, (y) interest expense in respect of the securitization programs of the Borrower and its Subsidiaries set forth on Schedule 1.1(A) and (z) amortization of settlement payments previously made on forward-starting Swap Agreements and of any upfront fees and other costs associated with financings for the Borrower and its Subsidiaries.

"Administrative Agent" has the meaning specified in the introduction to this Agreement.

"Affiliate" means any Person that, directly or indirectly, Controls or is Controlled by or is under common Control with another Person.

"Aggregate Outstanding Extensions of Credit" means, as to any Bank at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans and CAF Loans made by such Bank then outstanding and (b) such Bank's Revolving Percentage of the L/C Obligations then outstanding.

"AOL Stock" means shares of common stock of AOL Time Warner Inc.

"Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

LIBOR RATE
MARGIN FOR
ABR MARGIN
FOR LIBOR
RATE
MARGIN ABR
MARGIN FOR
DESIGNATED
RATING
REVOLVING
LOANS
REVOLVING
LOANS FOR
TERM LOANS
TERM LOANS

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A-/A3 or
higher
3.000%
2.000%
3.500%
2.500%
BBB+/Baa1
or
BBB/Baa2
3.500%
2.500%
4.000%
3.000% or
BBB-/Baa3
BB+/Ba1 or
lower (or
4.000%
3.000%
4.500%
3.500%
unrated)

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"Application" means an application, in such form as the Issuing Bank may specify from time to time, requesting the Issuing Bank to issue a Letter of Credit.

"Asset Sale" means any Disposition of Property or series of related Dispositions of Property that yields Net Cash Proceeds to the Borrower or any of its Subsidiaries (valued at the initial principal amount thereof in the case of non-cash proceeds consisting of notes or other debt securities and valued at fair market value in the case of other non-cash proceeds).

"Bank" and "Banks" have the meanings specified in the introduction to this Agreement.

"Bank Affiliate" means, (a) with respect to any Bank (i) an Affiliate of such Bank that is a bank or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Bank or an Affiliate of such Bank and (b) with respect to any Bank that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Bank or by an Affiliate of such investment advisor.

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

"Borrowed Money" of any Person means any Indebtedness of such Person for or in respect of money borrowed or raised by whatever means (including acceptances, deposits, lease obligations under Capital Leases, Mandatory Payment Preferred Stock and synthetic leases); provided, however, that Borrowed Money shall not include (a) any guarantees that may be incurred by endorsement of negotiable instruments for deposit or collection in the ordinary course of business or similar transactions, (b) any obligations or guarantees of performance of obligations under a franchise, performance bonds, franchise

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bonds, obligations to reimburse drawings under letters of credit issued in accordance with the terms of any safe harbor lease or franchise or in lieu of performance or franchise bonds or other obligations incurred in the ordinary course of business that do not represent money borrowed or raised, in each case to the extent that such reimbursement obligations are payable in full within ten (10) Business Days after the date upon which such obligation arises, (c) trade payables, (d) any obligations of such Person under Swap Agreements, (e) customer advance payments and deposits arising in the ordinary course of business or (f) operating leases.

"Borrower" has the meaning specified in the introduction to this Agreement.

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

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

"Bridge Credit Agreement" means the $850,000,000 Credit Agreement, dated as of October 10, 2002, among CenterPoint Electric, as borrower, JPMorgan Chase Bank, as administrative agent, and the other financial institutions parties thereto, as amended, modified or supplemented from time to time.

"Bridge Facility" means the credit facilities provided under the Bridge Credit Agreement.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close; provided, that when used in connection with a LIBOR Rate Loan, the term "Business Day" shall also exclude any day on which commercial banks are not open for dealings in Dollar deposits in the London interbank market.

"CAF Borrowing" means a borrowing consisting of CAF Loans under Section 3.1 made on the same day by the Bank or Banks whose Competitive Bid or Bids have been accepted pursuant to Section 3.2(d).

"CAF Facility" has the meaning specified in Section 3.1.

"CAF LIBOR Rate Loan" means any CAF Loan that bears interest at the LIBOR Rate.

"CAF Loan" means a Loan made to the Borrower pursuant to Section 3.1 by a Bank in response to a Competitive Bid Request.

"CAF Loan Assignee" has the meaning specified in Section 11.6(d).

"CAF Loan Assignment and Acceptance" means an assignment and acceptance executed in connection with the assignment of any CAF Loan to a CAF Loan Assignee in the manner set forth in Section 11.6(d). Each CAF Loan Assignment and Acceptance to be registered in the Register shall set forth (a) the full name of such CAF Loan Assignee;

(b) such CAF Loan Assignee's address for notices and its lending office address (in each case to include telephone, telex and facsimile transmission numbers); and (c) payment instructions for all payments to such CAF Loan Assignee, and must contain an agreement by such CAF Loan Assignee to comply with the provisions of Sections 11.6(d), (g) and (h) to the same extent as any Bank.

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

"CAF Rate" means, as to any Competitive Bid made by a Bank pursuant to Section 3.2(b), (i) in the case of a CAF LIBOR Rate Loan, the CAF Margin added to or subtracted from, as the case may be, the LIBOR Rate, and (ii) in the case of a Fixed Rate Loan, the fixed rate of interest, in each case, offered by such Bank.

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

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, and any and all equivalent ownership interests in a Person (other than a corporation), including without limitation, partnership interests in partnerships and member interests in limited liability companies, and any and all warrants or options to purchase any of the foregoing or securities convertible into any of the foregoing.

"Cash Equivalents" means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition; (b) certificates of deposit, time deposits, eurodollar time deposits or overnight bank deposits having maturities of six months or less from the date of acquisition issued by any Bank or by any commercial bank organized under the laws of the United States or any state thereof having combined capital and surplus of not less than $500,000,000; (c) commercial paper of an issuer rated at least A-1 by S&P or P-1 by Moody's, or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within six months from the date of acquisition; (d) repurchase obligations of any Bank or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government; (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's; (f) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any Bank or any commercial bank satisfying the requirements of clause (b) of this definition; (g) money market mutual or similar funds that invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition; or (h) money market funds that (i) comply with the criteria set forth in SEC Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least $5,000,000,000.

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

"CenterPoint Electric" means CenterPoint Energy Houston Electric, LLC, a Texas limited liability company formerly known as Reliant Energy, Incorporated.

"Change in Control" means, with respect to the Borrower, the acquisition by any Person or "group" (within the meaning of Rule 13d-5 of the Exchange Act) of beneficial ownership (determined in accordance with Rule 13d-3 of the Exchange Act) of Capital Stock of the Borrower, the result of which is that such Person or group beneficially owns 30% or more of the aggregate voting power of all then issued and outstanding Capital Stock of the Borrower. For purposes of the foregoing, the phrase "voting power" means, with respect to an issuer, the power under ordinary circumstances to vote for the election of members of the board of directors of such issuer.

"Closing Date" means the date, on or before October 31, 2002, all the conditions set forth in Section 6.1 are satisfied (or waived) in accordance with the terms hereof.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

"Commitment" means, as to any Bank, the sum of the Term Commitment and the Revolving Commitment of such Bank; and "Commitments" shall be the collective reference to the Commitments of all of the Banks.

"Committed Borrowing" means a borrowing consisting of Term Loans under Section 2.1 or Revolving Loans under Section 2.4, as the case may be, of the same Type, and having, in the case of Committed LIBOR Rate Loans, the same Interest Period, made on the same day by the Banks. The term "Committed Borrowing" as used herein shall not include any conversion or continuation of a Loan under Section 4.7.

"Committed LIBOR Rate Loan" means any Committed Loan that bears interest at the LIBOR Rate.

"Committed Loan" means any Term Loan or any Revolving Loan, as the case may be.

"Committed Loan Assignment and Acceptance" has the meaning specified in Section 11.6(c).

"Commonly Controlled Entity" means an entity, whether or not incorporated, that is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group that includes the Borrower and that is treated as a single employer under Section 414 of the Code.

"Competitive Bid" has the meaning specified in Section 3.2(b).

"Competitive Bid Confirmation" has the meaning specified in Section 3.2(d).

"Competitive Bid Request" has the meaning specified in Section 3.2(a).

"Confidential Information Memorandum" means the Confidential Information Memorandum, dated September 2002 and furnished to certain Banks.

"Consolidated EBITDA" means, for any twelve-month period ending on the date of determination, Consolidated Net Income for such period plus, without duplication and to the extent reflected as a charge in the statement of such Consolidated Net Income for such period, the sum of (a) income tax expense, (b) interest expense, amortization or writeoff of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with Indebtedness (including the Loans) and amortization of settlement payments previously made on forward-starting Swap Agreements, (c) depreciation and amortization expense, (d) amortization of intangibles (including, but not limited to, goodwill) and organization costs, (e) any extraordinary, unusual or non-recurring expenses or losses (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, losses on sales of assets outside of the ordinary course of business), (f) any other non-cash charges and (g) Pre-Tax ECOM, and minus, to the extent included as income in the statement of such Consolidated Net Income for such period, the sum of (a) interest income, (b) any extraordinary, unusual or non-recurring income or gains (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, gains on the sales of assets outside of the ordinary course of business), (c) any other non-cash income, (d) Pre-Tax Securitization Principal and Interest, (e) Pre-Tax Excess Mitigation Credit and Pre-Tax ECOM, all as determined on a consolidated basis.

"Consolidated Indebtedness" means, as of any date of determination, the sum of (i) the total Indebtedness as shown on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, determined without duplication of any Guarantee of Indebtedness of the Borrower by any of its Consolidated Subsidiaries or of any Guarantee of Indebtedness of any such Consolidated Subsidiary by the Borrower or any other Consolidated Subsidiary of the Borrower, plus (ii) any Mandatory Payment Preferred Stock, less (iii) the amount of Indebtedness described in clause (i) attributable to amounts then outstanding under receivables facilities or arrangements to the extent that such amounts would not have been shown as Indebtedness on a balance sheet prepared in accordance with GAAP prior to January 1, 1997, less (iv) the aggregate amount of liabilities in respect of any Indexed Debt Securities as shown on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, less (v) the present value of the projected recovery, pursuant to applicable legislation and agreement, of the (a) net amount of stranded costs, (b) the market value of generating assets and (c) certain power market price and fuel cost recovery true-ups, determined in a manner substantially consistent with the calculations set forth on Schedule 2.

"Consolidated Net Income" means, for any period, the consolidated net income (or loss) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; provided that, there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of the Borrower or is merged into or consolidated with the Borrower or any of its Subsidiaries and (b) the income (or deficit) of any Person (other than a Subsidiary of the Borrower) in which the Borrower or any of its Subsidiaries has an ownership interest, except to the extent that any such income is actually received by the Borrower or such Subsidiary in the form of dividends or similar distributions.

"Consolidated Subsidiary" means, with respect to a specified Person at any date, any Subsidiary or any other Person, the accounts of which under GAAP would be consolidated with those of such specified Person in its consolidated financial statements as of such date.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any written agreement, instrument or other written undertaking to which such Person is a party or by which it or any of its property is bound.

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

"Default" means any event that, with the lapse of time or giving of notice, or both, or any other condition, would constitute an Event of Default.

"Default Rate" means with respect to any overdue amount owed hereunder, a rate per annum equal to (a) in the case of overdue principal with respect to any Loan, the sum of the interest rate in effect at such time with respect to such Loan under Section 4.3, plus 2%; provided that in the case of overdue principal with respect to any Committed LIBOR Rate Loan, after the end of the Interest Period with respect to such Loan, the Default Rate shall equal the rate set forth in clause (b) below and (b) in the case of overdue interest with respect to any Committed LIBOR Rate Loan, Facility Fees or other amounts payable hereunder, the sum of the ABR in effect at such time plus 2%.

"Designated Rating" means (a) at any time that the Long-Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, (b) if clause (a) does not apply, the lower of such ratings issued by S&P or Moody's. Any change in the calculation of the Facility Fees or the Applicable Margin with respect to Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business of rating corporate debt obligations, Borrower and the Administrative Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Disposition" means with respect to any Property (excluding cash and Cash Equivalents), any sale, lease, sale and leaseback, assignment, conveyance, transfer or other disposition thereof. The terms "Dispose" and "Disposed of" shall have correlative meanings.

"Dollars" and the symbol "$" mean the lawful currency of the United States of America.

"Early Funding ABR Loan" has the meaning specified in Section 2.5(a).

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

"Event of Default" has the meaning specified in Section 9.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Excluded Asset Sales" means the following Dispositions of Property or series of related Dispositions of Property: (i) the sale of AOL Stock owned by the Borrower's Subsidiaries the proceeds of which are used in connection with the discharge or settlement of the Borrower's obligations under the ZENS (including sales of such stock, to offset such ZENS redeemed since July 1, 2002); (ii) Permitted Asset Swaps; (iii) the sale of accounts receivable by Resources in connection with its securitization facilities; (iv) the sale or Disposition in the ordinary course of business of inventory, accounts receivable (in respect of the collection thereof) and obsolete assets; (v) leases entered into in the ordinary course of business; (vi) non-exclusive license of patents, trademarks, registrations therefor and other similar intellectual property in the ordinary course of business; (vii) intercompany Dispositions among the Borrower and its Subsidiaries in the ordinary course of business; (viii) sale leaseback transactions entered into by the Borrower or any of its Subsidiaries in the ordinary course of business and (ix) Dispositions to or by Securitization Subsidiaries consistent with the definition thereof.

"Excluded Transactions" means the incurrence or issuance by the Borrower and its Subsidiaries of the following:

(a) Indebtedness in respect of any refinancing, refundings, renewals or extensions (on or prior to the maturity thereof) of (without any increase in the principal amount thereof plus any expenses (including any redemption premium or penalty) or any shortening of the final maturity thereof) Indebtedness outstanding on the Closing Date (excluding Indebtedness in respect of the Reliant

Energy FinanceCo II LP 7.40% Senior Notes due November 15, 2002, the Matagorda County Navigation District One Revenue Refunding Bonds (Reliant Energy, Incorporated Project), Series 1999C and the Brazos River Authority Revenue Refunding Bonds (Reliant Energy, Incorporated Project), Series 1999B);

(b) Intercompany Indebtedness;

(c) Indebtedness permitted hereunder to the extent constituting (i) the issuance by the Borrower or any of its Subsidiaries of commercial paper, (ii) any backup credit or liquidity facilities in respect of any such commercial paper issuance, (iii) other short-term instruments in lieu of the issuance of commercial paper, (iv) letters of credit issued for the account of the Borrower or any of its Subsidiaries in respect of any of the foregoing and (v) drawings on letters of credit, bonds or similar obligations permitted under this Agreement if the proceeds are applied to the underlying obligation secured or supported thereby;

(d) Indebtedness of the Borrower pursuant to the Loan Documents;

(e) Indebtedness in respect of performance, surety and similar bonds and completion guarantees provided by the Borrower or any of its Subsidiaries in the ordinary course of business;

(f) Indebtedness in respect of Capital Leases entered into by the Borrower or any of its Subsidiaries in the ordinary course of business;

(g) Indebtedness in respect of Swap Agreements entered into in the ordinary course of business and not entered into for speculative purposes;

(h) Capital Stock to employees, directors or consultants of the Borrower or any of its Subsidiaries under, or upon the exercise of any warrants, options, conversion rights or other rights in respect of, any employee stock option plan, other employee benefit or compensation plans, dividend reinvestment plans, including the Borrower's Investors Choice Plan, or arrangements of the Borrower or any of its Subsidiaries existing on the Closing Date;

(i) Capital Stock issued by any Subsidiary of the Borrower solely to the Borrower or any of its Subsidiaries; and

(j) Capital Stock of the Borrower to the extent issued as consideration to effect acquisitions permitted under Section 8.2(g) and expenses incurred in connection therewith.

"Existing CenterPoint Electric Credit Agreement" means the $400,000,000 Amended and Restated Revolving Credit and Competitive Advance Facilities Agreement, dated as of July 13, 2001, among CenterPoint Electric, as borrower, JPMorgan Chase Bank (f/k/a The Chase Manhattan Bank), as administrative agent, and the other financial institutions parties thereto, as amended, modified or supplemented from time to time.

"Existing CenterPoint Electric Credit Facility" means the credit facilities provided under the Existing CenterPoint Electric Credit Agreement.

"Existing Credit Agreements" has the meaning specified in the recitals hereto.

"Existing Credit Facilities" means the credit facilities provided under the Existing Credit Agreements.

"Existing Senior A Credit Agreement" has the meaning specified in the recitals hereto.

"Existing Senior B Credit Agreement" has the meaning specified in the recitals hereto.

"Facility" means each of the Term Facility, the Revolving Facility or the CAF Facility.

"Facility Fee" has the meaning specified in Section 4.2(a).

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

"FinanceCo Permitted Facilities" means the $300,000,000 of Reliant Energy FinanceCo II LP 7.40% Senior Notes due November 15, 2002 pursuant to the Fiscal Agency Agreement dated as of November 12, 1999, among Reliant Energy FinanceCo II LP, Reliant Energy, Incorporated and Chase Bank of Texas, National Association.

"Fixed Rate Loan" means any CAF Loan made by a Bank pursuant to Section 3.2 based upon a fixed percentage rate per annum offered by such Bank, expressed as a decimal (to no more than four decimal places), and accepted by the Borrower.

"Funding Office" means the office of the Administrative Agent specified in Section 11.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Banks.

"GAAP" means generally accepted accounting principles in effect from time to time in the United States of America.

"Genco Transaction" means up to 20% of the common stock of Texas Genco, Inc. is (i) issued and sold in an initial public offering of such stock or (ii) distributed by the Borrower to its shareholders, or as a result of some combination thereof or pursuant to some other issuance up to 20% of the common stock of Texas Genco, Inc. is listed for trading on a national stock exchange or automated quotation system.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

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

"Highest Lawful Rate" means, with respect to each Bank, the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received with respect to any Loan or on other amounts, if any, due to such Bank pursuant to this Agreement or any other Loan Document under applicable law. "Applicable law" as used in this definition means, with respect to each Bank, that law in effect from time to time that permits the charging and collection by such Bank of the highest permissible lawful, nonusurious rate of interest on the transactions herein contemplated including, without limitation, the laws of each State that may be held to be applicable, and of the United States of America, if applicable.

"Hybrid Preferred Securities" means preferred stock issued by any Hybrid Preferred Securities Subsidiary.

"Hybrid Preferred Securities Subsidiary" means any Delaware business trust (or similar entity) (i) all of the common equity interest of which is owned (either directly or indirectly through one or more Wholly-Owned Subsidiaries) at all times by the Borrower, (ii) that has been formed for the purpose of issuing Hybrid Preferred Securities and (iii) substantially all of the assets of which consist at all times solely of the Junior

Subordinated Debt and payments made from time to time on the Junior Subordinated Debt.

"Indebtedness" of any Person means the sum of (a) all items (other than Capital Stock, capital surplus and retained earnings) that, in accordance with GAAP consistently applied, would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as at the date on which the Indebtedness is to be determined, (b) all obligations of the Borrower or any Subsidiary, contingent or otherwise, as account party or applicant (or equivalent status) in respect of any standby letters of credit or equivalent instruments, and (c) without duplication, the amount of Guarantees by such Person of items described in clauses (a) and (b); provided, however, that Indebtedness of a Person shall not include (i) any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary, (ii) any Guarantee by the Borrower or its Subsidiaries of payments with respect to any Hybrid Preferred Securities or (iii) any Securitization Securities.

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

"Insolvency" means, with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA (and "Insolvent" shall be construed accordingly for such purposes).

"Interest Period" means, for each Committed LIBOR Rate Loan comprising part of the same Committed Borrowing, the period commencing on the date of such Committed LIBOR Rate Loan or the date of the conversion of any Committed Loan into such Committed LIBOR Rate Loan, as the case may be, and ending on the last day of the period selected by the Borrower pursuant to Section 2.2, 2.5 or 4.6, as the case may be, and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to Section 4.6. The duration of each such Interest Period shall be one, two, three, six or, with the consent of all the Banks, nine or twelve months or periods shorter than one month, as Borrower may select by notice pursuant to Section 2.2, 2.5(a) or 4.6 hereof, provided, however, that:

(i) any Interest Period in respect of a Loan that would otherwise extend beyond the Termination Date shall end on the Termination Date;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day, and

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month.

"Investment" has the meaning specified in Section 8.2(g).

"Issuing Bank" means JPMorgan Chase Bank, in its capacity as issuer of any Letter of Credit, and any other Bank, in such capacity, selected by the Borrower with the consent of the Administrative Agent and such Bank to be an Issuing Bank.

"Junior Subordinated Debt" means subordinated debt of the Borrower or any Subsidiary of the Borrower (i) that is issued at par to a Hybrid Preferred Securities Subsidiary in connection with the issuance of Hybrid Preferred Securities, (ii) the payment of the principal of which and interest on which is subordinated (with certain exceptions) to the prior payment in full in cash or its equivalent of all senior indebtedness of the obligor thereunder and (iii) that has an original tenor no earlier than 30 years from the issuance thereof.

"L/C Commitment" means the amount of $200,000,000.

"L/C Fee Payment Date" means the last day of each March, June, September and December and the Termination Date.

"L/C Obligations" means, at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired face amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed or pursuant to Section 2.7.

"L/C Participants" means the collective reference to all the Banks other than the Issuing Bank in their respective capacities as participants in L/C Obligations.

"Lead Arrangers" means J.P. Morgan Securities Inc. and Salomon Smith Barney, Inc., in their capacities as sole lead arrangers and bookrunners.

"Letters of Credit" has the meaning assigned to such term in Section 2.7(a).

"LIBOR Rate" means (a) with respect to any Committed LIBOR Rate Loan, for each day during each Interest Period pertaining thereto, the rate per annum equal to the average (rounded upward to the nearest 1/64th of 1%) of the respective rates notified to the Administrative Agent by each Reference Bank as the rate at which such Reference Bank is offered Dollar deposits at or about 10:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations in respect of its LIBOR Rate Loans are then being conducted for delivery on the first day of such Interest Period for the number of days therein and in an amount comparable to the principal amount of its Committed LIBOR Rate Loan to be outstanding during such Interest Period and (b) with respect to any CAF LIBOR Rate Loan of a specified maturity requested pursuant to a Competitive Bid Request, the rate per annum equal to the average (rounded upward to the nearest 1/64 of 1%) of the respective rates notified to the Administrative Agent by each Reference Bank as the rate at which such Reference Bank is offered Dollar deposits at or about 10:00 A.M., New York City time, two Business Days prior to the date of borrowing of such CAF LIBOR Rate Loan the interbank eurodollar market where the eurodollar and foreign currency and exchange operations in respect of its LIBOR Rate Loans are then being conducted for delivery on such Borrowing Date, in an amount comparable to the principal amount of such CAF LIBOR Rate Loan and with a maturity comparable to the maturity applicable to such CAF LIBOR Rate Loan.

"LIBOR Rate Loan" means a Loan that bears interest at the LIBOR Rate as provided in Section 4.3(b).

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, charge, security interest, encumbrance or lien of any kind whatsoever (including any Capital Lease).

"Loans" means the loans made by the Banks to the Borrower pursuant to this Agreement.

"Loan Documents" means this Agreement, any Notes and any document or instrument executed in connection with the foregoing.

"Long-Term Debt Rating" means the rating assigned by a Rating Agency to the long-term senior unsecured debt securities of the Borrower (it being understood that a change in outlook status (e.g., watch status, negative outlook status) is not a change in rating as contemplated hereby).

"Majority Banks" means, at any time, Banks having in excess of 50% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the sum of (i) the aggregate unpaid principal amount of the Term Loans then outstanding, and (ii) the Total Revolving Commitments then in effect or, if the Revolving Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"Mandatory Payment Preferred Stock" means any preference or preferred stock of the Borrower or of any Consolidated Subsidiary (in each case other than (x) any preference or preferred stock issued to the Borrower or its Subsidiaries, (y) Hybrid Preferred Securities and (z) Junior Subordinated Debt) that is subject to mandatory redemption, sinking fund or retirement provisions (regardless of whether any portion thereof is due and payable within one year).

"Margin Stock" has the meaning assigned to such term in Regulation U or X, as the case may be.

"Material Adverse Effect" means any material adverse effect on (a) the business, financial condition or operations of the Borrower and its Consolidated Subsidiaries, taken as a whole, or (b) the legality, validity or enforceability of the Loan Documents.

"Moody's" means Moody's Investors Service, Inc. and any successor rating agency.

"Mortgage" means the Mortgage and Deed of Trust, dated as of November 1, 1944, by CenterPoint Electric to South Texas Commercial National Bank of Houston, as Trustee (JPMorgan Chase Bank, successor Trustee), as amended and supplemented from time to time.

"Multiemployer Plan" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" means (a) as consideration for any Asset Sale or any Recovery Event, the proceeds thereof in the form of cash and cash equivalents (including any such proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or otherwise, but only as and when received) of such Asset Sale or Recovery Event, net of brokerage fees, attorneys' fees, accountants' fees, investment banking fees, amounts required to be applied to the repayment of Indebtedness or other obligation pursuant to Contractual Obligations of the Borrower or any of its Subsidiaries existing on the Closing Date and other customary fees and expenses actually incurred in connection therewith and net of taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions and any tax sharing arrangements), all distributions and payments required to be made to minority interest holders in Subsidiaries as a result of such Asset Sale and deduction of amounts established by the Borrower or any of its Subsidiaries as a reserve for liabilities retained by the Borrower or any of its Subsidiaries after such Asset Sale, which liabilities are associated with the asset or assets being sold or otherwise retained in connection with such transaction, including, without limitations, in respect of the sale price of such asset or assets, pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations or other retained liabilities or obligations associated with such Asset Sale and (b) in connection with any issuance or sale of Capital Stock or any incurrence of Indebtedness, the cash proceeds received from such issuance or incurrence, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts, escrow fees, reserves, related swap costs and commissions and other customary fees and expenses actually incurred in connection therewith and other similar payment obligations resulting therefrom (other than the obligations under this Agreement) that are required to be repaid concurrently or otherwise as a result of such issuance or incurrence.

"Note" means the collective reference to any promissory note evidencing Loans.

"Notice of Borrowing" has the meaning specified in Section 2.5(a).

"Notice of Interest Conversion/Continuation" has the meaning specified in Section 4.6(a).

"Other Taxes" has the meaning specified in Section 5.3(b).

"Participant" has the meaning specified in Section 11.6(b).

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

"Permitted Asset Swaps" means substantially contemporaneous purchases or exchanges of Property (other than cash or cash equivalents) owned by a Person that is not the Borrower or an Affiliate of the Borrower for Property of substantially equivalent value owned by the Borrower or any of its Subsidiaries.

"Permitted Liens" means with respect to any Person:

(a) Liens for current taxes, assessments or other governmental charges that are not delinquent or remain payable without any penalty, or the validity or amount of which is contested in good faith by appropriate proceedings, provided, however, that, adequate reserves with respect thereto are maintained on the books of such Person in accordance with GAAP, and provided, further, that, subject to Section 8.1(d), any right to seizure, levy, attachment, sequestration, foreclosure or garnishment with respect to Property of such Person or any Subsidiary of such Person by reason of such Lien has not matured, or has been, and continues to be, effectively enjoined or stayed;

(b) landlord Liens for rent not yet due and payable and Liens for materialmen, mechanics, warehousemen, carriers, employees, workmen, repairmen and other similar nonconsensual Liens imposed by operation of law, for current wages or accounts payable or other sums not yet delinquent, in each case arising in the ordinary course of business, provided, however, that, subject to Section 8.1(d), any right to seizure, levy, attachment, sequestration, foreclosure or garnishment with respect to Property of such Person or any Subsidiary of such Person by reason of such Lien has not matured, or has been, and continues to be, effectively enjoined or stayed;

(c) Liens (other than any Lien imposed pursuant to Section 401(a)(29) or 412(n) of the Code, ERISA or any environmental law, order, rule or regulation) incurred or deposits made, in each case, in the ordinary course of business, (i) in connection with workers' compensation, unemployment insurance and other types of social security or (ii) to secure (or to obtain letters of credit that secure) the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, performance or payment bonds, purchase, construction, sales contracts and other similar obligations, in each case not incurred or made in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property;

(d) Liens arising out of or in connection with any litigation or other legal proceeding that is being contested in good faith by appropriate proceedings; provided, however, that adequate reserves with respect thereto are maintained on the books of such Person in accordance with GAAP; and provided, further, that, subject to Sections 8.1(d) and 9.1(i) (so long as such lien is discharged or released within 90 days of attachment thereof), any right to seizure, levy, attachment, sequestration, foreclosure or garnishment with respect to Property of such Person or any Subsidiary of such Person by reason of such Lien has not matured, or has been, and continues to be, effectively enjoined or stayed;

(e) precautionary filings under the applicable Uniform Commercial Code made by a lessor with respect to personal property leased to such Person or any Subsidiary of such Person;

(f) other minor Liens or encumbrances none of which secures Borrowed Money or interferes materially with the use of the Property affected in the ordinary conduct of Borrower's or its Subsidiaries' business and which individually or in the aggregate do not have a Material Adverse Effect;

(g) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business that, in the aggregate, do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower and its Subsidiaries, taken as a whole;

(h) (i) Liens created by Capital Leases provided that the Liens created by any such Capital Lease attach only to the Property leased to the Borrower or one of its Subsidiaries pursuant thereto, (ii) purchase money Liens securing Indebtedness (including such Liens securing Indebtedness incurred within 12 months of the date on which such Property was acquired) provided that all such Liens attach only to the Property purchased with the proceeds of the Indebtedness secured thereby and only secure the Indebtedness incurred to finance such purchase, (iii) Liens on receivables, customer charges, notes, ownership interests, contracts or contract rights created in connection with a sale, securitization or monetization of such receivables, customer charges, notes, ownership interests, contracts or contract rights, and Liens on rights of the Borrower or any Subsidiary related to such receivables, customer charges, notes, ownership interests, contracts or contract rights which are transferred to the purchaser of such receivables, customer charges, notes, ownership interests, contracts or contract rights in connection with such sale, securitization or monetization, provided that such Liens secure only the obligations of the Borrower or any of its Subsidiaries in connection with such sale, securitization or monetization and (iv) Liens created by leases that do not constitute Capital Leases at the time such leases are entered into provided that the Liens created thereby attach only to the Property leased to the Borrower or one of its Subsidiaries pursuant thereto;

(i) Liens on cash and short-term investments (i) deposited by the Borrower or any of its Subsidiaries in margin accounts with or on behalf of futures contract brokers or other counterparties or (ii) pledged by the Borrower or any of its Subsidiaries, in the case of clause (i) or (ii) to secure its obligations with respect to contracts (including without limitation, physical delivery, option (whether cash or financial), exchange, swap and futures contracts) for the purchase or sale of any energy-related commodity or interest rate or currency rate management contracts; and

(j) Liens on (i) Property owned by a Project Financing Subsidiary or (ii) equity interests in a Project Financing Subsidiary (including in each case a pledge of a partnership interest, common stock or a membership interest in a limited liability company) securing Indebtedness incurred in connection with a Project Financing.

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

"Plan" means, at a particular time with respect to the Borrower, any employee benefit plan that is covered by ERISA and in respect of which Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pre-Tax ECOM" means the amount recorded as income/expense on the consolidated income statement of the Borrower and its Consolidated Subsidiaries to reflect the difference between the market price of power established through the electric generation capacity auctions mandated by the Texas Electric Choice Act and the power cost projections that were employed for the same time period in the computer model used by the Public Utility Commission of Texas in the proceeding under PURA section 39.201 to estimate the stranded costs associated with electric generation assets.

"Pre-Tax Excess Mitigation Credit" means the amount of the credit, if any, provided to retail electric customers under order of the Public Utility Commission of Texas to reflect the refund of an amount equal to estimated cumulative excess earnings applicable to the years 1998 through 2002 which were used to accelerate depreciation on electric generation assets in order to reduce or mitigate exposure to stranded costs associated with electric generation assets.

"Pre-Tax Securitization Principal and Interest" means the non-bypassable transition charges collected from customers taking electric delivery service from a direct or indirect Subsidiary of the Borrower for payment of debt service on Securitization Securities.

"Pro Rata Percentage" means, as to any Bank at any time, a fraction (expressed as a percentage) the numerator of which is the sum of (a) the aggregate amount of outstanding Term Loans made by such Bank and (b) the amount of such Bank's Revolving Commitment or, if the Revolving Commitments shall have terminated, the Revolving Extensions of Credit of such Bank then outstanding, and the denominator of which is the sum of (x) the aggregate amount of outstanding Term Loans made by all of the Banks and (y) the Total Revolving Commitments then in effect or, if the Revolving Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"Project Financing" means any Indebtedness or lease obligations that do not constitute Capital Leases at the time such leases are entered into, in each case that are incurred to finance a project or group of projects (including any construction financing) to the extent that such Indebtedness (or other obligations) expressly are not recourse to the Borrower or any of its Subsidiaries (other than a Project Financing Subsidiary) or any of their respective Property other than the Property of a Project Financing Subsidiary and equity interests in a Project Financing Subsidiary (including in each case a pledge of a partnership interest, common stock or a membership interest in a limited liability company).

"Project Financing Subsidiary" means any Subsidiary of the Borrower (or any other Person in which Borrower directly or indirectly owns a 50% or less interest) whose principal purpose is to incur Project Financing or to become an owner of interests in a Person so created to conduct the business activities for which such Project Financing was incurred, and substantially all the fixed assets of which Subsidiary or Person are those fixed assets being financed (or to be financed) in whole or in part by one or more Project Financings.

"Property" means any interest or right in any kind of property or asset, whether real, personal or mixed, owned or leased, tangible or intangible and whether now held or hereafter acquired.

"Purchasing Banks" has the meaning specified in Section 11.6(c).

"Rating Agencies" means (a) S&P and (b) Moody's.

"Recovery Event" means any settlement of or payment in respect of any Property or casualty insurance claim or any condemnation proceeding for any asset or related assets of the Borrower or its Subsidiaries that yields Net Cash Proceeds to the Borrower or any of its Subsidiaries (valued at the initial principal amount thereof in the case of non-cash proceeds consisting of notes or other debt securities and valued at fair market value in the case of other non-cash proceeds) for any such settlement or payment or series of related settlements or payments in excess of $30,000,000.

"Reference Banks" means JPMorgan Chase Bank, Bank of America, N.A. and Citibank, N.A., together with any successors thereto.

"Register" has the meaning specified in Section 11.6(e) hereof

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

"Reimbursement Obligation" means the obligation of the Borrower to reimburse the Issuing Bank pursuant to Section 2.7(e) for amounts drawn under Letters of Credit.

"Reinvestment Deferred Amount" means with respect to any Reinvestment Event, the aggregate Net Cash Proceeds received by the Borrower or any of its Subsidiaries in connection therewith that are not applied to prepay the Term Loans or reduce the Revolving Commitments pursuant to Section 5.7(b) as a result of the delivery of a Reinvestment Notice.

"Reinvestment Event" means any Asset Sale or Recovery Event in respect of which the Borrower or any of its Subsidiaries has delivered a Reinvestment Notice.

"Reinvestment Notice" means a written notice executed by a Responsible Officer stating that no Event of Default has occurred and is continuing and that the Borrower (directly or indirectly through a Subsidiary) intends to use all or a specified portion of the Net Cash Proceeds of an Asset Sale or Recovery Event to repair or replace the affected Property or to acquire Property useful in its or one of its Subsidiaries' business.

"Reinvestment Prepayment Amount" means with respect to any Reinvestment Event, the Reinvestment Deferred Amount relating thereto less any amount expended prior to the relevant Reinvestment Prepayment Date to acquire or repair assets useful in the Borrower's or its Subsidiary's business, as the case may be.

"Reinvestment Prepayment Date" means with respect to any Reinvestment Event, the earlier of (a) the date occurring 180 days after such Reinvestment Event and (b) the date on which the Borrower or one of its Subsidiaries shall have determined not to, or shall have otherwise ceased to, acquire, replace or repair assets useful in the Borrower's or one of its Subsidiaries' business with all or any portion of the relevant Reinvestment Deferred Amount.

"Reorganization" means, with respect to any Multiemployer Plan, the condition that such Plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA and PBGC Reg. Section 4043, other than those events as to which the thirty-day notice period is waived under subsections .27, .28, .29, .30, .31, .32, .34, or .35 of PBGC Reg. Section 4043.

"Requirement of Law" means, as to any Person, any law, statute, ordinance, decree, requirement, order, judgment, rule or regulation of any Governmental Authority.

"Resources" means CenterPoint Energy Resources Corp., a Delaware corporation formerly known as "Reliant Energy Resources Corp." and "NorAm Energy Corp.", and a Subsidiary of the Borrower.

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

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any common Capital Stock in the Borrower, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Capital Stock in the Borrower or any option, warrant or other right to acquire any such Capital Stock in the Borrower.

"Revolving Bank" means each Bank that has a Revolving Commitment or that holds Revolving Loans.

"Revolving Borrowing" means a borrowing consisting of Revolving Loans under Section 2.4.

"Revolving Commitment" means, as to any Revolving Bank, the obligation of such Bank, if any, to make Revolving Loans and participate in Letters of Credit in an aggregate principal and/or face amount not to exceed the amount set forth under the heading "Revolving Commitment" opposite such Bank's name on Schedule 1.1 or in the Committed Loan Assignment and Acceptance pursuant to which such Bank became a party hereto, as the same may be changed from time to time pursuant to the terms hereof. The original amount of the Total Revolving Commitments is $1,500,000,000.

"Revolving Extensions of Credit" means, as to any Revolving Bank at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans held by such Bank then outstanding and (b) such Bank's Revolving Percentage of the L/C Obligations then outstanding.

"Revolving Facility" means the Revolving Commitments and the extensions of credit made thereunder.

"Revolving Loan Maturity Date" means initially October 9, 2003; provided that if the Borrower and its Subsidiaries have not received Net Cash Proceeds in an aggregate amount of at least $400,000,000 from Third Party Financings and/or asset sales on or before November 15, 2002, the Revolving Loan Maturity Date shall automatically be November 15, 2002.

"Revolving Loans" has the meaning specified in Section 2.4.

"Revolving Percentage" means, as to any Revolving Bank at any time, a fraction (expressed as a percentage) the numerator of which is the amount of such Bank's Revolving Commitment or, if the Revolving Commitments shall have terminated, the Revolving Extensions of Credit of such Bank then outstanding, and the denominator of which is the Total Revolving Commitments then in effect or, if the Revolving

Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"S&P" means Standard & Poor's Ratings Group and any successor rating agency.

"SEC" means the Securities and Exchange Commission and any successor thereto.

"Secured Indebtedness" means, with respect to any Person, all Indebtedness secured (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured) by any Lien on any Property (including, without limitation, accounts and contract rights) owned by such Person or any of its Subsidiaries, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"Securities Act" means the Securities Exchange Act of 1934, as amended.

"Securitization Securities" means transition bonds issued pursuant to the Texas Electric Choice Plan if (and only if) no recourse may be had to the Borrower or any of its Subsidiaries (or to their respective assets) for the payment of such obligations, other than the issuer of the bonds and its assets, provided that, payment of such transition charges by any retail electric provider ("REP") in accordance with such legislation, whether or not such REP has collected such charges from the retail electric customers, shall not be deemed "recourse" hereunder, including any REP that is a division of an Affiliate of the Borrower or any Affiliate of the Borrower.

"Securitization Subsidiary" means a special purpose subsidiary created to issue Securitization Securities.

"Senior A Banks" has the meaning specified in the recitals hereto.

"Senior B Banks" has the meaning specified in the recitals hereto.

"Significant Subsidiary" means (i) for the purposes of determining what constitutes an "Event of Default" under Sections 9.1(f), (g), (h), (i) and (j), a Subsidiary of the Borrower (other than a Project Financing Subsidiary) whose total assets, as determined in accordance with GAAP, represent at least 10% of the total assets of the Borrower, on a consolidated basis, as determined in accordance with GAAP and (ii) for all other purposes the "Significant Subsidiaries" shall be those Subsidiaries whose total assets, as determined in accordance with GAAP, represent at least 10% of the total assets of the Borrower on a consolidated basis, as determined in accordance with GAAP for the Borrower's most recently completed fiscal year and identified in the certificate most recently delivered pursuant to Section 8.1(a)(iv)(C); provided that no Securitization Subsidiary shall be deemed to be a Significant Subsidiary or subject to the restrictions, covenants or Events of Default under this Agreement.

"Single Employer Plan" means any Plan that is covered by Title IV of ERISA, but that is not a Multiemployer Plan.

"Solvent" means, as used in Section 7.1(r), with respect to any Person on a particular date, the condition that on such date, (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature, and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small amount of capital. The term "Solvency" shall be construed accordingly for such purpose.

"Subsidiary" means, as to any Person, a corporation, partnership, limited liability company or other entity of which more than 50% of the outstanding shares of Capital Stock or other ownership interests having ordinary voting power (other than Capital Stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of such corporation, partnership or other entity are at the time owned, directly or indirectly, through one or more Subsidiaries of such Person, by such Person; provided, however, that no Securitization Subsidiary shall be deemed to be a Subsidiary for purposes of this Agreement.

"Supermajority Banks" means, at any time, Banks having in excess of 66 2/3% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the sum of (i) the aggregate unpaid principal amount of the Term Loans then outstanding, and (ii) the Total Revolving Commitments then in effect or, if the Revolving Commitments shall have terminated, the Total Revolving Extensions of Credit then outstanding.

"Swap Agreement" means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or any of its Subsidiaries shall be a "Swap Agreement".

"Taxes" has the meaning specified in Section 5.3(a).

"Term Banks" means each Bank that has a Term Commitment or that holds a Term Loan.

"Term Commitment" means as to any Term Bank, the obligation of such Bank, if any, to make a Term Loan to the Borrower in a principal amount not to exceed the amount set forth under the heading "Term Commitment" opposite such Bank's name on Schedule 1.1. The original aggregate amount of the Term Commitment of all Term Banks is $2,350,000,000.

"Term Facility" means the Term Commitments and the Term Loans made thereunder.

"Term Loans" has the meaning specified in Section 2.1.

"Term Percentage" means as to any Term Bank at any time, a fraction (expressed as a percentage) the numerator of which is the aggregate principal amount of such Bank's Term Loans then outstanding, and the denominator of which is the aggregate principal amount of the Term Loans of all Term Banks then outstanding.

"Termination Date" means the Revolving Loan Maturity Date, or any earlier date on which (a) the Commitments have been terminated in accordance with this Agreement or (b) all unpaid principal amounts of the Loans hereunder have been declared due and payable in accordance with this Agreement.

"Third Party Financing" means any issuance of Capital Stock or incurrence of Indebtedness by the Borrower or any of its Subsidiaries to any Person (other than (x) Excluded Transactions, (y) any such Indebtedness to an Affiliate of the Borrower or any such Subsidiary and (z) Indebtedness hereunder or under the Bridge Facility, but including the remarketing of pollution control bonds without any pledge of cash collateral in connection therewith) with, in the case of any such Indebtedness, a stated maturity beyond October 10, 2003.

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

"Total Facilities" means, at any time, the sum of (a) Total Revolving Commitments in effect at such time, (b) the aggregate amount of Term Loans outstanding at such time and (c) the aggregate amount of Term Loans under and as defined in the Bridge Facility outstanding at such time.

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

"Total Revolving Extensions of Credit" means, at any time, the aggregate amount of the Revolving Extensions of Credit of all Revolving Banks outstanding at such time.

"Tranche" means the collective reference to Committed LIBOR Rate Loans, the Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

"Transferee" has the meaning specified in Section 11.6(g).

"Transfer Effective Date" has the meaning specified in Section 11.6(c).

"Triggering Event" has the meaning specified in Section 5.9(b).

"Type" refers to the determination of whether a Loan is an ABR Loan or a Committed LIBOR Rate Loan (or a Committed Borrowing comprised of such Loans).

"Uniform Customs" means the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

"United States" means the United States of America.

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

"ZENS" means the 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 issued pursuant to the ZENS Indenture by CenterPoint in an initial aggregate face amount of $999,999,943.25 and the obligations at maturity of which may be determined by reference to shares of AOL Stock.

"ZENS Indenture" means the Indenture entered into by CenterPoint in connection with the issuance of the ZENS, together with all instruments and other agreements entered into by CenterPoint in connection therewith.

SECTION 1.2. Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms relating to the Borrower or any of its Subsidiaries not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP, (ii) the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation", (iii) the word "incur" shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words "incurred" and "incurrence" shall have correlative meanings), (iv) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues, accounts, leasehold interests and contract rights, and (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time.

(c) The words "hereof", "herein" and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE II

AMOUNTS AND TERMS OF THE COMMITTED LOANS AND LETTERS OF CREDIT

SECTION 2.1. Term Commitments. Subject to the terms and conditions hereof, each Term Bank severally agrees to make a term loan (a "Term Loan") to the Borrower on the Closing Date in an amount not to exceed the amount of the Term Commitment of such Bank. The Term Loans may from time to time be LIBOR Rate Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 4.6.

SECTION 2.2. Procedure for Term Loan Borrowing. The Borrower shall give the Administrative Agent irrevocable notice (which notice shall on the Closing Date be deemed to have been submitted by the Borrower for ABR Loans in the full amount of the Term Commitments of all the Banks, and the Borrower shall have been deemed to have made the representations and warranties contained in the Notice of Borrowing) requesting that the Term Banks make the Term Loans on the Closing Date and specifying the amount to be borrowed. With respect to any oral notice of borrowing given by the Borrower, the Borrower shall promptly thereafter confirm such notice in writing. Each written notice of borrowing and each confirmation of an oral notice of borrowing shall be in substantially the form of Exhibit 2.2 hereto ("Notice of Borrowing") which shall be signed by the Borrower and shall specify therein the requested (i) date of such Borrowing, (ii) Type of Loans comprising such Borrowing, (iii) aggregate amount of such Borrowing and (iv) with respect to any Committed LIBOR Rate Loan, the Interest Period for each such Loan. Upon receipt of a Notice of Borrowing the Administrative Agent shall promptly notify each Term Bank thereof. Not later than 1:00 P.M., (New York City time), on the Closing Date each Term Bank shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Term Loan or Term Loans to be made by such Bank. The Administrative Agent shall credit the account of the Borrower on the books of the Funding Office of the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Term Banks in immediately available funds.

SECTION 2.3. Repayment of Term Loans. The Term Loan of each Term Bank shall mature in three installments, each of which shall be in an amount equal to such Bank's Term Percentage multiplied by the amount set forth below opposite such installment:

Installment	Principal Amount
February 28, 2003	$600,000,000
June 30, 2003	$600,000,000
October 9, 2003	$1,150,000,000

; provided that if the Borrower and its Subsidiaries have not received Net Cash Proceeds in an aggregate amount of at least $400,000,000 from Third Party Financings and/or asset sales on or before November 15, 2002, all outstanding Term Loans shall be due and payable on November 15, 2002.

SECTION 2.4. The Revolving Commitments. (a) Each Revolving Bank severally agrees, on the terms and subject to the conditions hereinafter set forth, to make revolving credit Loans (the "Revolving Loans") to the Borrower from time to time on any Business Day during the period from the Closing Date until the Termination Date in an aggregate principal amount outstanding, which, when added to such Bank's Revolving Percentage of the then outstanding L/C Obligations, does not exceed at any time such Bank's Revolving Commitment; provided that no Revolving Loan shall be made as a LIBOR Rate Loan with an Interest Period ending after the Termination Date; and provided, further, that in no event shall the Total Aggregate Outstanding Extensions of Credit at any time exceed the Total Revolving Commitments at such time.

(b) Each Revolving Borrowing by the Borrower shall be in an aggregate principal amount not less than $10,000,000 (in the case of Committed LIBOR Rate Loans) or $5,000,000 (in the case of ABR Loans), or an integral multiple of $1,000,000 in excess thereof and shall consist of Loans of the same Type made on the same day by the Banks ratably according to their respective Revolving Percentages. Within the limits of the applicable Revolving Commitments, the Borrower may borrow, prepay pursuant to Section 5.6 and reborrow under this Section 2.4. The principal amount outstanding on the Revolving Loans shall be due and payable on the Termination Date, together with accrued and unpaid interest thereon.

SECTION 2.5. Procedure for Revolving Loan Borrowing. (a) The Borrower may borrow under the Revolving Commitments during the period from and including the Closing Date to and excluding the Termination Date on any Business Day, provided that the Borrower shall give the Administrative Agent irrevocable oral or written notice:

(i) not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Committed Borrowing in the case of a Committed LIBOR Rate Loan;

(ii) not later than 11:00 A.M. (New York City time) on the Business Day immediately preceding the date of the proposed Revolving Borrowing in the case of an Early Funding ABR Loan; and

(iii) not later than 11:00 A.M. (New York City time) on the same Business Day of the proposed Revolving Borrowing in the case of any other ABR Loan.

With respect to any oral notice of borrowing given by the Borrower, the Borrower shall promptly thereafter confirm such notice in writing pursuant to a Notice of Borrowing. Upon receipt of any such notice, the Administrative Agent shall promptly notify each Revolving Bank thereof. Each Revolving Bank shall, before 1:00 P.M. (New York City time) on the date of such Revolving Borrowing, make available to the Administrative Agent at the Funding Office, in immediately available funds, such Bank's applicable Revolving Percentage of such Revolving Borrowing; provided, however, that, in the event of a requested ABR Loan with respect to which the

Borrower has delivered its Notice of Borrowing on the Business Day immediately preceding the requested Borrowing Date (an "Early Funding ABR Loan"), each Revolving Bank shall make its applicable Revolving Percentage of such Revolving Borrowing before 10:00 A.M. (New York City time) on the requested Borrowing Date. The Administrative Agent shall, no later than 2:00 P.M. (New York City time) on such date (or no later than 11:00 A.M. (New York City time), in the case of an Early Funding ABR Loan), make available to the Borrower the proceeds of the Revolving Loans received by the Administrative Agent hereunder by crediting such account of the Borrower which the Administrative Agent and the Borrower shall from time to time designate. Each Notice of Borrowing shall be irrevocable and binding on the Borrower.

(b) Unless the Administrative Agent shall have received notice from a Revolving Bank at least two hours prior to the applicable time described in clause (a) above by which such Bank is required to deliver its funds to the Administrative Agent with respect to any Revolving Borrowing that such Bank will not make available to the Administrative Agent such Bank's applicable Revolving Percentage of such Revolving Borrowing, the Administrative Agent may assume that such Bank has made such portion available to the Administrative Agent on the date of such Revolving Borrowing in accordance with Section 2.5(a) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If such amount is made available to the Administrative Agent on a date after such date of Revolving Borrowing, such Bank shall pay to the Administrative Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate during such period, times (ii) the amount of such Bank's applicable Revolving Percentage of such Revolving Borrowing, times (iii) a fraction, the numerator of which is the number of days that elapse from and including such date of Revolving Borrowing to the date on which such Bank's applicable Revolving Percentage of such Revolving Borrowing shall have become immediately available to the Administrative Agent and the denominator of which is 360. A certificate of the Administrative Agent submitted to any Bank with respect to any amounts owing under this Section 2.5(b) shall be conclusive in the absence of manifest error. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan as part of such Revolving Borrowing for purposes of this Agreement. If such Bank's applicable Revolving Percentage of such Revolving Borrowing is not in fact made available to the Administrative Agent by such Bank within one (1) Business Day of such date of Revolving Borrowing, the Administrative Agent shall be entitled to recover such amount with interest thereon at the rate per annum, equal to (i) the ABR (in the case of ABR Loans) or (ii) the Federal Funds Effective Rate (in the case of Committed LIBOR Rate Loans), on demand, from the Borrower.

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

SECTION 2.6. Minimum Tranches. All Borrowings, prepayments, conversions and continuations of Committed Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of the Loans comprising each Tranche of Committed

LIBOR Rate Loans shall be equal to $10,000,000 or an integral multiple of $1,000,000 in excess thereof.

SECTION 2.7. Letters of Credit. (a) L/C Commitment.

(i) Subject to the terms and conditions hereof, the Issuing Bank, in reliance on the agreements of the other Banks set forth in Section 2.7(d), agrees to issue letters of credit ("Letters of Credit") for the account of the Borrower in support of obligations (including, without limitation, performance, bid and similar bonding obligations and credit enhancement) of the Borrower and its Affiliates on any Business Day on or after the Closing Date and prior to the Termination Date in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (A) the L/C Obligations would exceed the L/C Commitment or (B) the Total Aggregate Outstanding Extensions of Credit then outstanding would exceed the Total Revolving Commitments then in effect.

(ii) Each Letter of Credit shall be denominated in Dollars and shall be a standby letter of credit issued to support obligations of the Borrower or any of its Affiliates, contingent or otherwise, and expire no later than the Revolving Loan Maturity Date.

(iii) Each Letter of Credit shall be subject to the Uniform Customs and, to the extent not inconsistent therewith, the laws of the State of New York.

(iv) The Issuing Bank shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed on such Issuing Bank by, any applicable Requirement of Law.

(b) Procedure for Issuance of Letters of Credit. The Borrower may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, completed to the satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may reasonably request. Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than two (2) Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit in a form satisfactory to the Borrower to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and Borrower. The Issuing Bank shall furnish a copy of such Letter of Credit to the Borrower promptly following the issuance thereof and notify the Banks of the amount thereof.

(c) Fees, Commissions and Other Charges.

(i) The Borrower shall pay to the Administrative Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission fee with respect to each Letter of Credit, computed for the period from the last L/C Fee Payment Date (or, if later, the date of issuance thereof) to the date upon which such payment is due hereunder at the rate per annum equal to the Applicable Margin for LIBOR Rate Loans that are Revolving Loans then in effect, calculated on the basis of a 365- (or 366-, as the case may be) day year, of the aggregate amount available to be drawn under such Letter of Credit on the date on which such fee is calculated. The Borrower shall pay to the Administrative Agent, for the account of the Issuing Bank, a fronting fee with respect to each Letter of Credit, computed for the period from the last L/C Fee Payment Date to the date upon which such payment is due hereunder at the rate per annum equal to 1/8 of 1%, calculated on the basis of a 365- (or 366-, as the case may be) day year, of the aggregate amount available to be drawn under such Letter of Credit on the date on which such fee is calculated. Such commissions and fronting fees shall be payable in arrears on each L/C Fee Payment Date and shall be nonrefundable.

(ii) In addition to the foregoing fees and commissions, the Borrower shall pay or reimburse the Issuing Bank for such normal and customary costs and reasonable expenses as are incurred or charged by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

(iii) The Administrative Agent shall, promptly following its receipt thereof, distribute to the Issuing Bank and the L/C Participants all fees and commissions received by the Administrative Agent for their respective accounts pursuant to this subsection.

(d) L/C Participations.

(i) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Revolving Percentage in the Issuing Bank's obligations and rights under each Letter of Credit issued hereunder and the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 2.7(e). Each L/C Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid under any Letter of Credit for which the Issuing Bank is not reimbursed in full by the Borrower in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Bank upon demand at the Issuing Bank's address for notices specified herein an amount equal to such L/C Participant's Revolving Percentage of the amount of such draft, or any part thereof, which is not so reimbursed. Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(ii) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to Section 2.7(d)(i) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit is not paid to the Issuing Bank within one Business Day after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (A) such amount, times (B) the daily average Federal Funds Effective Rate as quoted by the Issuing Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (C) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to Section 2.7) is not in fact made available to the Issuing Bank by such L/C Participant within three (3) Business Days after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the ABR. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(iii) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with Section 2.7, the Issuing Bank receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it.

(e) Reimbursement Obligation of the Borrower. (i) The Borrower shall reimburse Issuing Bank for any payment that Issuing Bank makes under a Letter of Credit on or before the date of such payment if the Borrower receives notice of such payment on or before 10:00 a.m. (New York City time) on the date such payment is made by the Issuing Bank; provided, however, that, if the Borrower does not receive timely notice or reimburse the Issuing Bank under this Section 2.4(e)(i), then Section 2.4(e)(ii) shall apply. Each such payment shall be made to the Issuing Bank at its address for notices specified herein in Dollars and in immediately available funds.

(ii) Notwithstanding Section 6.2, each drawing under any Letter of Credit shall be deemed to constitute a Committed Borrowing of ABR Loans in the amount of such drawing unless Borrower has reimbursed the Issuing Bank under Section 2.7(e)(i). The Borrowing Date with respect to each such borrowing shall be deemed to be the date of such drawing.

(f) Obligations Absolute.

(i) The Borrower's payment obligations under Section 2.7(e) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment that the Borrower may have or have had against the Issuing Bank or any beneficiary of a Letter of Credit other than a defense based upon the gross negligence or willful misconduct of the Issuing Bank or violation of the standards of care specified in the Uniform Commercial Code of the State of New York.

(ii) The Borrower also agrees with the Issuing Bank that the Issuing Bank shall not be responsible for, and the Borrower's Reimbursement Obligations under Section 2.7(e) shall not be affected by, among other things, (i) the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, (ii) any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or (iii) any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee.

(iii) The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the Issuing Bank's gross negligence or willful misconduct or in violation of the standards of care specified in the Uniform Commercial Code of the State of New York.

(iv) The Borrower agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Borrower and shall not result in any liability of the Issuing Bank to the Borrower.

(g) Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Bank shall promptly notify the Borrower by telephone (confirmed by facsimile) of the date and amount thereof and whether the Issuing Bank has made or will make a payment thereunder. The responsibility of the Issuing Bank to the Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are in conformity with such Letter of Credit.

(h) Application. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 2.7, the provisions of this Section 2.7 shall control.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Banks of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 4.2(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

ARTICLE III

AMOUNTS AND TERMS OF THE CAF LOANS

SECTION 3.1. The CAF Loans(a) . (a) From time to time on any Business Day during the period from the Closing Date until the Termination Date, the Borrower may request CAF Loans from the Banks in amounts such that the Total Aggregate Outstanding Extensions of Credit at any time shall not exceed the Total Revolving Commitments at such time (the "CAF Facility"). Under the terms and conditions set forth below, Borrower may borrow, repay pursuant to Section 3.2(h) and reborrow under this Section 3.1.

(b) Under the terms and conditions set forth below, the Borrower may borrow, repay pursuant to Section 3.2(h) and reborrow under this Section 3.1.

SECTION 3.2. Competitive Bid Procedure. (a) In order to request a CAF Loan, the Borrower shall deliver to the Administrative Agent a written notice in the form of Exhibit 3.2-A, attached hereto (a "Competitive Bid Request"), to be received by the Administrative Agent (i) in the case of each CAF LIBOR Rate Loan, not later than 3:00 P.M. (New York City time), four (4) Business Days before the Borrowing Date specified for such CAF LIBOR Rate Loan and (ii) in the case of each Fixed Rate Loan, not later than 11:00 A.M. (New York City time), one (1) Business Day before the Borrowing Date specified for such Fixed Rate Loan. Each Competitive Bid Request shall in each case refer to this Agreement and specify (i) the date of Borrowing of such CAF Loans (which shall be a Business Day), (ii) the aggregate principal amount thereof, (iii) whether the CAF Loans then being requested are to be CAF LIBOR Rate Loans or Fixed Rate Loans, (iv) the maturity date for each CAF Loan requested to be made and (v) the interest payment dates for each CAF Loan requested to be made. The Administrative Agent shall promptly notify each Bank by telex or facsimile transmission of the contents of each Competitive Bid Request received by it. Each Competitive Bid Request may solicit bids for CAF Loans in an aggregate principal amount of $5,000,000 or an integral multiple of $1,000,000 in excess thereof and for not more than three alternative maturity dates for such CAF Loans. The maturity date for each CAF Loan shall be not less than 15 days nor more than 180 days after the applicable date of CAF Borrowing (and in any event shall not extend beyond the Revolving Loan Maturity Date).

(b) Each Bank may, in its sole discretion, irrevocably offer to make one or more CAF Loans to the Borrower responsive to each Competitive Bid Request from the Borrower. Any such irrevocable offer by a Bank must be received by the Administrative Agent, in the form of Exhibit 3.2-B hereto (a "Competitive Bid"), (i) in the case of each CAF LIBOR Rate Loan, not later than 10:30 A.M. (New York City time), three (3) Business Days before the Borrowing Date specified for such CAF LIBOR Rate Loan and (ii) in the case of each Fixed Rate Loan, not later than 9:30 A.M. (New York City time) on the Borrowing Date specified for such Fixed Rate Loan. Competitive Bids that do not conform substantially to the format of Exhibit 3.2-B may be rejected by the Administrative Agent after conferring with, and upon the instruction of, the Borrower, and the Administrative Agent shall notify the Bank of such rejection as soon as practicable. Each Competitive Bid shall refer to this Agreement and (i) specify the maximum principal amount of CAF Loans for each maturity date (which shall be in an aggregate principal amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof and which may equal, but not exceed, the principal amount requested for such maturity date by the Borrower) and the aggregate maximum principal amount of CAF Loans for all maturity dates (which amount, with respect to any Bank, may exceed such Bank's Commitment) that the Bank is willing to make to the Borrower, and (ii) specify the CAF Rate at which the Bank is prepared to make each such CAF Loan. A Competitive Bid submitted by a Bank pursuant to this Section 3.2(b) shall be irrevocable absent manifest error.

(c) The Administrative Agent shall (i) in the case of each CAF LIBOR Rate Loan, not later than 11:00 A.M. (New York City time) three (3) Business Days before the Borrowing Date specified for such CAF LIBOR Rate Loan and (ii) in the case of each Fixed Rate Loan, not later than 10:00 A.M. (New York City time) on the Borrowing Date specified for such Fixed Rate Loan, notify the Borrower in writing of all the Competitive Bids made (arranging each such bid in ascending interest rate order), and the CAF Rate or Rates and the maximum principal amount of each CAF Loan in respect of which Competitive Bid was made, and the identity of the Bank that made each bid. The Administrative Agent shall send a copy of all Competitive Bids to the Borrower for its records as soon as practicable after completion of the bidding process set forth in this Section 3.2.

(d) The Borrower may in its sole and absolute discretion, subject only to the provisions of this Section 3.2(d), accept or reject any Competitive Bid referred to in Section 3.2(c); provided, however, that the aggregate amount of the Competitive Bids for CAF Loans so accepted by the Borrower may not exceed the lesser of (i) the principal amount of the applicable CAF Borrowing requested by the Borrower in respect thereof and (ii) the amount of the Revolving Commitments less the Total Aggregate Outstanding Extensions of Credit then outstanding, after giving effect to the application of the proceeds of such respective CAF Borrowing on the Borrowing Date therefor. The Borrower shall notify the Administrative Agent in writing whether and to what extent it has decided to accept or reject any or all of the bids referred to in Section 3.2(c) by delivering to the Administrative Agent a written notice in the form of Exhibit 3.2-2 hereto (a "Competitive Bid Confirmation"), (i) in the case of each CAF LIBOR Rate Loan, not later than 1:00 P.M. (New York City time), three (3) Business Days before the Borrowing Date specified for such CAF LIBOR Rate Loan and (ii) in the case of each Fixed Rate Loan, not later than 11:00 A.M. (New York City time) on the Borrowing Date specified for such Fixed Rate Loan, which Competitive Bid Confirmation shall specify the principal amount of CAF Loans for each relevant maturity date to be made by each such bidding Bank (which amount for each such maturity date shall be equal to or less than the maximum amount for such maturity date specified in the Competitive Bid of such Bank, and for all maturity dates included in such Competitive Bid in respect thereof shall be equal to or less than the aggregate maximum amount specified in such Competitive Bid for all such maturity dates); provided, however, that (A) the failure by the Borrower to so deliver a Competitive Bid Confirmation by the specified time shall be deemed to be a rejection of all the bids referred to in Section 3.2(c) for the related Competitive Bid Request; (B) the Borrower shall not accept a bid made at a particular CAF Rate for a particular maturity if the Borrower has decided to reject a bid made at a lower CAF Rate for such maturity; (C) if the Borrower shall accept bids made at a particular CAF Rate for a particular maturity but shall be restricted by other conditions hereof from borrowing the maximum principal amount of CAF Loans in respect of which bids at such CAF Rate have been made, then the Borrower shall accept a pro rata portion of each bid made at such CAF Rate based as nearly as possible on the respective maximum principal amounts of CAF Loans offered to be made by the relevant Banks pursuant to such bids; and (D) no bid shall be accepted for a CAF Loan by any Bank unless such CAF Loan is in an aggregate principal amount not less than $5,000,000 or an integral multiple of $1,000,000 in excess thereof. Notwithstanding the foregoing, if it is necessary for the Borrower to accept a pro rata allocation of the bids made in response to a Competitive Bid Request (whether pursuant to the events specified in clause (C) above or otherwise) and the available principal amount of CAF Loans to be allocated among the Banks is not sufficient to enable CAF Loans to be allocated to each Bank in an aggregate principal amount not less than $5,000,000 or in integral multiples of $1,000,000 in excess thereof, then the Borrower shall, subject to clause (D) above, select the Banks to be allocated such CAF Loans and shall round allocations up or down to the next higher or lower multiple of $1,000,000 as it shall deem appropriate; provided that the allocations among the Banks to be allocated such CAF Loans shall be made pro rata based as nearly as possible on the respective maximum principal amounts of CAF Loans offered to be made by such Banks. The Competitive Bid Confirmation given by the Borrower pursuant to this Section 3.2(d) shall be irrevocable.

(e) Upon receipt from the Administrative Agent of the LIBOR Rate applicable to any CAF LIBOR Rate Loan to be made by any Bank pursuant to a Competitive Bid that has been accepted by the Borrower pursuant to Section 3.2, the Administrative Agent shall notify such Bank of the applicable LIBOR Rate.

(f) If the Administrative Agent shall at any time elect to submit a Competitive Bid in its capacity as a Bank, it shall submit such bid directly to the Borrower by (i) in the case of a CAF LIBOR Rate Loan, not later than 10:15 A.M. (New York City time), and (ii) in the case of a Fixed Rate Loan, not later than 9:15 A.M. (New York City time), in each case, on the Business Day on which the other Banks are required to submit their bids to the Administrative Agent pursuant to Section 3.2(b) above.

(g) If the Borrower accepts pursuant to Section 3.2(d) one or more of the offers made by any Bank or Banks, the Administrative Agent shall promptly notify each Bank that has made such an offer of the aggregate amount of such CAF Loans to be made on the Borrowing Date for each maturity date and of the acceptance or rejection of any offers to make such CAF Loans made by such Bank. Each Bank that is to make a CAF Loan shall, before 12:00 Noon (New York City time) on the Borrowing Date specified in the Competitive Bid Request applicable thereto, make available to the Administrative Agent at its office set forth in Section 11.2 the amount of CAF Loans to be made by such Bank, in immediately available funds. The

Administrative Agent shall, no later than 1:00 P.M. (New York City time) on such Borrowing Date, make such funds available to the Borrower at the Borrower's account as shall be designated by it to the Administrative Agent from time to time. As soon as practicable after each Borrowing Date, the Administrative Agent shall notify each Bank of the aggregate amount of CAF Loans advanced on such Borrowing Date and the respective maturity dates thereof.

(h) The Borrower shall repay to the Administrative Agent for the account of each Bank that has made a CAF Loan (or the CAF Loan Assignee in respect thereof, as the case may be) on the maturity date of each CAF Loan (such maturity date being that specified by the Borrower for repayment of such CAF Loan in the related Competitive Bid Request) the then unpaid principal amount of such CAF Loan. Except as set forth in Sections 5.5(c) and 5.7(c), the Borrower shall not, without the consent of the relevant Bank, have the right to prepay any principal amount of any CAF Loan.

(i) All notices required by this Section 3.2 shall be made in accordance with Section 11.2 hereof; provided, however, that each request or notice required to be made under Section 3.2(a) or 3.2(d) by the Borrower may be made by the giving of telephone notice to the Administrative Agent that is promptly confirmed by delivery of a notice in writing (in substantially the form of Exhibit 3.2-A or Exhibit 3.2-C, as the case may be) to the Administrative Agent.

ARTICLE IV

PROVISIONS RELATING TO ALL LOANS

SECTION 4.1. Evidence of Loans. (a) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank from time to time, including, without limitation, the amounts of principal and interest payable and paid to such Bank from time to time under this Agreement.

(b) The Administrative Agent shall maintain the Register pursuant to Section 11.6(e) and a subaccount therein for each Bank, in which shall be recorded (i) the amount of each Loan made by each Bank through the Administrative Agent hereunder, the type thereof and each Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) both the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Bank's share thereof.

(c) The entries made in the Register and the accounts of each Bank maintained pursuant to Section 4.1(a) shall, to the extent permitted by applicable law, be prima facie evidence of the existence and amount of the obligations of the Borrower therein recorded; provided, however, that the failure of any Bank or the Administrative Agent to maintain the Register or any such account, or any error therein, shall not in any manner affect the obligation of the Borrower to repay (with applicable interest) the Loans actually made to the Borrower by such Bank in accordance with the terms of this Agreement.

SECTION 4.2. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Bank a facility fee (the "Facility Fee") on the aggregate amount of such Bank's Revolving Commitment (whether used or unused), from the Closing Date until such date that the Loans and other obligations under this Agreement have been paid in full, payable quarterly in arrears on the last day of each March, June, September and December until such date that the Loans and other obligations under this Agreement have been paid in full and on such date of payment in full, commencing on the first such date to occur after the Closing Date, at a rate per annum of 0.500%.

(b) The Borrower agrees to pay to the Administrative Agent on November 15, 2002 (if the Termination Date has not occurred on such date) for the account of each Bank a fee in the amount of 1.00% of the amount of the sum of (x) such Bank's Revolving Commitment (whether used or unused) and (y) the aggregate amount of such Bank's Term Loans outstanding on such date.

(c) The Borrower agrees to pay to the Administrative Agent for the account of the Banks a fee in the aggregate amount of $61,436,170.21 (the "Additional Fee") to be allocated to each Bank based upon the sum of such Bank's Revolving Commitment, and the aggregate amount of such Bank's Term Loans, outstanding on the applicable date of payment, payable as follows: (i) $40,957,446.81 on February 28, 2003 and $20,478,723.40 on June 30, 2003; provided, however, that (x) on the Termination Date, any unpaid portion of the Additional Fee shall be payable on the Termination Date and (y) if the Total Revolving Commitments are terminated in full, whether pursuant to Section 5.5 or otherwise, and the Facilities are repaid in full, whether pursuant to Section 5.6 or 5.7 or otherwise, any unpaid portion of the Additional Fee shall be due and payable on the date of such termination, repayment or cancellation.

(d) The fees payable under Sections 4.2(a) and (b) shall be calculated by the Administrative Agent on the basis of a 365- or 366-day year, as the case may be, for the actual days (including the first day but excluding the last day) occurring in the period for which such fee is payable.

(e) The Borrower shall pay to the Administrative Agent, for its own account, the fees in the amounts and on the dates previously agreed to in writing by the Borrower and the Administrative Agent.

SECTION 4.3. Interest. The Borrower shall pay interest on the unpaid principal amount of each Loan made by each Bank from the date of such Loan until such principal amount shall be paid in full, at the times and at the rates per annum set forth below:

(a) ABR Loans. Each ABR Loan shall bear interest at a rate per annum equal at all times to the lesser of (i) the ABR plus the Applicable Margin and (ii) the Highest Lawful Rate, payable quarterly in arrears on the last day of each March, June, September and December, commencing on December 31, 2002, and on the Termination Date.

(b) LIBOR Rate Loans. Each LIBOR Rate Loan shall bear interest at a rate per annum equal at all times to:

(i) in the case of each Committed LIBOR Rate Loan, the lesser of (A) the sum of the LIBOR Rate for the applicable Interest Period for such Loan plus the Applicable Margin and (B) the Highest Lawful Rate, payable on the last day of such Interest Period and, with respect to Interest Periods of six, nine or twelve months, on the ninetieth (90th) day after the commencement of the Interest Period and on each succeeding ninetieth (90th) day during such Interest Period, and on the Termination Date; and

(ii) in the case of each CAF LIBOR Rate Loan, the lesser of (A) the sum of the LIBOR Rate applicable to such Loan plus or minus, as the case may be, the CAF Margin specified by a Bank with respect to such Loan in its Competitive Bid submitted pursuant to Section 3.2(b) and (B) the Highest Lawful Rate, payable on the date or dates specified in the relevant Competitive Bid Request.

(c) Fixed Rate Loans. Each Fixed Rate Loan shall bear interest at a rate per annum equal at all times to the lesser of (i) the fixed rate of interest offered by the Bank making such Loan and accepted by the Borrower pursuant to Section 3.2 and (ii) the Highest Lawful Rate, payable on the date or dates specified in the relevant Competitive Bid Request.

(d) Calculations. Interest that is determined by reference to the Alternate Base Rate shall be calculated by the Administrative Agent on the basis of a 365- or 366-day year, as the case may be, for the actual days (including the first day but excluding the last day) occurring in the period in which such interest is payable and otherwise shall be calculated by the Administrative Agent on the basis of a 360-day year for the actual days (including the first day and excluding the last day) occurring in the period for which such interest is payable.

(e) Default Rate. Notwithstanding the foregoing, if all or a portion of (i) the principal amount of any Loan, (ii) any interest payable thereon, or (iii) any Facility Fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest, payable from time to time on demand, at a rate per annum equal to the lesser of (A) the Highest Lawful Rate and (B) the Default Rate, in each case from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(f) Determination Conclusive. Each determination of an interest rate by the Administrative Agent pursuant to any provisions of this Agreement shall be conclusive and binding on the Borrower and the Banks in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing in reasonable detail the quotations used by the Administrative Agent in determining the LIBOR Rate.

(g) Designation of Reference Banks. If any Reference Bank shall for any reason no longer have Commitments or any Loans, such Reference Bank shall thereupon cease to be a Reference Bank, and if, as a result, there shall only be one Reference Bank remaining, the Administrative Agent (after consultation with the Borrower and the Banks) shall, by notice to the Borrower and the Banks, designate another Bank as a Reference Bank so that there shall at all times be at least two Reference Banks.

(h) Reference Bank Quotations. Each Reference Bank shall use its best efforts to furnish quotations of rates to the Administrative Agent as contemplated hereby. If any of the Reference Banks shall be unable or shall otherwise fail to supply such rates to the Administrative Agent upon its request, the rate of interest shall, subject to the provisions of Section 4.5(b), be determined on the basis of the quotations of the remaining Reference Banks or Reference Bank.

SECTION 4.4. Reserve Requirements. (a) The Borrower agrees to pay to each Bank that requests compensation under this Section 4.4 in accordance with the provisions set forth in Section 5.8(b), so long as such Bank shall be required to maintain reserves against "Eurocurrency liabilities" under Regulation D of the Board (or, so long as such Bank shall be required by the Board or by any other Governmental Authority to maintain reserves against any other category of liabilities that includes deposits by reference to which the interest rate on LIBOR Rate Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Bank that includes any LIBOR Rate Loans), an additional amount (determined by such Bank and notified to the Borrower pursuant to the provisions set forth in Section 5.8(b)) representing such Bank's calculation or, if an accurate calculation is impracticable, reasonable estimate (using such method of allocation to such Loans of the Borrower as such Bank shall determine in accordance with Section 5.8(a)) of the actual costs, if any, incurred by such Bank during the relevant Interest Period or during the period a CAF LIBOR Rate Loan made by such Bank was outstanding, as the case may be, as a result of the applicability of the foregoing reserves to such Committed LIBOR Rate Loans or CAF LIBOR Rate Loans, which amount in any event shall not exceed the product of the following for each day of such Interest Period or each day during the period such CAF LIBOR Rate Loan was outstanding, as the case may be:

(i) the principal amount of the relevant Committed LIBOR Rate Loans or CAF LIBOR Rate Loans made by such Bank outstanding on such day;

(ii) the difference between (A) a fraction, the numerator of which is the LIBOR Rate (expressed as a decimal) applicable to such Committed LIBOR Rate Loan or CAF LIBOR Rate Loan, as the case may be (expressed as a decimal), and the denominator of which is one minus the maximum rate (expressed as a decimal) at which such reserve requirements are imposed by the Board or other Governmental Authority on such date, minus (B) such numerator; and

(iii) a fraction, the numerator of which is one and the denominator of which is 360.

(b) The agreements in this Section 4.4 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 4.4 for any period prior to the date that is 90 days before the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

SECTION 4.5. Interest Rate Determination and Protection. (a) The rate of interest for each Committed LIBOR Rate Loan shall be determined by the Administrative Agent two (2) Business Days before the first day of each Interest Period applicable to such Loan. The

Administrative Agent shall give prompt notice to the Borrower and the Banks of the applicable interest rate determined by the Administrative Agent for purposes of Sections 4.3(a) and (b) hereof.

(b) If, with respect to any Committed LIBOR Rate Loans, prior to the first day of an Interest Period (i) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the London interbank market, adequate and reasonable means do not exist for ascertaining the LIBOR Rate for such Interest Period or (ii) the Administrative Agent shall have received notice from the Majority Banks that the LIBOR Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Banks (as determined in good faith and certified by such Banks) of making or maintaining their affected Committed LIBOR Rate Loans during such Interest Period, the Administrative Agent shall give facsimile or telephonic notice thereof (with written notice to follow promptly) to the Borrower and the Banks as soon as practicable thereafter. If such notice is given, (A) any Committed LIBOR Rate Loans requested to be made on the first day of such Interest Period shall be made as ABR Loans, (B) any Committed Loans that were to have been converted on the first day of such Interest Period to Committed LIBOR Rate Loans shall be continued as ABR Loans and (C) any outstanding Committed LIBOR Rate Loans shall be converted, on the first day of such Interest Period, to ABR Loans. Until such notice has been withdrawn by the Administrative Agent, no further Committed LIBOR Rate Loans shall be made or continued as such, nor shall the Borrower have the right to convert Committed Loans to Committed LIBOR Rate Loans.

SECTION 4.6. Voluntary Interest Conversion or Continuation of Committed Loans. (a) The Borrower may on any Business Day, upon the Borrower's irrevocable oral or written notice of interest conversion/continuation given by the Borrower to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed interest conversion or continuation in the case of a Committed LIBOR Rate Loan, (i) convert Committed Loans of one Type into Committed Loans of another Type; (ii) convert Committed LIBOR Rate Loans for a specified Interest Period into Committed LIBOR Rate Loans for a different Interest Period; or (iii) continue Committed LIBOR Rate Loans for a specified Interest Period as Committed LIBOR Rate Loans for the same Interest Period-; provided, however, that (A) any conversion of any Committed LIBOR Rate Loans into Committed LIBOR Rate Loans for a different Interest Period, or into ABR Loans, or any continuation of Committed LIBOR Rate Loans for the same Interest Period shall be made on, and only on, the last day of an Interest Period for such Committed LIBOR Rate Loans; (B) no Committed Loan may be converted into or continued as a Committed LIBOR Rate Loan by the Borrower so long as an Event of Default has occurred and is continuing, (C) no Committed Loan may be converted into or continued as a Committed LIBOR Rate Loan after the date that is one month prior to the Termination Date, and (D) no Committed Loan may be converted into or continued as a Committed LIBOR Rate Loan if after giving effect thereto, Section 2.6 would be contravened. With respect to any oral notice of interest conversion/continuation given by the Borrower under this Section 4.6(a), the Borrower shall promptly thereafter confirm such notice in writing. Each written notice of interest conversion/continuation given by the Borrower under this Section 4.6(a) and each confirmation of an oral notice of interest conversion/continuation given by the Borrower under this Section 4.6(a) shall be in substantially the form of Exhibit 4.6 hereto ("Notice of Interest Conversion/Continuation"). Each such Notice of Interest

Conversion/Continuation shall specify therein the requested (x) date of such interest conversion or continuation; (y) the Committed Loans to be converted or continued; and (z) if such interest conversion or continuation is into Committed LIBOR Rate Loans, the duration of the Interest Period for each such Committed LIBOR Rate Loan. Upon receipt of any such Notice of Interest Conversion/Continuation, the Administrative Agent shall promptly notify each Bank thereof. Each Notice of Interest Conversion/ Continuation shall be irrevocable and binding on the Borrower.

(b) If the Borrower shall fail to deliver to the Administrative Agent a Notice of Interest Conversion/Continuation in accordance with Section 4.6(a) hereof, or to select the duration of any Interest Period for the principal amount outstanding under any Committed LIBOR Rate Loan by 11:00 A.M. (New York City time) on the third Business Day prior to the last day of the Interest Period applicable to such Loan in accordance with Section 4.6(a), the Administrative Agent will forthwith so notify the Borrower and the Banks (provided that the failure to give such notice shall not affect the conversion referred to below) and such Committed Loans will automatically, on the last day of the then existing Interest Period therefor, convert into Committed LIBOR Rate Loans with a one month Interest Period.

SECTION 4.7. Funding Losses Relating to LIBOR Rate Loans and Fixed Rate Loans. (a) The Borrower agrees, without duplication of any other provision under this Agreement, to indemnify each Bank and to hold each Bank harmless from any loss or expense that such Bank may sustain or incur as a consequence of (i) default by the Borrower in payment when due of the principal amount of or interest on any LIBOR Rate Loan, (ii) default by the Borrower in making a borrowing of, conversion into or continuation of any LIBOR Rate Loan after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (iii) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (iv) the making of a prepayment of LIBOR Rate Loans or the conversion of Committed LIBOR Rate Loans into ABR Loans, on a day that is not the last day of an Interest Period with respect thereto (excluding any prepayment made pursuant to Section 4.8) or the making of a prepayment of any Fixed Rate Loan on a day that is not the scheduled maturity date with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. The calculation of all amounts payable to a Bank under this Section 4.7(a) shall be made pursuant to the method described in Section 5.8(a), but in no event shall such amounts payable with respect to any LIBOR Rate Loan exceed the amounts that would have been payable assuming such Bank had actually funded its relevant LIBOR Rate Loan through the purchase of a deposit bearing interest at the LIBOR Rate in an amount equal to the amount of such LIBOR Rate Loan and having a maturity comparable to (A) with respect to any Committed LIBOR Rate Loan, the relevant Interest Period and (B) with respect to any CAF LIBOR Rate Loan, the maturity set forth in the Competitive Bid applicable thereto, provided, that each Bank may fund each of its LIBOR Rate Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section 4.7(a).

(a) The agreements in this Section 4.7 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this

Section 4.7 for amounts accruing prior to the date that is 90 days prior to the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

SECTION 4.8. Change in Legality. (a) Notwithstanding any other provision of this Agreement, if any Bank shall notify the Administrative Agent that it has determined in good faith that the introduction of or any change in or in the interpretation or application of any law or regulation by any Governmental Authority (in each case occurring after the date of this Agreement) makes it unlawful, or any central bank or other Governmental Authority asserts after the date of this Agreement that it is unlawful, for any Bank or its applicable lending office to perform its obligations hereunder to make LIBOR Rate Loans or to fund or maintain LIBOR Rate Loans hereunder, (i) the obligation of such Bank to make, or to convert Committed Loans into, or to continue LIBOR Rate Loans as, LIBOR Rate Loans shall be suspended until the Administrative Agent shall notify the Borrower that the circumstances causing such suspension no longer exist; (ii) the Borrower shall, at its option, either prepay in full all LIBOR Rate Loans of such Bank then outstanding, or convert all such Loans to ABR Loans, on the respective last days of the then current Interest Periods with respect to such Loans (or within such earlier period as required by law), accompanied, in the case of any prepayments, by interest accrued thereon and any amounts payable under Section 4.7(a), and (iii) the Borrower shall, with respect to each CAF LIBOR Rate Loan of such Bank, take such action as such Bank shall reasonably request. Each Bank agrees that it will use reasonable efforts to designate a different lending office for the LIBOR Rate Loans due to it affected by this Section 4.8, if such designation will avoid the illegality described in this Section 4.8 so long as such designation will not be disadvantageous to such Bank as determined by such Bank in its sole discretion acting in good faith.

(b) For purposes of this Section 4.8, a notice to the Borrower (with a copy to the Administrative Agent) by any Bank pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Borrower.

ARTICLE V

INCREASED COSTS, TAXES, PAYMENTS AND PREPAYMENTS

SECTION 5.1. Increased Costs; Capital Adequacy. (a) If after the date of this Agreement the adoption of or any change in any law or regulation or in the interpretation or application thereof by any Governmental Authority or application thereof or compliance by any Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date of this Agreement:

(i) shall subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note, any Letter of Credit, any Application, any other Loan Document, or any LIBOR Rate Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for (A) Taxes covered by Section 5.3, (B) net income taxes and franchise taxes imposed on such Bank as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and such Bank other than a connection arising solely from such Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Loans and (C) changes in the rate of tax on the overall net income of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Bank that is not otherwise included in the determination of the LIBOR Rate hereunder (except for amounts covered by Section 4.4 or any other Section hereof); or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the actual cost to such Bank, by an amount that such Bank deems to be material, of making, converting into, continuing or maintaining LIBOR Rate Loans or issuing or participating in Letters of Credit or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Bank, upon its demand in the manner set forth in Section 5.8(b), any additional amounts, computed by such Bank in accordance with Section 5.8(a), necessary to compensate such Bank for such actual increased cost or reduced amount receivable that is attributable to Loans or Commitments (to the extent that such Bank has not already been compensated or reimbursed for such amounts pursuant to any other provision of this Agreement). If any Bank becomes entitled to claim any additional amounts pursuant to this Section 5.1(a) from the Borrower, it shall promptly notify the Borrower, through the Administrative Agent, of the event by reason of which it has become so entitled in the manner set forth in Section 5.8(b).

(b) If any Bank determines in good faith that the introduction of or any change in or in the interpretation or application by any Governmental Authority of any law or regulation regarding capital adequacy after the date of this Agreement or compliance by such Bank or any corporation controlling such Bank with any law or regulation or any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) made or issued after the date of this Agreement does or shall have the effect, as a result of such Bank's obligations under this Agreement or under any Letter of Credit, of reducing the rate of return on such Bank's or such corporation's capital to a level below that which such Bank or such corporation could have achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, the Borrower shall pay to the Administrative Agent for the account of such Bank, from time to time as specified by such Bank in the manner set forth in Section 5.8(b), additional amounts, computed by such Bank in accordance with Section 5.8(a), sufficient to compensate such Bank or such corporation in the light of such circumstances, to the extent that such Bank reasonably determines such reduction in rate of return is allocable to the existence of such Bank's obligations hereunder.

(c) The agreements contained in this Section 5.1 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 5.1 for any period prior to the date that is 90 days prior to the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

SECTION 5.2. Pro Rata Treatment and Payments and Computations. (a) Each Borrowing by the Borrower from the Banks hereunder, each payment by the Borrower on account of any facility fee, any reduction of the Revolving Commitments of the Banks and any prepayment on account of principal and interest on the Revolving Loans shall be made pro rata according to the respective Revolving Percentages of the relevant Banks.

(b) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Term Loans shall be made pro rata according to the respective Term Percentages of the relevant Banks. The amount of each principal prepayment of the Term Loans shall be applied to reduce the then remaining installments of the Term Loans in direct order of maturity. Amounts prepaid on account of the Term Loans may not be reborrowed.

(c) The Borrower shall make each payment (including each prepayment) hereunder, whether on account of principal, interest, fees or otherwise, without setoff or counterclaim, not later than 12:00 Noon (New York City time) on the day when due in Dollars to the Administrative Agent at the Funding Office in immediately available funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, Letter of Credit fees or Facility Fees (to the extent received by the Administrative Agent) ratably to the Banks according to the amounts of their respective Loans, L/C Obligations and Commitments in respect of which such payment is made, and like funds relating to the payment of any other amount payable to any Bank (to the extent received by the Administrative Agent) to such Bank, in each case to be applied in accordance with the terms of this Agreement.

(d) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; provided, however, if such extension would cause payment of interest on or principal of LIBOR Rate Loans to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Bank shall pay to the Administrative Agent on demand an amount equal to the product of (i) the daily average Federal Funds Effective Rate during such period, times (ii) the amount of such Bank's Revolving Percentage or Term Percentage, as the case may be, of such payment, times (iii) a fraction, the numerator of which is the number of days that elapse from and including the date such amount is distributed to such Bank to the date on which such Bank's Revolving Percentage or Term

Percentage of such payment shall have become immediately available to the Administrative Agent and the denominator of which is 360.

SECTION 5.3. Taxes. (a) Any and all payments by the Borrower hereunder or under the Loan Documents shall be made, in accordance with Section 5.2, free and clear of and without deduction or withholding for or on account of any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Bank and the Administrative Agent, net income taxes and franchise taxes imposed on it as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Administrative Agent or such Bank other than a connection arising solely from the Administrative Agent or such Bank having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any Note (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Bank or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.3) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made; (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law; provided, however, that the Borrower shall not be required to increase any such sums payable to any Bank or CAF Loan Assignee with respect to any Taxes (i) that are attributable to such Bank's or CAF Loan Assignee's failure to comply with the requirements of Section 5.3(d) or (ii) that are United States withholding taxes imposed on sums payable to such Bank or CAF Loan Assignee at the time such Bank becomes a party to this Agreement or such CAF Loan Assignee has a CAF Loan assigned to it pursuant to a CAF Loan Assignment and Acceptance, as the case may be, except to the extent that any such Bank's or CAF Loan Assignee's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Taxes pursuant to this Section 5.3. Whenever any Taxes or Other Taxes (as defined in Section 5.3(b)) are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for the account of the relevant Bank or Administrative Agent, as the case may be, either (A) official tax receipts or notarized copies of such receipts to such Bank within thirty (30) days after payment of any applicable tax or (B) a certificate executed by a Responsible Officer of the Borrower confirming that such Taxes or Other Taxes have been paid, together with evidence of such payment.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under any Note or from the execution, delivery or registration of or otherwise with respect to, this Agreement, any other Loan Document, or the Loans and for which such Bank or the Administrative Agent (as the case may be) has not been otherwise reimbursed by the Borrower under this Agreement (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.3) paid by such Bank or the

Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, including, without limitation or duplication, any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Bank as a result of any failure by the Borrower to pay any Taxes or Other Taxes when due to the appropriate taxing authority or to remit to any Bank the receipts or other evidence of payment of Taxes or Other Taxes.

(d) Each Bank and each CAF Loan Assignee registered in the Register that is not a U.S. Person as defined in Section 7701(a)(30) of the Code agrees that it will deliver to the Borrower and the Administrative Agent on the Closing Date, or on the date which it becomes a party to this Agreement, two duly completed copies of United States Internal Revenue Service Form W-8BEN, W-8ECI W-8EXP or W-8IMY (or other appropriate corresponding form) or any successor applicable form, as the case may be. Each such Bank and each such CAF Loan Assignee also agrees to deliver to the Borrower and the Administrative Agent two further copies of the said Form W-8BEN, W-8ECI, W-8EXP, or W-8IMY or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Administrative Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Bank or such CAF Loan Assignee from duly completing and delivering any such form with respect to it and such Bank or such CAF Loan Assignee so advises the Borrower and the Administrative Agent. Each such Bank and each such CAF Loan Assignee shall certify in the case of a Form W-8BEN, W-8ECI, W-8EXP, or W-8IMY that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. In the event that any such Bank or CAF Loan Assignee fails to deliver any forms required under this Section 5.3(d), the Borrower's obligation to pay additional amounts shall be reduced to the amount that it would have been obligated to pay had such forms been provided.

(e) If any Taxes or Other Taxes are not correctly or legally asserted and the Administrative Agent or any Bank determines, in its sole discretion, that it has received a refund of those Taxes or Other Taxes as to which it has been indemnified by the Borrower, the Administrative Agent or such Bank shall within 20 days after such refund pay to the Borrower the amount of such refund to the extent that the Borrower indemnified the Administrative Agent or such Bank for such Taxes or Other Taxes pursuant to this Section 5.3, net of any out-of-pocket costs of the Administrative Agent or such Bank and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Bank in the event the Administrative Agent or such Bank is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent or any Bank to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

(e) The agreements in this Section 5.3 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that (i) in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 5.3 for any period before the date that is 180 days before the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower (other than any amounts as to which the ultimate amount of the reimbursement due could not then be determined) and (ii) nothing contained in this Section 5.3 shall require the Borrower to pay any amount to any Bank or the Administrative Agent in addition to that for which it has already reimbursed any Bank or the Administrative Agent under any other provision of this Agreement.

SECTION 5.4. Sharing of Payments, Etc. If any Bank (a "benefitted Bank") shall at any time receive any payment (other than pursuant to Section 4.4, 4.7, 5.1 or 5.3) of all or part of its Committed Loans, Reimbursement Obligations owing to it or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by setoff, pursuant to events or proceedings of the nature referred to in Section 9.1(g) or 9.1(h), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Committed Loans, Reimbursement Obligations owing to it, respectively, or interest thereon, such benefitted Bank shall purchase for cash from the other Banks a participating interest in such portion of each such other Bank's Committed Loans or Reimbursement Obligations owing to it, respectively, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 5.4 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

SECTION 5.5. Optional Termination or Reduction of the Commitments. (a) Unless previously terminated, the Commitments of the Banks to make Revolving Credit Loans shall terminate on the Revolving Loan Maturity Date.

(b) The Borrower shall have the right, without penalty or premium, upon at least three (3) Business Days' irrevocable written notice to the Administrative Agent (which shall give prompt notice to each Bank), to terminate in whole the Revolving Commitments or permanently, from time to time, to reduce ratably in part the unused portion of the Revolving Commitments, provided that (i) each partial reduction shall be in the aggregate principal amount of $5,000,000 or an integral multiple of $1,000,000 in excess thereof and (ii) no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments made under Section 5.6 by the Borrower on the effective date thereof, the Total Aggregate Outstanding Extensions of Credit then outstanding would exceed the Total Revolving Commitments then in effect.

Each reduction of Revolving Commitments pursuant to this Section 5.5 shall be applied pro rata to the Revolving Commitments of each Bank. If at any time, including after giving effect to any reduction of Revolving Commitments pursuant to this Section 5.5, the Total

Aggregate Outstanding Extensions of Credit exceed the Total Revolving Commitments, the Borrower shall be obligated, first, to prepay the Revolving Loans in the amount of such excess, second, to prepay the CAF Loans (whether or not consented to by the relevant Bank) to the extent that the aggregate amount of CAF Loans exceeds such Total Revolving Commitments after prepayment of all Revolving Loans and, third, to cash collateralize Letters of Credit to the extent that the aggregate amount of the L/C Obligations exceeds such Total Revolving Commitments after prepayment of all Revolving Loans and CAF Loans.

SECTION 5.6. Voluntary Prepayments. Subject to payment of amounts due under Section 4.7, the Borrower may, upon written notice delivered to the Administrative Agent not later than 11:00 A.M. (New York City time) one (1) Business Day (or in the case of LIBOR Rate Loans, three (3) Business Days) prior to the date of prepayment stating the aggregate principal amount of the prepayment and the Committed Loans to be prepaid, prepay the outstanding principal amounts of such Committed Loans comprising part of the same Committed Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that all such prepayments shall be made without premium or penalty thereon; and provided further that losses incurred by any Bank under Section 4.7 shall be payable with respect to each such prepayment in the manner set forth in Section 4.7. Any such notice provided pursuant to this Section 5.6 shall be irrevocable, and the payment amount specified in such notice shall be due and payable on the prepayment date described in such notice, together with accrued and unpaid interest on the amount prepaid. Partial prepayments pursuant to this Section 5.6 with respect to any Tranche of Committed LIBOR Rate Loans shall be in an aggregate principal amount equal to the lesser of (a) $10,000,000 or an integral multiple of $1,000,000 in excess thereof or (b) the aggregate principal amount of such Tranche of Committed LIBOR Rate Loans then outstanding, as the case may be; provided that no partial prepayment of any Tranche of Committed LIBOR Rate Loans may be made if, after giving effect thereto, Section 2.6 would be contravened. Partial prepayments with respect to the ABR Loans shall be made in an aggregate principal amount equal to the lesser of (i) $5,000,000 or an integral multiple of $1,000,000 in excess thereof or (ii) the aggregate principal amount of ABR Loans then outstanding, as the case may be.

SECTION 5.7. Mandatory Repayments and Prepayments and Commitment Reductions. (a) If any Capital Stock or Indebtedness shall be issued or incurred by the Borrower or any of its Subsidiaries after the Closing Date (other than Excluded Transactions), an amount equal to 100% of the Net Cash Proceeds thereof shall be applied within one (1) Business Day after such issuance or incurrence toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(c); provided that, notwithstanding the foregoing, any such net proceeds from such issuances by CenterPoint Electric or its Subsidiaries may be applied, at the option of CenterPoint Electric, and shall be applied to the extent required under the Bridge Credit Agreement, to repay the loans outstanding under the Bridge Facility pursuant to the terms of the Bridge Credit Agreement; provided further that, notwithstanding the foregoing, the Borrower shall not be required to apply the following to the prepayment of the Term Loans and the reduction of the Revolving Commitments: (i) Net Cash Proceeds from such issuances or incurrences by the Borrower and its Subsidiaries (including any such proceeds applied to refinance pollution control bonds through the remarketing of such bonds) from Third Party Financings in an aggregate amount, when added to Net Cash Proceeds excluded from mandatory prepayment pursuant to the second proviso in Section 5.7(b), not to exceed

$400,000,000 so long as such Net Cash Proceeds are applied, or will be applied, to repay maturing Indebtedness of the Borrower and its Subsidiaries outstanding on the Closing Date and (ii) Net Cash Proceeds from such issuances or incurrences by the Borrower and its Subsidiaries after the Closing Date in an aggregate amount not to exceed $100,000,000.

(b) If the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Asset Sale (other than (x) an Excluded Asset Sale and (y) any Asset Sale yielding Net Cash Proceeds of $30,000,000 or less, provided that the aggregate amount of Net Cash Proceeds from all Asset Sales excluded by this clause (y) shall not exceed $100,000,000) or Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, within one (1) Business Day after such Asset Sale or Recovery Event, the Borrower shall, or shall cause the applicable Subsidiary to, apply such Net Cash Proceeds toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(c); provided that, notwithstanding the foregoing, (i) the aggregate Net Cash Proceeds of Asset Sales that may be excluded from the foregoing pursuant to a Reinvestment Notice shall not exceed $120,000,000, (ii) on each Reinvestment Prepayment Date, an amount equal to the Reinvestment Prepayment Amount with respect to the relevant Reinvestment Event shall be applied toward the prepayment of the Term Loans and the reduction of the Revolving Commitments as set forth in Section 5.7(c) and (iii) such Net Cash Proceeds received by CenterPoint Electric may be applied, at the option of CenterPoint Electric, to repay the loans outstanding under the Bridge Facility pursuant to the terms of the Bridge Credit Agreement; provided, further, that the Borrower shall not be required to apply to the prepayment of the Term Loans and the reduction of the Revolving Commitments Net Cash Proceeds from Asset Sales by the Borrower and its Subsidiaries in an aggregate amount, when added to Net Cash Proceeds excluded from mandatory prepayment pursuant to the second proviso in Section 5.7(a), not to exceed $400,000,000 so long as such Net Cash Proceeds are applied, or will be applied, to repay maturing Indebtedness of the Borrower and its Subsidiaries outstanding on the Closing Date.

(c) Amounts to be applied in connection with prepayments and Commitment reductions made pursuant to this Section 5.7 shall be applied, first, to the prepayment of the Term Loans in accordance with Section 5.2(b) and, second, to reduce permanently the Revolving Commitments. Any such reduction of the Revolving Commitments shall be accompanied by prepayment of the Revolving Loans to the extent, if any, that the Total Aggregate Extensions of Credit exceed the amount of the Total Revolving Commitments as so reduced, provided that the Borrower shall be obligated, first, to prepay the Revolving Loans in the amount of such excess, second, to prepay the CAF Loans (whether or not consented to by the relevant Bank) to the extent that the aggregate amount of CAF Loans exceeds such Total Revolving Commitments after prepayment of all Revolving Loans and, third, to cash collateralize the Letters of Credit to the extent that the aggregate amount of the L/C obligations exceeds such Total Revolving Commitments after prepayment of all Revolving Loans and CAF Loans. The application of any prepayment pursuant to this Section 5.7 shall be made, first, to ABR Loans, second, to LIBOR Rate Loans and, third, to Fixed Rate Loans. Each prepayment of the Loans under this Section 5.7 shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.

SECTION 5.8. Mitigation of Losses and Costs. (a) Any Bank claiming reimbursement from the Borrower under any of Sections 4.4, 4.7, 5.1 and 5.3 hereof shall use reasonable efforts (including, without limitation, if requested by the Borrower, reasonable efforts to designate a different lending office of such Bank) to mitigate the amount of such losses, costs, expenses and liabilities, if such efforts can be made and such mitigation can be accomplished without such Bank suffering (i) any economic disadvantage for which such Bank does not receive full indemnity from the Borrower under this Agreement or (ii) any legal or regulatory disadvantage.

SECTION 5.9. Determination and Notice of Additional Costs and Other Amounts. (a) In determining the amount of any claim for reimbursement or compensation under Sections 4.4, 4.7 and 5.1, each Bank may use any reasonable averaging, attribution and allocation methods consistent with such methods customarily employed by such Bank in similar situations.

(a) Each Bank or, with respect to compensation claimed by it pursuant to Section 5.3, the Administrative Agent, as the case may be, will (i) use its best efforts to notify the Borrower through the Administrative Agent (in the case of each Bank) of any event occurring after the date of this Agreement promptly after the occurrence thereof and (ii) notify the Borrower through the Administrative Agent (in the case of each Bank) promptly after such Bank or the Administrative Agent, as the case may be, becomes aware of any event occurring after the date of this Agreement, in either case if such event (for purposes of this Section 5.9(b), a "Triggering Event") will entitle such Bank or the Administrative Agent, as the case may be, to compensation pursuant to Section 4.4, 4.7, 5.1 or 5.3, as the case may be. Each such notification of a Triggering Event shall be accompanied by a certificate of such Bank or the Administrative Agent, as the case may be, setting forth the calculations and justification in reasonable detail such amount or amounts as shall be necessary to compensate such Bank or the Administrative Agent, as the case may be, as specified in Section 4.4, 4.7, 5.1 or 5.3, as the case may be, and certifying that such costs are generally being charged by such Bank to other similarly situated borrowers under similar credit facilities, which certificate shall be conclusive absent manifest error. The Borrower shall pay to the Administrative Agent for the account of such Bank or to the Administrative Agent for its own account, as the case may be, the amount shown as due on any such certificate within ten (10) Business Days after its receipt of the same.

ARTICLE VI

CONDITIONS OF LENDING

SECTION 6.1. Conditions Precedent to Loans and Letters of Credit. The agreement of each Bank to make the initial extension of credit requested to be made by it is subject to the satisfaction, prior to or concurrently with the making of such extension of credit on the Closing Date, of the following conditions precedent:

(i) The Administrative Agent (or its counsel) shall have received this Agreement signed by the Borrower and each Bank.

(ii) The Administrative Agent (or its counsel) shall have received a certificate dated as of the Closing Date of the Secretary or an Assistant Secretary of the Borrower certifying (i) the names and true signatures of the Responsible Officers of the Borrower authorized to sign each Loan Document to which the Borrower is a party and the notices and other documents to be delivered by the Borrower pursuant to any such Loan

Document; (ii) the bylaws and articles of incorporation of the Borrower as in effect on the date of such certification; (iii) the resolutions of the Board of Directors of the Borrower approving and authorizing the execution, delivery and performance by the Borrower of each Loan Document to which it is a party and any Notes from time to time issued hereunder and authorizing the borrowings and other transactions contemplated hereunder and (iv) that all authorizations, approvals and consents by any Governmental Authority or other Person necessary in connection with the execution, delivery and performance of the Loan Documents and any other regulatory approvals in respect thereof required to be obtained prior to the Closing Date, have been obtained and are in full force and effect.

(iii) The Administrative Agent (or its counsel) shall have received a certificate dated as of the Closing Date of a Responsible Officer of the Borrower certifying that, as of the Closing Date and except as disclosed on Schedule 6.1, the Borrower owns, directly or indirectly through one or more of its Subsidiaries, all of the outstanding Capital Stock of each of its Significant Subsidiaries, free and clear of any Liens.

(iv) The Administrative Agent shall have received an executed legal opinion, dated the Closing Date, of (i) Baker Botts LLP, counsel to the Borrower and (ii) such other special and local counsel as may be required by the Administrative Agent. Each such legal opinion shall cover such matters incident to the transactions contemplated by this Agreement as the Administrative Agent may reasonably require and shall otherwise be in form and substance reasonably satisfactory to the Administrative Agent.

(v) The Administrative Agent (or its counsel) shall have received certificates dated on or about the Closing Date of the Secretary of State of the State of Texas as to the existence and good standing of the Borrower.

(vi) Consummation of the distribution of all of the Common Stock of Reliant Resources, Inc. owned by the Borrower to shareholders of the Borrower, as contemplated by the SEC in respect thereof and otherwise as previously disclosed to the Banks.

(vii) The Borrower shall have received $450,000,000 from CenterPoint Electric.

(viii) CenterPoint Electric shall have received gross proceeds of at least $850,000,000 under the Bridge Facility and/or from issuance of bonds in the capital markets.

(ix) The Administrative Agent shall have received satisfactory evidence that the Existing Credit Facilities shall have been replaced in their entirety with the Facilities and the Existing Credit Agreements shall have been amended and restated in their entirety by this Agreement.

(x) The Existing CenterPoint Electric Credit Agreement shall have been terminated and all amounts owing thereunder shall have been paid or refinanced in full, and the Borrower shall have delivered such documentation with respect thereto as the Administrative Agent shall reasonably request.

(xi) All governmental and third-party approvals necessary in connection with the execution, delivery and performance by the Borrower of this Agreement shall have been obtained and be in full force and effect.

(xii) The Administrative Agent shall have received all financial statements and other information as the Administrative Agent shall reasonably request, including projections and pro forma balance sheets adjusted to give effect to the financing contemplated hereby, and such financial statements shall not, in the reasonable judgment of the Banks, reflect any material adverse change in the consolidated financial condition of the Borrower and its Subsidiaries, as reflected in the financial statements or projections contained in the Confidential Information Memorandum.

(xiii) The Administrative Agent shall have received all fees required to be paid on or before the Closing Date.

(xiv) The Administrative Agent shall have received such other customary supporting documents as the Administrative Agent or the Banks, through the Administrative Agent, may reasonably request.

The Administrative Agent shall notify the Borrower and the Banks of the Closing Date, and such notice shall be conclusive and binding.

SECTION 6.2. Conditions Precedent to Each Borrowing. The obligation of each Bank to make each extension of credit (including, to the extent relevant, the initial Loans hereunder and any issuance of a Letter of Credit) is subject to the satisfaction of the following conditions precedent:

(a) On or prior to the date of such extension of credit, the Administrative Agent shall have received from the Borrower a Notice of Borrowing, a Competitive Bid Confirmation, or an Application, as the case may be, in accordance with the terms of this Agreement, or, in the case of the issuance, extension or increase of any Letter of Credit, the instruments required under Section 2.7 in respect thereof; provided that on the Closing Date, the Borrower shall have been deemed to have submitted a Notice of Borrowing for ABR Loans in the full amount of the Term Commitments of all the Banks, and the Borrower shall have been deemed to have made the representations and warranties contained in the Notice of Borrowing.

(b) The representations and warranties of the Borrower contained in Section 7.1 of this Agreement shall be true and correct in all material respects on and as of the date of such extension of credit (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date and, except in the case of a Revolving Borrowing the proceeds of which are used solely to refund commercial paper maturing at the time of such Revolving Borrowing, the representations and warranties contained in Sections 7.1(j) and (k)), before and after giving effect to such extension of credit, and to the application of the proceeds therefrom, as though made on and as of such date.

(c) No Default or Event of Default shall have occurred and be continuing or would result from such Borrowing or issuance, increase or extension.

(d) Each of the giving of any applicable Notice of Borrowing, Competitive Bid Confirmation or Application, as the case may be, the acceptance by the Borrower of the proceeds of each Borrowing, and each Letter of Credit issued on behalf of the Borrower, shall constitute a representation and warranty by the Borrower that on the date of such extension of credit that the conditions contained in this Section 6.2 have been satisfied.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

SECTION 7.1. Representations and Warranties of the Borrower. Borrower represents and warrants as follows:

(a) Corporate Status of the Borrower. The Borrower (i) is validly organized and existing as a corporation and in good standing under the laws of its jurisdiction of incorporation; (ii) is duly authorized or qualified to do business in and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Property requires it to be so authorized or qualified to do business, except where the failure to be so duly authorized or qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect, and (iii) has the corporate power and authority to conduct its business, as presently conducted.

(b) Status of Subsidiaries of the Borrower. Each Subsidiary of the Borrower (i) is validly organized and existing and in good standing under the laws of the jurisdiction of its organization and is duly authorized or qualified to do business in and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Property requires it to be so authorized or qualified to do business, except where the failure to be so validly organized and existing or duly authorized or qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect and (ii) has the corporate, partnership or other requisite power and authority to conduct its business, as presently conducted, except where the failure to have such power and authority, individually or in the aggregate, would not have a Material Adverse Effect.

(c) Corporate Powers. The Borrower has the corporate power to execute, deliver and perform and comply with its obligations under this Agreement, any Notes and the other Loan Documents to which it is a party. This Agreement has been, and each other Loan Document to which the Borrower is a party will be, duly executed and delivered on behalf of the Borrower.

(d) Authorization, No Conflict, Etc. The borrowings by the Borrower contemplated by this Agreement, the execution and delivery by the Borrower of this Agreement and the other Loan Documents to which it is a party and the performance by the Borrower of its obligations hereunder and thereunder have been duly authorized by all requisite corporate or other requisite action on the part of the Borrower and do not and will not (i) violate any law, any order to which the Borrower or any Subsidiary of the Borrower is subject of any court or other Governmental Authority, or the articles of incorporation or bylaws or other organizational documents (each as amended from time to time) of the Borrower or any Subsidiary of the Borrower; (ii) violate, conflict with, result in a breach of or constitute (with due notice or lapse of time or both, or any other condition) a default under, any indenture, loan agreement or other agreement to which the Borrower or any Subsidiary of the Borrower is a party or by which the Borrower nor any Subsidiary of the Borrower, or any of their respective Property, is bound (except for such violations, conflicts, breaches or defaults that, individually or in the aggregate, do not have or would not have a Material Adverse Effect); or (iii) result in, or require, the creation or imposition of any material Lien upon any of the Properties of the Borrower or any Significant Subsidiary.

(e) Governmental Approvals and Consents. No authorization or approval or action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents to which it is a party.

(f) Obligations Binding. This Agreement and the other Loan Documents to which the Borrower is a party are the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms (assuming due and valid authorization, execution and delivery of this Agreement by any party other than the Borrower), except as such enforceability may be (i) limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) subject to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(g) Use of Proceeds, Margin Stock. The proceeds of the Term Loans will be used by the Borrower to refinance certain obligations under, or for which credit support is provided by, the Existing Credit Facilities. The proceeds of the Revolving Loans will be used by the Borrower (i) to refinance certain obligations under, or for which credit support is provided by, the Existing Credit Facilities and (ii) to support commercial paper issued by the Borrower. Neither the Borrower nor any Subsidiary of the Borrower is principally engaged in, or has as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any Margin Stock, and no part of the proceeds of any Loan made to the Borrower will be used for any purpose that would violate the provisions of the margin regulations of the Board.

(h) Title to Properties. The issued and outstanding Capital Stock owned by the Borrower of each of its Significant Subsidiaries whether such stock is owned directly or indirectly through one or more of its Subsidiaries, is owned free and clear of any Lien. In addition, each of the Borrower and each Significant Subsidiary of the Borrower has good title to the Properties reflected in the financial statements referred to in Section 7.1(m) and in any financial statements delivered pursuant to Section 8.1(a), except for such Properties that have been disposed of subsequent to the dates of the balance sheets included in such financial statements and that are no longer used or useful in the conduct of the business of the Borrower or any Significant Subsidiary of the Borrower or that have been disposed of pursuant to Section 8.2(b) or (c) or that have been disposed of in the ordinary course of their respective business, and all such Properties are free and clear of any Lien except (i) in the case of the Property of CenterPoint Electric, the Mortgage and Liens permitted by the Mortgage; (ii) Liens that do not interfere with the use of such Properties for the purposes for which they are held; (iii) minor Liens and defects of title that are not material either individually or in the aggregate; and (iv) Permitted Liens.

(i) Investment Company Act. Neither the Borrower nor any Subsidiary of the Borrower is an "investment company" as defined in, or otherwise subject to regulation under, the Investment Company Act of 1940, as amended.

(j) Material Adverse Change. Since December 31, 2001, there has been no event, development or circumstance that has or would reasonably be expected to have a Material Adverse Effect, it being agreed that, on and after the Closing Date, this representation shall apply, with respect to periods prior to the Closing Date, to the portion of the business included in the business of the Borrower and the Consolidated Subsidiaries on the Closing Date.

(k) Litigation. There is no litigation, action, suit or other legal or governmental proceeding pending or, to the best knowledge of the Borrower, threatened, at law or in equity, or before or by any arbitrator or Governmental Authority (i) relating to the transactions under this Agreement or (ii) in which there is a reasonable possibility of an adverse decision that would have a Material Adverse Effect, it being agreed that, on and after the Closing Date, this representation shall apply, with respect to periods prior to the Closing Date, to the portion of the business included in the business of the Borrower and the Consolidated Subsidiaries on the Closing Date.

(l) ERISA. Neither the Borrower nor any of its Significant Subsidiaries has incurred any material liability or deficiency arising out of or in connection with (i) any Reportable Event or "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) with respect to any Plan that has occurred during the five-year period immediately preceding the date on which this representation is made or deemed made, (ii) any failure of a Plan to comply with the applicable provisions of ERISA and the Code, (iii) any termination of a Single Employer Plan, (iv) any complete or partial withdrawal by the Borrower or any Commonly Controlled Entity from any Multiemployer Plan or (v) any Lien in favor of the PBGC or any Plan that has arisen during the five-year period referred to in clause (1) above. In addition, no Multiemployer Plan is in Reorganization or is Insolvent, where such Reorganization or Insolvency, individually or when aggregated with the events described in the first sentence of this Section 7.1(l), is likely to result in a material liability or deficiency of the Borrower or any of its Significant Subsidiaries. As used in this Section 7.1(1), any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this Section 7.1(1) at any one time outstanding, individually and in the aggregate, is less than $50,000,000.

(m) Financial Statements. The pro forma consolidated financial statements of the Borrower as of and for the six months ended June 30, 2002 filed with the SEC on September 13, 2002 with the Borrower's 8-K dated September 5, 2002, copies of which have been delivered to the Banks, present fairly in all material respects the consolidated financial condition and results of operations of the Borrower and its Consolidated Subsidiaries as of such date and for the period then ended, in conformity with, as applicable, GAAP and the regulations promulgated under the Securities Act and, except as otherwise stated therein, consistently applied (in the case of such unaudited statements, subject to year-end adjustments and the exclusion of detailed footnotes).

(n) Accuracy of Information. None of the documents or written information (excluding estimates, financial projections and forecasts) provided by the Borrower to the Banks in connection with or pursuant to this Agreement contains as of the date thereof or will contain as of the date thereof any untrue statement of a material fact or omits or will omit to state as of the date thereof a material fact (other than industry-wide risks normally associated with the types of businesses conducted by the Borrower and its Subsidiaries) necessary to make the statements therein, in the light of the circumstances under which they were made, not materially misleading, as a whole. The estimates, financial projections and forecasts furnished to the Banks by the Borrower with respect to the transactions contemplated under this Agreement were prepared in good faith and on the basis of information and assumptions that the Borrower believed to be reasonable as of the date of such information, it being recognized by the Banks that such estimates, financial projections and forecasts as they relate to future events are not to be viewed as fact and that actual results during the period or periods covered by such estimates, financial projections and forecasts may differ from the projected results set forth therein by a material amount.

(o) No Violation. The Borrower is not in violation of any order, writ, injunction or decree of any court or any order, regulation or demand of any Governmental Authority that, individually or in the aggregate, reasonably could be expected to have a Material Adverse Effect.

(p) Subsidiaries. Schedule 1.1(C) attached hereto sets forth each Significant Subsidiary of the Borrower as of the Closing Date.

(q) Senior Indebtedness. The obligations under this Agreement and the other Loan Documents constitute "Senior Debt" of the Borrower under and as defined in the ZENS Indenture.

(r) Solvency. On and as of the Closing Date, the Borrowings of initial Loans on the Closing Date and the other transactions contemplated hereby and thereby, the Borrower will be Solvent.

(s) Taxes. The Borrower and each of its Subsidiaries has filed or caused to be filed all Federal, state and other material tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its Property and all other taxes, fees or other charges imposed on it or any of its Property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries), except where the failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; no tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges (other than any Liens or claims that could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect).

ARTICLE VIII

AFFIRMATIVE AND NEGATIVE COVENANTS

SECTION 8.1. Affirmative Covenants. The Borrower covenants that, as long as any amount is owing hereunder or under any other Loan Documents, any Letter of Credit is outstanding or any Bank shall have any Commitment outstanding under this Agreement:

(a) Delivery of Financial Statements, Notices and Certificates. The Borrower shall deliver to the Administrative Agent for distribution to the Banks sufficient copies for each of the Banks of the following:

(i) as soon as practicable and in any event within 120 days after the end of each fiscal year of the Borrower (beginning with fiscal 2002), a consolidated balance sheet of the Borrower and the Consolidated Subsidiaries of the Borrower as of the end of such fiscal year and the related statements of consolidated income, retained earnings and cash flows prepared in conformity with GAAP consistently applied, setting forth in comparative form the figures for the previous fiscal year, together with a report thereon by independent certified public accountants of nationally recognized standing selected by the Borrower (which requirement may be satisfied by delivering the Borrower's Annual Report on Form 10-K with respect to such fiscal year as filed with the SEC);

(ii) as soon as practicable and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower (beginning with the quarter ending September 30, 2002), unaudited consolidated financial statements of the Borrower and the Consolidated Subsidiaries of the Borrower consisting of at least consolidated balance sheets as at the close of such quarter and statements of consolidated income, retained earnings and cash flows for such quarter and for the period from the beginning of such fiscal year to the close of such quarter (which requirement may be satisfied by delivering the Borrower's Quarterly Report on Form 10-Q with respect to such fiscal quarter as filed with the SEC); such financial statements shall be accompanied by a certificate of a Responsible Officer of the Borrower to the effect that such unaudited financial statements present fairly in all material respects the consolidated financial condition and results of operations of the Borrower and the Consolidated Subsidiaries of the Borrower as of such date for the period then ending, and have been prepared in conformity with GAAP in a manner consistent with the financial statements referred to in paragraph (a)(i) above (subject to year-end adjustments and exclusion of detailed footnotes);

(iii) with each set of statements to be delivered above, a certificate in a form reasonably satisfactory to the Administrative Agent, signed by a Responsible Officer of the Borrower confirming compliance with Section 8.2(a) and setting out in reasonable detail the calculations necessary to demonstrate such compliance as at the date of the most recent balance sheet included in such financial statements and stating that no Default or Event of Default has occurred and is continuing or, if there is any Default or Event of Default, describing it and the steps, if any, being taken to cure it; and

(iv) (A) within ten (10) days of the filing thereof, copies of all periodic reports (other than (x) reports on Form 11-K or any successor form, (y) Current Reports on Form 8-K that contain no information other than exhibits filed therewith and (z) reports on Form 10-Q or 10-K or any successor forms) under the Exchange Act (in each case other than exhibits thereto and documents incorporated by reference therein)) filed by the Borrower with the SEC; (B) promptly, and in any event within seven (7) days after a Responsible Officer of the Borrower becomes aware of the occurrence thereof, written notice of (x) any Event of Default or any Default, (y) the institution of any litigation, action, suit or other legal or governmental proceeding involving the Borrower or any Subsidiary of the Borrower as to which there is a reasonable possibility of an adverse decision that would have a Material Adverse Effect on the Borrower or any final adverse determination in any litigation, action, suit or other legal or governmental proceeding involving the Borrower or any Subsidiary of the Borrower that would have a Material Adverse Effect, or (z) the incurrence by the Borrower or any Significant Subsidiary of a material liability or deficiency, or the existence of a reasonable possibility of incurring a material liability or deficiency, arising out of or in connection with (1) any Reportable Event with respect to any Plan, (2) the failure to make any required contribution to a Plan, (3) the creation of any Lien in favor of the PBGC or a Plan, (4) any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (5) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan; provided that, as used in this clause (z), any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this clause (z) at any one time outstanding, individually and in the aggregate, is less than $50,000,000; (C) with each set of statements delivered pursuant to Section 8.1(a)(i), a certificate signed by a Responsible Officer of the Borrower identifying those Subsidiaries which, determined as of the date of such financial statements, are Significant Subsidiaries; and (D) such other information relating to the Borrower or its business, properties, condition and operations as the Administrative Agent (or any Bank through the Administrative Agent) may reasonably request.

Information required to be delivered pursuant to the foregoing Sections 8.1(a)(i), (ii), and (iv)(A) shall be deemed to have been delivered on the date on which Borrower provides notice (including notice by e-mail) to the Administrative Agent (which notice the Administrative Agent will convey promptly to the Banks) that such information has been posted on the SEC website on the Internet at sec.gov/edgar/searches.htm or at another website identified in such notice and accessible by the Banks without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 8.1(a)(iii) and (ii) Borrower shall deliver paper copies of such information to the Administrative Agent, and the Administrative Agent shall deliver paper copies of such information to any Bank that requests such delivery.

(b) Use of Proceeds. The Borrower will use the proceeds of any Loan or Letter of Credit made or issued by the Banks or the Issuing Bank to it for the purposes set forth in the first sentence of Section 7.1(g), and it will not use the proceeds of any Loan or Letter of Credit made or issued by the Banks or the Issuing Bank for any purpose that would violate the provisions of the margin regulations of the Board. The Borrower will not, and will not permit any of its

Subsidiaries to engage principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying, within the meaning of Regulation U, any Margin Stock.

(c) Existence, Laws. The Borrower will and will cause each of its Subsidiaries to, do or cause to be done all things necessary (i) to preserve, renew and keep in full force and effect its legal existence and all rights, licenses, permits and franchises (except to the extent otherwise permitted by Sections 8.2(c) or 8.2(e)) and (ii) to comply with all laws and regulations applicable to it, except in each case, where the failure to do so, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(d) Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including any tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to have a Material Adverse Effect.

(e) Maintenance of Properties. The Borrower will, and will cause each of its Significant Subsidiaries to, preserve and maintain all of its Property that is material to the conduct of its business and keep the same in good repair, working order and condition, and from time to time to make, or cause to be made, such repairs, renewals and replacements thereto as in the good faith judgment of the Borrower or such Subsidiary, as the case may be, are necessary or proper so that the business carried on in connection therewith may be properly conducted at all times, provided, however, that nothing in this Section 8.1(e) shall prevent (a) the Borrower or any of its Subsidiaries from selling, abandoning or otherwise disposing of any Properties (including the Capital Stock of any Subsidiary of the Borrower that is not a Significant Subsidiary of the Borrower), the retention of which in the good faith judgment of the Borrower or such Subsidiary is inadvisable or unnecessary to the business of the Borrower and its Subsidiaries, taken as a whole or (b) any other transaction that is expressly permitted by the terms of any other provision of this Agreement.

(f) Maintenance of Business Line. The Borrower will maintain its fundamental business of providing services and products in the energy market.

(g) Books and Records; Access. The Borrower will, and will cause each Significant Subsidiary to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities as required by GAAP. The Borrower will, and will cause each of its Subsidiaries to, at any reasonable time and from time to time, permit up to six representatives of the Banks designated by the Majority Banks, or representatives of the Administrative Agent, on not less than five (5) Business Days' notice, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and each Significant Subsidiary and to discuss the general business affairs of the Borrower and each of its Subsidiaries with their respective officers and independent certified public accountants; subject, however, in all cases to the imposition of such conditions as the Borrower and each of its Subsidiaries shall deem necessary based on reasonable considerations of safety and security; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to disclose to the Agent, any Bank or any agents or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. Notwithstanding the foregoing, none of the conditions precedent to the exercise of the right of access described in the preceding sentence that relate to notice requirements or limitations on the Persons permitted to exercise such right shall apply at any time when a Default or an Event of Default shall have occurred and be continuing.

(h) Insurance. The Borrower will and will cause each of its Subsidiaries to, maintain insurance with responsible and reputable insurance companies or associations, or to the extent that the Borrower or such Subsidiary deems it prudent to do so, through its own program of self-insurance, in such amounts and covering such risks as is usually carried by companies engaged in similar businesses, of comparable size and financial strength and with comparable risks.

(i) Long-Term Debt Rating. The Borrower will deliver to the Administrative Agent notice of any change by a Rating Agency in the Long-Term Debt Rating, and the issuance by an additional Rating Agency of a Long-Term Debt Rating, promptly upon the effectiveness of such change or issuance.

SECTION 8.2. Negative Covenants. The Borrower covenants that, so long as any amount is owing to the Banks hereunder or under any other Loan Documents to which it is a party or any Letter of Credit is outstanding under this Agreement, the Borrower will not:

(a) Financial Ratios. Permit at any time (i) the ratio of Consolidated Indebtedness for Borrowed Money at such time to Consolidated EBITDA for the most recently ended twelve-month period to exceed 4.75:1.00 or (ii) the ratio of Consolidated EBITDA for the most recently ended twelve-month period to Adjusted Interest Expense for such period to be less than 1.75:1.00.

(b) Certain Liens. And will not permit any of its Subsidiaries to, pledge, mortgage, hypothecate or grant a Lien upon, or permit any mortgage, pledge, security interest or other Lien upon, any Property of the Borrower or any Subsidiary of the Borrower now or hereafter owned directly or indirectly by the Borrower; provided, however, that this restriction shall neither apply to nor prevent the creation or existence of:

(i) Permitted Liens;

(ii) Liens on preference stock or related rights securing any FinanceCo Permitted Facility;

(iii) any Lien in existence on the date hereof, provided that no such Lien encumbers any additional Property after the Closing Date and that the principal amount of Indebtedness secured thereby is not increased;

(iv) Liens securing first mortgage bonds pursuant to the Mortgage (or second or subordinated Liens in lieu thereof) issued after the Closing Date; provided that if the Bridge Facility is outstanding, net cash proceeds of such issuances are (a) applied to (i) replace first mortgage bonds issued under the Mortgage and outstanding on the Closing Date or (ii) repay amounts outstanding under the Bridge Facility to the extent required thereunder or (b) proceeds of Third Party Financings which are excluded from the mandatory prepayment requirement under this Agreement and under the Bridge Credit Agreement;

(v) Liens required to be granted pursuant to "equal and ratable" clauses under Contractual Obligations of the Borrower and its Significant Subsidiaries existing on the Closing Date;

(vi) Liens arising in connection with the securitization of accounts receivable of Resources and its Subsidiaries or any Securitization Subsidiary, in the case of Resources and its Subsidiaries, to the extent affecting only the accounts receivable of Resources and its Subsidiaries and assets customarily related thereto securing a facility amount not to exceed $250,000,000 outstanding at any time;

(vii) Liens securing Indebtedness of Texas Genco Holdings, Inc. for working capital of Texas Genco Holdings, Inc., provided that such Liens shall be limited to the Property of Texas Genco, Inc.;

(viii) Liens on office buildings, parking and related real estate owned by Reliant Energy Properties, Inc. to secure new financing based thereon;

(ix) Liens securing the Bridge Facility;

(x) Liens on fixed or capital assets and related inventory and intangible assets acquired, constructed, improved, altered or repaired by the Borrower or any of its Significant Subsidiaries; provided that (i) such Liens secure Indebtedness otherwise permitted by this Agreement, (ii) such Liens and the Indebtedness secured thereby are incurred prior to or within 365 days after such acquisition or the later of the completion of such construction, improvement, alteration or repair or the date of commercial operation of the assets constructed, improved, altered or repaired, (iii) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing, improving, altering or repairing such fixed or capital assets, as the case may be, and (iv) such Lien shall not apply to any other property or assets of the Borrower or of its Significant Subsidiaries (other than repairs, renewals, replacements, additions, accessions, improvements and betterments thereto);

(xi) Liens on Property and repairs, renewals, replacements, additions, accessions, improvements and betterments thereto existing at the time such Property is acquired by the Borrower or any of its Significant Subsidiaries and not created in contemplation of such acquisition (or on repairs, renewals, replacements, additions, accessions and betterments thereto), and Liens on the Property of any Person at the time such Person becomes a Subsidiary of the Borrower and not created in contemplation of such Person becoming a Subsidiary of the Borrower (or on repairs, renewals, replacements, additions, accessions and betterments thereto);

(xii) rights reserved to or vested in any Governmental Authority by the terms of any right, power, franchise, grant, license or permit, or by any Requirements of Law, to terminate such right, power, franchise, grant, license or permit or to purchase, condemn, expropriate or recapture or to designate a purchaser of any of the Property of the Borrower or any of its Subsidiaries;

(xiii) rights reserved to or vested in (or exercised by) any Governmental Authority to control, regulate or use any Property of a Person or its activities, including zoning, planning and environmental laws and ordinances and municipal regulations;

(xiv) Liens on Property of the Borrower or any of its Subsidiaries securing non-recourse Indebtedness of the Borrower or any such Subsidiary;

(xv) Liens on the stock or assets of Securitization Subsidiaries;

(xvi) any extension, renewal or refunding of any Lien permitted by clauses (i) through (xv) above on the same Property previously subject thereto; provided that no extension, renewal or refunding of any such Lien shall increase the principal amount of any Indebtedness secured thereby immediately prior to such extension, renewal or refunding, unless such Indebtedness is permitted by Section 8.2(a);

(xvii) Liens on cash collateral provided in lieu of repayment of pollution control bonds until the remarketing of such bonds;

(xviii) Liens on cash collateral to secure obligations of the Borrower and its Subsidiaries in respect of cash management arrangements with any Bank or Affiliate thereof; and

(xix) Liens not otherwise permitted by this Section 8.2(b) securing Indebtedness of the Borrower and its Significant Subsidiaries so long as the aggregate outstanding principal amount of the obligations secured thereby does not at any time exceed (as to the Borrower and all of its Subsidiaries) $15,000,000 at such time.

(c) Consolidation, Merger or Disposal of Assets. And will not permit any of its Significant Subsidiaries to, (i) consolidate with, or merge into or amalgamate with or into, any other Person; (ii) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or (iii) convey, sell, transfer, lease or otherwise dispose of all or substantially all of its Properties, or the Capital Stock of any Significant Subsidiary of the Borrower, to any Person; provided, however, that nothing contained in this Section 8.2(c) shall prohibit (A) a merger involving a Subsidiary of the Borrower (other than the Borrower) (including mergers to reincorporate or change the domicile of such Subsidiary) if the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower is the surviving entity thereof; (B) the liquidation, winding up or dissolution of a Significant Subsidiary of the Borrower (other than the Borrower) if all of the Properties of such Significant Subsidiary are conveyed, transferred or distributed to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower; (C) the conveyance, sale, transfer or other disposal of all or substantially all (or any lesser portion) of the Properties of any Significant Subsidiary (other than the Borrower) to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower; (D) the Genco Transaction or (E) the transfer of assets in connection with the issuance of Securitization Securities; provided that, in each case, immediately before and after giving effect to any such merger, dissolution or liquidation, or conveyance, sale, transfer, lease or other disposition, no Default or Event of Default shall have occurred and be continuing.

(d) Takeover Bids. Use the proceeds of any Loan made to it to participate in any unsolicited control bid for any other Person.

(e) Sale of Significant Subsidiary Stock. And will not permit any Significant Subsidiary to sell, assign, transfer or otherwise dispose of any of the Capital Stock of any Significant Subsidiary other than the Genco Transaction or to a Wholly-Owned Subsidiary of the Borrower that constitutes a Significant Subsidiary after giving effect to such transaction; provided, that immediately before and after giving effect to such sale, assignment, transfer or other disposition, no Event of Default or Default shall have occurred and be continuing. Notwithstanding the foregoing provisions of this Section 8.2(e), any Significant Subsidiary shall have the right to issue, sell, assign, transfer or otherwise dispose of for value its preference or preferred stock in one or more bona fide transactions to any Person.

(f) Dividends. And will not permit any of its Significant Subsidiaries to (x) enter into, incur or permit to exist any agreement or other arrangement that explicitly prohibits or restricts the payment by any of its Significant Subsidiaries of dividends or other distributions with respect to any shares of its Capital Stock; provided that the foregoing shall not prohibit financial incurrence, maintenance and similar covenants that indirectly have the practical effect of prohibiting or restricting the ability of a Significant Subsidiary to make such payments or provisions that require that a certain amount of capital be maintained, or prohibit the return of capital to shareholders above certain dollar limits; provided further, that the foregoing shall not apply to (i) restrictions and conditions imposed by law or by this Agreement, (ii) restrictions and conditions existing on the date hereof, any amendment or modification thereof (other than an amendment or modification expanding the scope of any such restriction or condition and any restrictions or conditions) that (x) replace restrictions or conditions existing on the date hereof and (y) are substantially similar to such existing restriction or condition, (iii) restrictions (including any extension of such restrictions that does not expand the scope of any such restrictions) existing at the time at which any such Subsidiary first becomes a Significant Subsidiary, so long as such restriction was in existence prior to such time in accordance with the other provisions of this Agreement and was not agreed to or incurred in contemplation of such change of status and (iv) any restrictions with respect to a Significant Subsidiary imposed pursuant to an agreement that has been entered into in connection with a disposition of all or substantially all of the Capital Stock or assets of such Subsidiary and (y) declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except (a) the Borrower may declare and pay dividends with respect to its common Capital Stock payable solely in additional shares of its common stock, (b) the Borrower may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management, officers, directors or employees of the Borrower and (c) the Borrower may declare and pay dividends in an amount for any fiscal quarter of the Borrower not to exceed $0.16 per share of common Capital Stock of the Borrower.

(g) Certain Investments, Loans, Advances, Guarantees and Acquisitions. And will not permit any of its Subsidiaries to, purchase, or acquire (including pursuant to any merger) any Capital Stock, evidences of indebtedness or other securities of or other interest in (including any option, warrant or other right to acquire any of the foregoing), make any loans or advances to, Guarantee any obligations of, or make any investment or other interest in or capital contribution to, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, (any of the foregoing, an "Investment"), in each case after the Closing Date, except that, notwithstanding the foregoing, the Borrower and its Subsidiaries may make Investments (a) in Cash Equivalents; (b) in any Wholly-Owned Subsidiary of the Borrower; (c) in pollution control bonds which are the obligation of the Borrower in connection with and until the remarketing of such bonds and (d) otherwise if, after giving effect thereto, the Borrower would be in compliance with its covenants contained in Section 8.2(a) on a pro forma basis and the aggregate amount of all such Investments (including, without limitation, any Guarantee, loan, advance or any assumed Indebtedness) described in this clause (d) shall not exceed $100,000,000 outstanding at any time.

SECTION 8.3. Changes in Lines of Business. Enter into any business, either directly or through any of its Subsidiaries, except for those businesses in which the Borrower and its Subsidiaries are engaged on the date of this Agreement or that are directly related thereto:

ARTICLE IX

EVENTS OF DEFAULT

SECTION 9.1. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default":

(a) Non-Payment of Principal, Interest and Facility Fee. The Borrower fails to pay, in the manner provided in this Agreement, (i) any principal or Reimbursement Obligations payable by it hereunder when due or (ii) any interest payment, the Facility Fee, the Additional Fee, the fee payable pursuant to Section 4.2(b) or the Letter of Credit fee payable by it hereunder within five (5) Business Days after its due date; or

(b) Non-Payment of Other Amounts. The Borrower fails to pay, in the manner provided in this Agreement, any other amount (other than the amounts set forth in Section 9.1(a) above) payable by it hereunder within ten (10) Business Days after notice of such payment is received by the Borrower from the Administrative Agent; or

(c) Breach of Representation or Warranty. Any representation or warranty by the Borrower in Section 7.1 or in any certificate, document or instrument delivered by the Borrower under this Agreement shall have been incorrect in any material respect when made or when deemed hereunder to have been made; or

(d) Breach of Certain Covenants. Borrower fails to perform or comply with any one or more of its obligations under Section 8.1(a)(iv)(B)(x) or 8.2; or

(e) Breach of Other Obligations. Borrower does not perform or comply with any one or more of its other obligations under this Agreement (other than those set forth in Section 9.1(a), (b) or (d) above) and such failure to perform or comply shall not have been remedied within 30 days after the earlier of notice thereof to it by the Administrative Agent or the Majority Banks or discovery thereof by a Responsible Officer of the Borrower; or

(f) Other Indebtedness. (i) The Borrower or any of its Significant Subsidiaries fails to pay when due (either at stated maturity or by acceleration or otherwise but subject to applicable grace periods) any principal or interest in respect of any Indebtedness for Borrowed Money, Secured Indebtedness or Junior Subordinated Debt (other than Indebtedness of the Borrower under this Agreement) if the aggregate principal amount of all such Indebtedness for which such failure to pay shall have occurred and be continuing exceeds $50,000,000 or (ii) any default, event or condition shall have occurred and be continuing with respect to any Indebtedness for Borrowed Money, Secured Indebtedness or Junior Subordinated Debt of the Borrower or any of its Significant Subsidiaries (other than Indebtedness of the Borrower under this Agreement), the effect of which default, event or condition is to cause, or to permit the holder thereof to cause, (A) such Indebtedness to become due prior to its stated maturity (other than in respect of mandatory prepayments required thereby) or (B) in the case of any Guarantee of Indebtedness for Borrowed Money of any Person or Junior Subordinated Debt by the Borrower or any of its Subsidiaries the primary obligation (as such term is defined in the definition of "Guarantee" in Section 1.1) to which such Guarantee relates to become due prior to its stated maturity, if the aggregate amount of all such Indebtedness or primary obligations (as the case may be) that is or could be caused to be due prior to its stated maturity exceeds $50,000,000; or

(g) Involuntary Bankruptcy, Etc. (i) There shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action (A) seeking a decree or order for relief in respect of the Borrower or any of its Significant Subsidiaries under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, (B) seeking a decree or order adjudging the Borrower or any of its Significant Subsidiaries a bankrupt or insolvent, (C) except as permitted by Sections 8.2(c)(ii) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief of or in respect of the Borrower or any of its Significant Subsidiaries or their respective debts under any applicable domestic or foreign law or (D) seeking the appointment of a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or any of its Significant Subsidiaries or of any substantial part of their respective Properties, or the liquidation of their respective affairs, and such petition is not dismissed within 90 days or (ii) a decree, order or other judgment is entered in respect of any of the remedies, reliefs or other matters for which any petition referred to in (i) above is presented or (iii) there shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged or stayed or bonded pending appeal within 90 days from the entry thereof; or

(h) Voluntary Bankruptcy, Etc. (i) The commencement by the Borrower or any of its Significant Subsidiaries of a voluntary case, proceeding or other action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law (A) seeking to have an order of relief entered with respect to it, (B) seeking to be adjudicated a bankrupt or insolvent, (C) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief with respect to it or its debts under any applicable domestic or foreign law or (D) seeking the appointment of or the taking possession by a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or similar official of the Borrower or any of its Significant Subsidiaries of any substantial part of its Properties; or (ii) the making by the Borrower or any of its Significant Subsidiaries of a general assignment for the benefit of creditors; or (iii) the Borrower or any of its Significant Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in clause (i) or (ii) above or in Section 9.1(g); or (iv) the admission by the Borrower or any of its Significant Subsidiaries in writing of its inability to pay its debts generally as they become due or the failure by the Borrower or any of its Significant Subsidiaries generally to pay its debts as such debts become due; or

(i) Enforcement Proceedings. A final judgment or decree for the payment of money which, together with all other such judgments or decrees against the Borrower or any of its Significant Subsidiaries then outstanding and unsatisfied, exceeds $50,000,000 in aggregate amount shall be rendered against the Borrower or any of its Significant Subsidiaries and the same shall remain undischarged for a period of 60 days, during which the execution thereon shall not effectively be stayed, released, bonded or vacated; or

(j) ERISA Events. (i) The Borrower or any Significant Subsidiary shall incur any liability arising out of (A) any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (B) the occurrence of any "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) by a Plan, whether or not waived, or any Lien in favor of the PBGC or a Plan on the assets of the Borrower or any Commonly Controlled Entity, (C) the occurrence of a Reportable Event with respect to, or the commencement of proceedings under Section 4042 of ERISA to have a trustee appointed, or the appointment of a trustee under Section 4042 of ERISA, to administer or to terminate any Single Employer Plan, which Reportable Event, commencement of proceedings or appointment of a trustee is likely to result in the termination of such Plan for purposes of Title IV of ERISA, (D) the termination of any Single Employer Plan for purposes of Title IV of ERISA, (E) withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (F) the occurrence of any other event or condition with respect to a Plan, and any of such items (A) through (F) above results in or is likely to result in a material liability or deficiency of the Borrower or any Significant Subsidiary; provided, however, that for purposes of this Section 9.1(j), any liability or deficiency of the Borrower or any Significant Subsidiary shall be deemed not to be material so long as the sum of all liabilities or deficiencies referred to in this Section 9.1(j) at any one time outstanding, individually and in the aggregate, is less than $50,000,000, or (ii) the occurrence of any one or more of the events specified in clauses (A) through (F) above if, individually or in the aggregate, such event or events would have a Material Adverse Effect on the Borrower; or

(k) Change in Control. A Change in Control shall have occurred.

SECTION 9.2. Cancellation/Acceleration. If at any time and for any reason (whether within or beyond the control of any party to this Agreement):

(a) either of the Events of Default specified in Section 9.1(g) or 9.1(h) occurs with respect to the Borrower, then automatically:

(i) the Commitments and the CAF Facility shall immediately be cancelled; and

(ii) all Loans made hereunder, all amounts of L/C Obligations (whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required for draws thereunder), all unpaid accrued interest or fees and any other sum payable under this Agreement shall become immediately due and payable; or

(b) any other Event of Default specified in Section 9.1 occurs and, while such Event of Default is continuing, the Administrative Agent, having been so instructed by the Majority Banks, by notice to the Borrower shall so declare that:

(i) the Commitments and the CAF Facility shall immediately be cancelled; and/or

(ii) either (A) all Loans made hereunder, all amounts of L/C Obligations (whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required for draws thereunder), all unpaid accrued interest or fees and any other sum payable under this Agreement shall become immediately due and payable or (B) all Loans made hereunder, all amounts of L/C Obligations (whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required for draws thereunder), all unpaid accrued interest or fees and any other sum payable under this Agreement shall become due and payable at any time thereafter immediately on demand by the Administrative Agent (acting on the instructions of the Majority Banks).

With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to the preceding paragraph or on the Termination Date, the Borrower shall at such time deposit in a cash collateral account opened by the Administrative Agent cash or cash equivalents in an amount equal to the aggregate then undrawn and unexpired face amount of such Letters of Credit. The Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Bank and the L/C Participants, a security interest in such cash collateral to secure all obligations of the Borrower under this Agreement and the other Loan Documents. Interest shall accrue on such account for the benefit of the Borrower at a rate equal to the Federal Funds Effective Rate. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Borrower hereunder and under the Notes. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrower hereunder and under the Notes shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower. The Borrower shall execute and deliver to the Administrative Agent, for the account of the Issuing Bank and the L/C Participants, such further documents and instruments as the Administrative Agent may reasonably request to evidence the creation and perfection of the within security interest in such cash collateral account.

Except as expressly provided above in this Section 9.2, presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind whatsoever are hereby expressly waived by the Borrower.

ARTICLE X

THE ADMINISTRATIVE AGENT

SECTION 10.1. Appointment. Each Bank hereby irrevocably designates and appoints JPMorgan Chase Bank as the Administrative Agent of such Bank under this Agreement and the other Loan Documents, and each such Bank irrevocably authorizes JPMorgan Chase Bank, as the Administrative Agent for such Bank, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, (a) the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent and (b) the Lead Arrangers shall not have any duties or responsibilities hereunder, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Lead Arrangers.

SECTION 10.2. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

SECTION 10.3. Exculpatory Provisions. Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or such Person's own gross negligence or willful misconduct) or (b) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any Note or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower.

SECTION 10.4. Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, facsimile, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note or any loan account in the Register as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Majority Banks as it deems appropriate or it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Majority Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the amounts owing hereunder.

SECTION 10.5. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Banks. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Majority Banks; provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

SECTION 10.6. Non-Reliance on Administrative Agent and Other Banks. Each Bank expressly acknowledges that neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Bank. Each Bank represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower that may come into the possession of the Administrative Agent or any of its officers, directors, employees, Administrative Agents, attorneys-in-fact or Affiliates.

SECTION 10.7. Indemnification. The Banks agree to indemnify the Administrative Agent and the Lead Arrangers in their respective capacities as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective applicable Pro Rata Percentages in effect on the date on which indemnification is sought under this Section 10.7, from and against any and all liabilities, obligations., losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (including, without limitation, at any time following the payment of all amounts owing hereunder and the termination of the Commitments) be imposed on, incurred by or asserted against the Administrative Agent or the Lead Arrangers, as the case may be, in any way relating to or arising out of this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent or the Lead Arrangers, as the case may be, under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's or the Lead Arrangers', as the case may be, gross negligence or willful misconduct. The agreements in this Section 10.7 shall survive the payment of all amounts payable hereunder.

SECTION 10.8. Administrative Agent in Its Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though the Administrative Agent were not the Administrative Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it, any Letter of Credit issued or participated in by it and its Commitment hereunder, the Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Bank and may exercise the same as though it were not the Administrative Agent, and the terms "Bank" and "Banks" shall include the Administrative Agent in its individual capacity.

SECTION 10.9. Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Banks and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Majority Banks shall appoint from among the Banks a successor agent for the Banks, which successor agent shall be approved by the Borrower, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of any amounts payable hereunder; provided that if an Event of Default has occurred and is continuing, no consent of the Borrower shall be required. If a successor Administrative Agent shall not have been so appointed within said 30-day period, the Administrative Agent may then appoint a successor Administrative Agent who shall be a financial institution engaged or licensed to conduct banking business under the laws of the United States with an office in New York City and that has total assets in excess of $500,000,000 and who shall serve as Administrative Agent until such time, if any, as an Administrative Agent shall have been appointed as provided above. After any retiring Administrative Agent's resignation or removal as Administrative Agent, the provisions of this Article X shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

Notwithstanding anything to the contrary contained herein, no Bank identified as an "Agent" or "Arranger" other than the Administrative Agent, shall have the right, power, obligation, liability, responsibility or duty under this Agreement or any Loan Document other than those applicable to all Banks as such. Without limiting the foregoing, none of the Banks so identified shall have or be deemed to have any fiduciary relationship with any Bank. Each Bank acknowledges that it has not relied, and will not rely, on any of the Banks so identified in deciding to enter into this Agreement or not taking action hereunder.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. Amendments and Waivers. Neither this Agreement, any Note, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except pursuant to an instrument or instruments in writing executed in accordance with the provisions of this Section 11.1. The Majority Banks may, or, with the written consent of the Majority Banks, the Administrative Agent may, from time to time, (a) enter into with the Borrower written amendments, supplements or modifications hereto and to any Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or any Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or (b) waive, on such terms and conditions as the Majority Banks or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or any Notes the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall:

(i) reduce the amount or extend the scheduled date of maturity of any Note or Loan, or reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or increase the amount or extend the expiration date of any Bank's Commitments, in each case without the consent of each Bank directly affected thereby;

(ii) amend, modify or waive any provision of this Section or of Section 5.2 in a manner that would alter the pro rata sharing of payments required thereby, or reduce the percentage specified in the definitions of Majority Banks or Supermajority Banks, or consent to the assignment or transfer by the Borrower of any of its respective rights and obligations under this Agreement and the other Loan Documents, in each case without the written consent of all the Banks;

(iii) amend, modify or waive any provision of Article X without the written consent of the then Administrative Agent;

(iv) amend, modify or waive any provision of Section 2.7 in a manner that adversely affects any Issuing Bank without the written consent of the then Issuing Bank or Issuing Banks; or

(v) amend, modify or waive any provision of Section 5.7 or amend, modify or waive any provision of Section 8.2(c) to permit a merger involving the Borrower not otherwise permitted in such Section, in each case without the written consent of the Supermajority Banks.

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Issuing Bank or Issuing Banks, the Administrative Agent and all future holders of the amounts payable hereunder. In the case of any waiver, the Borrower, the Banks, the Issuing Bank or Issuing Banks, and the Administrative Agent shall be restored to their former position and rights hereunder and under any outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing, but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

SECTION 11.2. Notices. Unless otherwise expressly provided herein, all notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by facsimile followed by any original sent by mail or delivery), and, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in Schedule 1.1 in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the amounts payable hereunder:

Borrower:	1111 Louisiana Houston, Texas 77002
Attention:	Linda Geiger Assistant Treasurer
Telecopy:	(713) 207-3301
With a copy to:	Marc Kilbride Treasurer

Telecopy:	(713) 207-3301
The Administrative	JPMorgan Chase Bank Loan and Agency Services Group
Agent:	One Chase Manhattan Plaza, 8th Floor New York, New York 10081
Attention:	Luann Destefano
Telecopy:	(212) 552-7903
With a copy to:	JP Morgan Chase Bank 600 Travis, 20th Floor Houston, Texas 77002
Attention:	Robert Traband
Telecopy:	(713) 216-8870

provided that any notice, request or demand to or upon the Administrative Agent or the Banks shall not be effective until received.

SECTION 11.3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Bank, any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

SECTION 11.4. Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

SECTION 11.5. Payment of Expenses and Taxes; Indemnity. The Borrower agrees (a) to pay or reimburse the Administrative Agent and its Affiliates for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation and execution of, and any amendment, supplement or modification to, this Agreement and any Notes and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of Simpson Thacher & Bartlett, special counsel to the Administrative Agent (but excluding the fees or expenses of any other counsel), (b) to pay or reimburse each Bank and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, any Notes, the other Loan Documents and any such other documents, including, without limitation, the reasonable fees and disbursements of the several special counsel to the Banks and the Administrative Agent, (c) without duplication of any other provision contained in this Agreement or any Notes, to pay, indemnify, and hold each Bank and the Administrative Agent harmless from, any and all recording and filing fees, if any, and any and all liabilities (for which each Bank has not been otherwise reimbursed under this Agreement) with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any Notes, the other Loan Documents and any such other documents, and (d) without duplication of any other provision contained in this Agreement or any Notes, to pay, indemnify, and hold each Bank and the Administrative Agent together with their respective directors, officers, employees, agents and affiliates (collectively, "Indemnified Persons") harmless from and against, any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, any Notes, the other Loan Documents or the use, or proposed use, of proceeds of the Loans and any such other documents (all the foregoing in this clause (d), collectively, the "Indemnified Liabilities"); provided, that the Borrower shall have no obligation hereunder to an Indemnified Person with respect to Indemnified Liabilities arising from the gross negligence or willful misconduct of such Indemnified Person, AND PROVIDED FURTHER THAT IT IS THE INTENTION OF THE BORROWER TO INDEMNIFY THE INDEMNIFIED PERSONS AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE. The agreements in this Section 11.5 shall survive repayment of the Loans and all other amounts payable hereunder.

SECTION 11.6. Effectiveness, Successors and Assigns, Participations; Assignments. (a) This Agreement shall become effective on the Closing Date and thereafter shall be binding upon and inure to the benefit of the Borrower, the Banks, the Issuing Bank, the Administrative Agent, all future holders of the Loans and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Bank.

(b) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions or Bank Affiliates (a "Participant") participating interests in any Loan owing to such Bank, any Note held by such Bank, any Commitment of such Bank or any other interest of such Bank hereunder and under the other Loan Documents. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Loan and Commitment or other interest for all purposes under this Agreement and the other Loan Documents, the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement and the other Loan Documents and except with respect to the matters set forth in Section 11.1, the amendment of which requires the consent of all of the Banks, the participation agreement between the selling Bank and the Participant may not restrict such Bank's voting rights hereunder. The Borrower agrees that each Participant, to the extent provided in its participation, shall be entitled to the benefits of Sections 4.4, 4.7, 5.1 and 5.3 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided that (i) no Participant shall be entitled to receive any greater amount pursuant to such Sections than the selling Bank would have been entitled to receive in respect of the amount of the participation sold by such selling Bank to such Participant had no such sale occurred and (ii) each such sale of participating interests shall be to a "qualified purchaser", as such term is defined under Section 2(a)(51)(A) of the Investment Company Act of 1940. Except as expressly provided in this Section 11.6(b), no Participant shall be a third-party beneficiary of or have any rights under this Agreement or under any of the other Loan Documents.

(c) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to any Bank Affiliate of such Bank and, with the consent of the Borrower and the Administrative Agent (which in each case shall not be unreasonably withheld and, in the case of the Borrower, shall not be required if an Event of Default exists), to one or more additional banks ("Purchasing Banks") all or any part of its rights and obligations under this Agreement pursuant to a Committed Loan Assignment and Acceptance, substantially in the form of Exhibit 11.6(c) (a "Committed Loan Assignment and Acceptance"), executed by such Purchasing Bank and such transferor Bank (and, in the case of a Purchasing Bank that is not a Bank Affiliate, by the Borrower and the Administrative Agent) and delivered to the Administrative Agent for its acceptance and recording in the Register; provided that (i) each such sale shall be of a uniform, and not a varying, percentage of all rights and obligations under and in respect of the Commitment of such Bank, (ii) each such sale that is not to an existing Bank hereunder shall be in an aggregate amount of not less than $5,000,000 (or such lesser amount that represents the entire Commitment of such Bank), (iii) after giving effect to such sale, the transferor Bank shall (to the extent that it continues to have any Commitment hereunder) have a Commitment of not less than $5,000,000. Notwithstanding the foregoing, with respect to the sale by a Bank of all or any part of its rights and obligations in respect of the Term Loans, (a) each such sale shall not require the consent of the Agent, Borrower or any other Bank or Banks, (b) each such sale that is not to an existing Bank hereunder shall be in an aggregate amount of not less than $1,000,000 (or such lesser amount that represents the aggregate amount of Term Loans of such Bank), (c) each such sale may be to an Eligible Transferee (as defined below) and each such Eligible Transferee shall be deemed to be a Purchasing Bank and a Bank for all purposes under this Section 11.6(c) and this Agreement and (d) each such sale shall be consummated pursuant to a Committed Loan Assignment and Acceptance with such modifications as may be agreed on by the transferor Bank and the applicable transferee and consistent with this Section 11.6(c). For purposes of this Section 11.6(c), "Eligible Transferee" shall mean (w)(i) any bank or other financial institution, (ii) any insurance or reinsurance company, (iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in clause (y)(i) below), and (iv) a registered or licensed broker or dealer (other than a natural person or proprietorship); provided, however, in the case of each of the foregoing clauses (i) through (iv), that such entity has total assets of at least $500,000,000; (x) any Affiliate (as defined below) of an entity specified in the preceding clause (w); (y) any corporation, partnership, proprietorship, organization trust or other entity (i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralized debt obligations, commercial paper conduit or other special purpose vehicle) that (A) has total assets of at least $100,000,000 or (B) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least $100,000,000, (ii) that has total assets of at least $500,000,000, or (iii) the obligations of which under an agreement, contract, or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by an entity described in clauses (w), (x), (y)(ii) or (z); and (z) a Sovereign, Sovereign Agency or Supranational Organization (each as defined below). For purposes of the foregoing sentence, (a) "Affiliate" means, in relation to a person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person, (b) "control" of any entity or person means ownership of a majority of the voting power of the entity or person, (c) "Sovereign" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof, (d) "Sovereign Agency" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign and (e) "Supranational Organization" means any entity or organization established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development. Upon such execution, delivery, acceptance and recording, from and after the effective date determined pursuant to such Committed Loan Assignment and Acceptance (the "Transfer Effective Date"), (i) the Purchasing Bank thereunder shall be a party hereto and, to the extent provided in such Committed Loan Assignment and Acceptance, have the rights and obligations of a Bank hereunder with the Commitments as set forth therein and (ii) the transferor Bank thereunder shall, to the extent provided in such Committed Loan Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of a Committed Loan Assignment and Acceptance covering all or the remaining portion of a transferor Bank's rights and obligations under this Agreement, such transferor Bank shall cease to be a party hereto). Such Committed Loan Assignment and Acceptance shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Bank and the resulting adjustment of Pro Rata Percentages arising from the purchase by such Purchasing Bank of all or a portion of the rights and obligations of such transferor Bank under this Agreement. On or prior to the Transfer Effective Date determined pursuant to such Committed Loan Assignment and Acceptance, (i) appropriate entries shall be made in the accounts of the transferor Bank and the Register evidencing such assignment and releasing the Borrower from any and all obligations to the transferor Bank in respect of the assigned Loan or Loans and (ii) appropriate entries evidencing the assigned Loan or Loans shall be made in the accounts of the Purchasing Bank and the Register as required by Section 4.1 hereof. In the event that any Notes have been issued in respect of the assigned Loan or Loans, such Notes shall be marked "cancelled" and surrendered by the transferor Bank to the Administrative Agent for return to the Borrower.

(d) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time assign to one or more banks or other financial institutions or Bank Affiliates (a "CAF Loan Assignee") any CAF Loan owing to such Bank pursuant to a CAF Loan Assignment and Acceptance executed by the assignor Bank and the CAF Loan Assignee. Upon such execution, from and after the date of such CAF Loan Assignment and Acceptance, the CAF Loan Assignee shall, to the extent of the assignment provided for in such CAF Loan Assignment and Acceptance, be deemed to have the same rights and benefits of payment and enforcement with respect to such CAF Loan and the same obligation to share and rights of setoff pursuant to Sections 5.4 and 11.7 as it would have had if it were a Bank hereunder; provided that (i) unless such CAF Loan Assignment and Acceptance shall otherwise specify and a copy of such CAF Loan Assignment and Acceptance shall have been delivered to the Administrative Agent for its acceptance and recording in the Register in accordance with Section 11.6(e), the assignor thereunder shall act as collection agent for the

CAF Loan Assignee thereunder, and the Administrative Agent shall pay all amounts received from the Borrower that are allocable to the assigned CAF Loan directly to such assignor without any further liability to such CAF Loan Assignee and (ii) at any time other than any time an Event of Default has occurred and is continuing, each such assignment shall be to a "qualified purchaser," as such term is defined under Section 2(a)(51)(A) of the Investment Company Act of 1940. A CAF Loan Assignee under a CAF Loan Assignment and Acceptance shall not, by virtue of such CAF Loan Assignment and Acceptance, become a party to this Agreement or have any rights to consent to or refrain from consenting to any amendment, supplement, waiver or other modification of any provision of this Agreement or any related document; provided that (i) the assignor under such CAF Loan Assignment and Acceptance and such CAF Loan Assignee may, in their discretion, agree between themselves upon the manner in which such assignor will exercise its rights under this Agreement and any related document and (ii) if a copy of such CAF Loan Assignment and Acceptance shall have been delivered to the Administrative Agent for its acceptance and recording in the Register in accordance with Section 11.6(e), neither the principal amount of, the interest rate on, nor the maturity date of any CAF Loan assigned to the CAF Loan Assignee thereunder will be reduced or postponed, as the case may be, without the written consent of such CAF Loan Assignee. If a CAF Loan Assignee has caused a CAF Loan Assignment and Acceptance to be recorded in the Register in accordance with Section 11.6(e), such CAF Loan Assignee may thereafter, in the ordinary course of its business and in accordance with applicable law, assign such CAF Loan to any Bank, to any Affiliate or Subsidiary of such CAF Loan Assignee or to any other financial institution that has total assets in excess of $1,000,000,000 and that in the ordinary course of its business extends credit of the type evidenced by such CAF Loan, and the foregoing provisions of this Section 11.6(d) shall apply, mutatis mutandis, to any such assignment by a CAF Loan Assignee. Except in accordance with the preceding sentence, CAF Loans may not be further assigned by a CAF Loan Assignee, subject to any legal or regulatory requirement that the CAF Loan Assignee's assets must remain under its control.

(e) The Administrative Agent shall maintain at its address referred to in Section 11.2 a copy of each CAF Loan Assignment and Acceptance and each Committed Loan Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of (i) the names and addresses of the Banks and the Commitments of, and principal amount of the Loans owing to, each Bank from time to time and (ii) with respect to each CAF Loan Assignment and Acceptance delivered to the Administrative Agent, the name and address of the CAF Loan Assignee and the principal amount of each CAF Loan owing to such CAF Loan Assignee. To the extent permitted by applicable law, the entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Banks may (and, in the case of any Loan or other obligations hereunder not evidenced by a Note, shall) treat, each Person whose name is recorded in the Register as the owner of a Loan or other obligation hereunder as the owner thereof for all purposes of this Agreement and the other Loan Documents, notwithstanding any notice to the contrary. Any assignment of any Loan or other obligation hereunder not evidenced by a Note shall be effective only upon appropriate entries with respect thereto being made in the Register. The Register shall be available for inspection by the Borrower or any Bank or any CAF Loan Assignee at any reasonable time and from time to time upon reasonable prior notice.

(f) Upon its receipt of a Committed Loan Assignment and Acceptance executed by a transferor Bank and Purchasing Bank (and, in the case of a Purchasing Bank that is not then a Bank Affiliate, by the Borrower and the Administrative Agent) together with payment to the Administrative Agent of a registration and processing fee of (i) $3,000 with respect to (and payable by) any Purchasing Bank that is not already a Bank or a Bank Affiliate and (ii) $1,000 with respect to any Purchasing Bank that is already a Bank or a Bank Affiliate (which fee shall be for the account of the Borrower only in the case of an assignment made pursuant to Section 5.8(b) hereof), the Administrative Agent shall promptly accept such Committed Loan Assignment and Acceptance on the Transfer Effective Date determined pursuant thereto, record the information contained therein in the Register and give notice of such acceptance and recordation to the Banks and the Borrower. Upon its receipt of a CAF Loan Assignment and Acceptance executed by an assignor Bank and a CAF Loan Assignee, together with payment to the Administrative Agent of a registration and processing fee of $500 (which fee shall not be for the account of the Borrower), the Administrative Agent shall promptly accept such CAF Loan Assignment and Acceptance, record the information contained therein in the Register and give notice of such acceptance and recordation to the assignor Bank, the CAF Loan Assignee and the Borrower.

(g) Each of the Banks and the Administrative Agent agrees to exercise its best efforts to keep, and to cause any third party recipient of the information described in this Section 11.6(g) to keep, any information delivered or made available by the Borrower to it (including any information obtained pursuant to Section 8.1), confidential from anyone other than Persons employed or retained by such party who are or are expected to become engaged in evaluating, approving, structuring or administering the transactions contemplated hereunder; provided that nothing shall prevent any Bank or the Administrative Agent from disclosing such information (i) to any other Bank or any Affiliate of any Bank, (ii) pursuant to subpoena or upon the order of any court or administrative agency, (iii) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (iv) if such information has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which either the Administrative Agent, any Bank, the Borrower or their respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to the Administrative Agent's or such Bank's, as the case may be, legal counsel, independent auditors and other professional advisors, or (viii) to any actual or proposed Participant, Purchasing Bank or CAF Loan Assignee (each, a "Transferee") that has agreed in writing to be bound by the provisions of this Section 11.6(g). Unless prohibited from doing so by applicable law, in the event that any Bank or the Administrative Agent is legally requested or required to disclose any confidential information pursuant to clause (ii), (iii), or (v) of this Section 11.6(g), such party shall promptly notify the Borrower of such request or requirement prior to disclosure so that Borrower may seek an appropriate protective order and/or waive compliance with the terms of this Agreement. If, however, in the opinion of counsel for such party, such party is nonetheless, in the absence of such order or waiver, compelled to disclose such confidential information or otherwise stand liable for contempt or suffer possible censure or other penalty or liability, then such party may disclose such confidential information without liability to the Borrower; provided, however, that such party will use its best efforts to minimize the disclosure of such information. Subject to the exceptions above to disclosure of information, each of the Banks and the Administrative Agent agrees that it shall not publish, publicize, or otherwise make public any information regarding this Agreement or the transactions contemplated hereby without the written consent of the Borrower, in its sole discretion.

(h) If, pursuant to this Section, any interest in this Agreement or any Loan or L/C Obligation is transferred to any Transferee that is organized under the laws of any jurisdiction other than the United States or any state thereof, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer, (i) to deliver to the transferor Bank (and, in the case of any Purchasing Bank or CAF Loan Assignee registered in the Register, the Administrative Agent and the Borrower) either U.S. Internal Revenue Service Form W-8BEN or U.S. Internal Revenue Service Form W-8ECI, or successor applicable forms (wherein such Transferee claims entitlement to complete exemption from U.S. federal withholding tax on all interest payments hereunder) and (ii) to agree (for the benefit of the transferor Bank, the Administrative Agent and the Borrower) to deliver to the transferor Bank (and, in the case of any Purchasing Bank or CAF Loan Assignee registered in the Register, the Administrative Agent and Borrower) a new Form duly executed and completed W-8BEN or W-8ECI, or successor applicable forms or other manner of certification, as the case may be, upon the expiration or obsolescence of any previously delivered form in accordance with applicable U.S. laws and regulations and amendments, unless in any such case any change in treaty, law or regulation has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Transferee from duly completing and delivering any such form with respect to it and such Transferee so advises the transferor Bank (and, in the case of any Purchasing Bank or CAF Loan Assignee registered in the Register, the Administrative Agent and the Borrower).

(i) Nothing herein shall prohibit any Bank from pledging or assigning all or any portion of its Loans or L/C Obligations to any Federal Reserve Bank in accordance with applicable law. In order to facilitate such pledge or assignment, the Borrower hereby agrees that, upon request of any Bank at any time and from time to time after the Borrower has made its initial Borrowing hereunder, the Borrower shall provide to such Bank, at the Borrower's own expense, a promissory note, substantially in the form of Exhibit 11.6(i)(a), 11.6(i)(b), or 11.6(i)(c) as the case may be, evidencing the Term Loans, Revolving Loans, CAF Loans, or L/C Obligations, as the case may be, owing to such Bank.

SECTION 11.7. Setoff. In addition to any rights and remedies of the Banks provided by law, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Loans to which it is a party (whether at the stated maturity, by acceleration or otherwise) to setoff and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank or any branch or agency thereof to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such setoff and application.

SECTION 11.8. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be maintained with Borrower and the Administrative Agent.

SECTION 11.9. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.10. Integration. This Agreement and the other Loan Documents represent the agreement of the Borrower, the Administrative Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

SECTION 11.11. GOVERNING LAW. (a) THIS AGREEMENT AND ANY NOTES OR OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND ANY NOTES AND ANY OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

(b) Notwithstanding anything in Section 11.11(a) to the contrary, nothing in this Agreement or in any Note or any other Loan Documents shall be deemed to constitute a waiver of any rights which any Bank may have under applicable federal law relating to the amount of interest which any Bank may contract for, take, receive or charge in respect of any Loans, including any right to take, receive, reserve and charge interest at the rate allowed by the laws of the state where such Bank is located. To the extent that Texas law is applicable to the determination of the Highest Lawful Rate, the Banks and the Borrower agree that (i) if Chapter 303 of the Texas Finance Code, as amended, is applicable to such determination, the weekly rate ceiling (formerly known as the indicated (weekly) rate ceiling in Article 1.04, Subtitle 1, Title 79, of the Revised Civil Statutes of Texas, as amended as computed from time to time shall apply, provided that, to the extent permitted by such Article, the Administrative Agent may from time to time by notice to the Borrower revise the election of such interest rate ceiling as such ceiling affects the then current or future balances of the Loans; and (ii) the provisions of Chapter 346 of the Texas Finance Code, as amended (formerly found in Chapter 15 of Subtitle 3, Title 79, of the Revised Civil Statutes of Texas, 1925, as amended, shall not apply to this Agreement or any Note issued hereunder.

SECTION 11.12. Submission to Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the

Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same-;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid to the Borrower at its address set forth in Section 11.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent permitted by applicable law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 11.12 any special, exemplary, punitive or consequential damages.

SECTION 11.13. Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, any Notes and the other Loan Documents;

(b) neither the Administrative Agent nor any Bank has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Administrative Agent and the Banks, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or among the Borrower and the Banks.

SECTION 11.14. Limitation on Agreements. All agreements between the Borrower, the Administrative Agent or any Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made in respect of an amount due under any Loan Document or otherwise, shall the amount paid, or agreed to be paid, to the Administrative Agent or any Bank for the use, forbearance, or detention of the money to be loaned under this Agreement, any Notes or any other Loan Document or otherwise or for the payment or performance of any covenant or obligation contained herein or in any other Loan Document exceed the Highest Lawful Rate. If, as a result of any circumstances whatsoever, fulfillment of any provision hereof or of any of such documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if, from any such circumstance, the Administrative Agent or any Bank shall ever receive interest or anything that might be deemed interest under applicable law that would exceed the Highest Lawful Rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing on account of such Bank's Loans or the amounts owing on other obligations of the Borrower to the Administrative Agent or any Bank under any Loan Document and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of such Bank's Loans and the amounts owing on other obligations of the Borrower to the Administrative Agent or any Bank under any Loan Document, as the case may be, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Administrative Agent or any Bank for the use, forbearance or detention of the indebtedness of the Borrower to the Administrative Agent or any Bank shall, to the fullest extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full of the principal (including the period of any renewal or extension thereof) so that the interest on account of such indebtedness shall not exceed the Highest Lawful Rate. Notwithstanding anything to the contrary contained in any Loan Document, it is understood and agreed that if at any time the rate of interest that accrues on the outstanding principal balance of any Loan shall exceed the Highest Lawful Rate, the rate of interest that accrues on the outstanding principal balance of any Loan shall be limited to the Highest Lawful Rate, but any subsequent reductions in the rate of interest that accrues on the outstanding principal balance of any Loan shall not reduce the rate of interest that accrues on the outstanding principal balance of any Loan below the Highest Lawful Rate until the total amount of interest accrued on the outstanding principal balance of any Loan equals the amount of interest that would have accrued if such interest rate had at all times been in effect. The terms and provisions of this Section 11.14 shall control and supersede every other provision of all Loan Documents.

SECTION 11.15. Houston Industries FinanceCo LP as Co-Obligor. In consideration of the assumption by the Borrower of substantially all of the obligations of Houston Industries FinanceCo LP ("FinanceCo"), including the obligations under the $2,500,000,000 Senior A Credit Agreement, dated as of July 13, 2001, as amended, among FinanceCo, Reliant Energy, Incorporated, the lenders party thereto and JPMorgan Chase Bank, as administrative agent, among others, and the $1,800,000,000 Senior B Credit Agreement, dated as of July 13, 2001, as amended, among FinanceCo, Reliant Energy, Incorporated and JPMorgan Chase Bank, as administrative agent, among others, on the Closing Date and thereafter until the date on which all obligations under this Credit Agreement have been indefeasibly paid in full, FinanceCo (a) shall be a joint and several obligor with the Borrower in respect of all such obligations and (b) hereby unconditionally and irrevocably guarantees the prompt and complete payment and performance by the Borrower when due (whether at stated maturity, by acceleration or otherwise) of all such obligations.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or Administrative Agents thereunto duly authorized, as of the date first above written.

CENTERPOINT ENERGY, INC.

By: /s/ Marc Kilbride

Name: Marc Kilbride
Title: Vice President and Treasurer

HOUSTON INDUSTRIES
FINANCECO LP
By: HOUSTON INDUSTRIES
FINANCECO GP, LLC,
its General Partner

By: /s/ Marc Kilbride

Name: Marc Kilbride
Title: Treasurer

JPMORGAN CHASE BANK,
as Administrative Agent and as a Bank

By: /s/ Robert Traband

Name: Robert Traband
Title: Vice President

CITIBANK, N.A.,
as Syndication Agent and as a Bank

By: /s/ Jordan Schweon

Name: Jordan Schweon
Title: Vice President

ABN AMRO BANK N.V.

By: /s/ John J. Mack

Name: John J. Mack
Title: Senior Vice President

By: /s/ Thomas J. Sterr

Name: Thomas J. Sterr
Title: Vice President

BANK HAPOALIM, B.M.

By: /s/ Marc Bosc

Name: Marc Bosc
Title: Vice President

By: /s/ Levroy Hackett

Name: Levroy Hackett
Title: Vice President

BANK ONE, N.A.

By: /s/ Madeleine N. Pember

Name: Madeleine N. Pember
Title: Director

Signature Page
CenterPoint Credit Agreement

BANK OF AMERICA, N.A.

By: /s/ Richard L. Stein

Name: Richard L. Stein
Title: Principal

THE BANK OF NOVA SCOTIA

By: /s/ Denis P. O'Meara

Name: Denis P. O'Meara
Title: Managing Director

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ D. Barnell

Name: D. Barnell
Title: Vice President

By: /s/ John M. Mearns

Name: J. Mearns
Title: Vice President and Manager

BARCLAYS BANK PLC

By: /s/ Sydney G. Dennis

Name: Sydney G. Dennis
Title: Director

BAYERISCHE LANDESBANK
GIROZENTRALE

By: /s/ Dietmar Reig

Name: Dietmar Reig
Title: First Vice President

By: /s/ James H. Boyle

Name: James H. Boyle
Title: Vice President

COBANK ACB

By: /s/ Cathleen Reed

Name: Cathleen D. Reed
Title: Assistant Vice President

COMMERZBANK AG
New York and Grand Cayman Branches

By: /s/ Harry P. Yergey

Name: Harry P. Yergey
Title: Senior Vice President

By: /s/ S R Viswanathan

Name: Subash R. Viswanathan
Title: Senior Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ B. Weymuller

Name: Bernard Weymuller
Title: Senior Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ James P. Moran

Name: James P. Moran
Title: Director

By: /s/ I. W. Nalitt

Name: Ian W. Nalitt
Title: Associate

DEUTSCHE BANK AG NEW YORK BRANCH AND/OR
CAYMAN ISLANDS BRANCH

By: /s/ Michael E. Keating

Name: Michael E. Keating
Title: Managing Director

By: /s/ Hans C. Narberhaus

Name: Hans C. Narberhaus
Title: Vice President

ERSTE BANK

By: /s/ Bryan J. Lynch

Name: Bryan J. Lynch
Title: First Vice President

By: /s/ Patrick W. Illegible

Name: Patrick W. Illegible
Title: Vice President
Erste Bank New York Branch

KBC BANK N.V.

By: /s/ Robert Snauffer

Name: Robert Snauffer
Title: First Vice President

By: /s/ Eric Raskin

Name: Eric Raskin
Title: Vice President

MELLON BANK, N.A.

By: /s/ Roger E. Howard

Name: Roger E. Howard
Title: Vice President

MIZUHO CORPORATE BANK, LTD.

By: /s/ Noel P. Purcell

Name: Noel P. Purcell
Title: Senior Vice President

THE NORTHERN TRUST COMPANY

By: /s/ Joseph A. Wemhoff

Name: Joseph A. Wemhoff
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ David A. McCluskey

Name: David A. McCluskey
Title: Manager

SUMITOMO MITSUI BANKING
CORPORATION

By: /s/ David A. Buck

Name: David A. Buck
Title: Senior Vice President

TORONTO DOMINION (TEXAS) INC.

By: /s/ Mark A. Baird

Name Mark A. Baird
Title: Vice President

UBS AG, STAMFORD BRANCH

By: /s/ David J. Kalal

Name: David J. Kalal
Title: Executive Director
Recovery Management

By: /s/ Wilfred Saint

Name: Wilfred Saint
Title: Associate Director
Banking Products Services U.S.

UFJ BANK LIMITED

By: /s/ Laurance J. Bressler

Name: Laurance J. Bressler
Title: Senior Vice President and
Group Co-Head

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Rotcher Watkins

Name: Rotcher Watkins
Title:

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, New York Branch

By: /s/ Duncan M. Robertson

Name: Duncan M. Robertson
Title: Director

By: /s/ Balvatore Battinelli

Name: Balvatore Battinelli
Title: Managing Director
Credit Department

EXHIBIT 99

ITEM 1. BUSINESS

OUR BUSINESS

RERC CORP. RESTRUCTURING

Following the Restructuring, CenterPoint Energy will be a utility holding company under the 1935 Act and as such will be required to register under the 1935 Act unless it qualifies for an exemption. In order to enable CenterPoint Energy to comply with the requirements in the exemption in Section 3(a)(1) of the 1935 Act, we plan to divide the gas distribution businesses conducted by RERC Corp.'s three unincorporated divisions, Reliant Energy Entex (Entex), Reliant Energy Arkla (Arkla) and Reliant Energy Minnegasco (Minnegasco), among three separate business entities. For more information regarding our application under the 1935 Act and regulation under the 1935 Act, please read "Regulation -- Public Utility Holding Company Act of 1935" in Item 1 of this Form 10-K. The entity that will hold the Entex assets will also hold RERC Corp.'s natural gas pipelines and gathering businesses. For more information regarding RERC Corp.'s divisions and their operations, please read "Natural Gas Distribution" and "Pipelines and Gathering" in Item 1 of this Form 10-K. In addition to regulatory approvals we have obtained, this restructuring will require approval of the public service commissions of Louisiana, Oklahoma and Arkansas.

ITEM 3. LEGAL PROCEEDINGS

For a description of certain legal and regulatory proceedings affecting us, see Notes 4, 14(f), 14(g) and 21 to our consolidated financial statements, which notes are incorporated herein by reference.

RESTATEMENT OF SECOND AND THIRD QUARTER 2001 RESULTS OF OPERATIONS

On February 5, 2002, Reliant Energy announced that it was restating its earnings for the second and third quarters of 2001. As more fully described in Reliant Energy's March 15, 2002 Current Report on Form 8-K, the restatement related to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for by Reliant Resources as cash flow hedges for the period of May 2001 through September 2001, rather than as derivatives with changes in fair value recognized through the income statement. Each structured transaction involved a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003.

At the time of the public announcement of Reliant Energy's intention to restate its reporting of the structured transactions, the Audit Committees of each of the boards of directors of Reliant Energy and Reliant Resources instructed Reliant Resources to conduct an internal audit review to determine whether there were any other transactions included in the asset books as cash flow hedges that failed to meet the cash flow hedge requirements under Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This targeted internal audit review found no other similar transactions.

The Audit Committees also directed an internal investigation by outside legal counsel of the facts and circumstances leading to the restatement, which investigation has been completed. In connection with the restatement and related investigations, the Audit Committees have met eight times to hear and assess reports from the investigative counsel regarding its investigation and contacts with the staff of the SEC. To address the issues identified in the investigation process, the Audit Committees and management have begun analyzing and implementing remedial actions, including, among other things, changes in organizational structure and enhancement of internal controls and procedures.

On April 5, 2002, Reliant Resources was advised that the Staff of the Division of Enforcement of the SEC is conducting an informal inquiry into the facts and circumstances surrounding the restatement. Reliant Resources is cooperating with this inquiry. Before releasing its 2001 earnings, Reliant Energy received concurrence from the SEC's accounting staff on the accounting treatment of the restatement, which increased its earnings for the two quarters by a total of $107 million. At this time, we cannot predict the outcome of the SEC's inquiry. In addition, we cannot predict what effect the inquiry may have on our pending application to the SEC under the 1935 Act, which is required for our Restructuring. For more information about our Restructuring, please read "Our Business -- Status of Business Separation" and "-- Business Separation" in Item 1 of this Form 10-K.

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

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

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

- state, federal and international legislative and regulatory developments, including deregulation, re-regulation and restructuring of the electric utility industry, changes in or application of environmental and other laws and regulations to which we are subject and changes in or application of laws or regulations applicable to other aspects of our business, such as commodities trading and hedging activities;
- the timing of the implementation of our Business Separation Plan;
- the effects of competition, including the extent and timing of the entry of additional competitors in our markets;
- liquidity concerns in our markets;
- industrial, commercial and residential growth in our service territories;
- the degree to which Reliant Resources successfully integrates the operations and assets of Orion Power into the Wholesale Energy business segment;
- the determination of the amount of our Texas generation business' stranded costs and the recovery of these costs;
- the availability of adequate supplies of fuel, water, and associated transportation necessary to operate our generation facilities;
- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities;
- state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations;
- the timing and extent of changes in interest rates and commodity prices, particularly natural gas prices;
- weather variations and other natural phenomena, which can affect the demand for power from, or our ability to produce power at our generating facilities;
- our ability to cost-effectively finance and refinance;
- the degree to which we successfully integrate the operations and assets of Orion Power into our Wholesale Energy segment;
- the successful and timely completion of our construction programs, as well as the successful start-up of completed projects;
- financial market conditions, our access to and cost of capital and the results of our financing and refinancing efforts, including availability of funds in the debt/capital markets for merchant generation companies;
- the credit worthiness or bankruptcy or other financial distress of our trading, marketing and risk management services counterparties;
- actions by rating agencies with respect to us or our competitors;
- acts of terrorism or war;
- the availability and price of insurance;
- the reliability of the systems, procedures and other infrastructure necessary to operate our retail electric business, including the systems owned and operated by ERCOT;
- political, legal, regulatory and economic conditions and developments in the United States and in foreign countries in which we operate or into which we might expand our operations, including the effects of fluctuations in foreign currency exchange rates;
- the resolution of the refusal by California market participants to pay our receivables balances due to the recent energy crisis in the West region; and
- the successful operation of deregulating power markets.

In order to adapt to the increasingly competitive environment in our industry, we continue to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, dispositions of currently owned businesses, as well as developing new generation projects, products, services and customer strategies.

FACTORS ASSOCIATED WITH THE BUSINESS SEPARATION, RESTRUCTURING AND DISTRIBUTION

As previously discussed, in anticipation of electric deregulation in Texas, and pursuant to the Texas Electric Restructuring Law, we submitted a business separation plan in January 2000 to the Texas Utility Commission. Pursuant to the Business Separation Plan, we are in the process of separating our regulated and our unregulated businesses into two separate publicly traded companies.

After the Restructuring, we plan, subject to further corporate approvals, market and other conditions, to complete the separation of our regulated and unregulated businesses through the Distribution. Our goal is to complete the Restructuring and subsequent Distribution as quickly as possible after all the necessary conditions are fulfilled, including receipt of an order from the SEC granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act) and an extension from the IRS for a private letter ruling we have obtained regarding the tax-free treatment of the Distribution. We currently expect to complete the Restructuring and Distribution in the summer of 2002. See "Our Business -- Business Separation" in Item 1 of this Form 10-K.

Regulatory Uncertainty. The Restructuring as currently planned cannot be completed unless and until the SEC issues an order approving the acquisition by CenterPoint Energy of Reliant Energy and its subsidiary companies and either granting CenterPoint Energy an exemption from regulation as a registered public utility holding company under the 1935 Act or the necessary authority to operate as a registered holding company. While we believe such an order will be received, and that both the Restructuring and Distribution will be completed during the summer of 2002, there can be no assurances that such will be the case. The Restructuring has been designed to enable us to meet all of the requirements of the Texas Electric Restructuring Law. We have not formulated an alternative restructuring plan that could be implemented if the SEC fails or refuses to grant an exemption for CenterPoint Energy or the authority for CenterPoint Energy to become a registered holding company on terms consistent with our business plan. For information about an informal inquiry by the staff of the Division of Enforcement of the SEC in connection with an earnings restatement by Reliant Energy that might impact the approval process, please read "Restatement of Second and Third Quarter 2001 Results of Operations" in Item 3 of this Form 10-K.

The tax ruling that we received from the IRS expires at the end of April 2002. We are currently seeking an extension of this ruling from the IRS. There can be no assurance that we will receive the extension quickly or at all. In this event, the Restructuring and Distribution are not likely to be completed within our expected time frame, or, perhaps, at all. In addition, our tax ruling contemplates that the Restructuring will occur prior to the Distribution. If, due to delay or uncertainty regarding receipt of an order under the 1935 Act, we decide to make the Distribution before completing the Restructuring, we would have to seek a new ruling from the IRS that the Distribution would be tax free to us and to our shareholders. This process could take six months or longer.

A significant delay in completing the Restructuring and the Distribution may impact planned financings by each of Reliant Energy and Reliant Resources and make it more difficult and more expensive for us to obtain bank financing. We cannot predict how any such delay might impact our credit ratings or those of Reliant Resources.

Adverse Tax Consequences. If we take actions which cause the Distribution to fail to qualify as a tax-free transaction, we will incur taxable gain equal to the positive difference between the value of the Reliant Resources shares distributed and our tax basis in those shares. Current tax law provides that, depending on the facts and circumstances, the Distribution may be taxable if either CenterPoint Energy or Reliant Resources undergo a 50% or greater change in stock ownership within two years after the Distribution. These costs may be so great that they delay or prevent a strategic acquisition or change in control of our company. If Reliant Resources takes actions which cause the Distribution to fail to qualify as a tax-free transaction, for example, through a change in control of Reliant Resources, we will be responsible for the tax due on the gain but may seek indemnity from Reliant Resources for such payments.

Credit. To the extent that we continue to need access to current amounts of committed credit prior to the Distribution, we expect to extend or replace the credit facilities on a timely basis. The terms of any new credit facilities are expected to be adversely affected by our leverage, the amount of bank capacity utilized, any delay in the date of Restructuring and Distribution and conditions in the bank market. These same factors are expected to make the syndication of new credit facilities more difficult in the future. Proceeds from any issuance of debt in the capital markets are expected to be used to retire a portion of our short-term debt and reduce our need for committed revolving credit facilities.

FACTORS AFFECTING THE RESULTS OF OUR ELECTRIC OPERATIONS

Deregulation. In June 1999, the Texas legislature adopted the Texas Electric Restructuring Law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition. Retail pilot projects for up to 5% of each utility's load in all customer classes began in August 2001 and retail electric competition for all other customers began on January 1, 2002. We have made significant changes in the electric utility operations previously conducted through Reliant Energy HL&P. For additional information regarding these changes, please read "Our Business -- Deregulation," "-- Electric Operations," "-- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- The Texas Electric Restructuring Law" and "-- Our Business Going Forward" in Item 1 of this Form 10-K and Note 4 to our consolidated financial statements.

Transmission and Distribution. Under the Texas Electric Restructuring Law, our T&D Utility will remain subject to traditional rate regulation by the Texas Utility Commission, and we will collect from retail electric providers the rates approved in the T&D Utility's rate case (Wires Case) to cover the cost of providing transmission and distribution service and any other expenses. Our ability to earn the rate of return built into the T&D Utility's rates may be affected, positively or negatively, to the extent that the T&D Utility's actual expenses or revenues differ from the estimates used to set the T&D Utility's rates.

Generation. As described under "Electric Operations -- Generation," since January 1, 2002, we have been obligated to sell substantially all of the generating capacity and related ancillary services of our Texas generation business through auctions. As a result, we are not guaranteed any rate of return on our investment in these generation facilities through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity in the Texas market and the related results of our capacity auctions. These market prices may fluctuate substantially over relatively short periods of time. In addition, ERCOT, the independent system operator for the Texas markets, may impose price limitations, bidding rules and other mechanisms that may impact wholesale power prices in the Texas market and the outcome of our capacity auctions. Our historical financial results represent the results of our Texas generation business as part of an integrated utility in a regulated market and may not be representative of its results as a stand-alone wholesale electric power generation company in an unregulated market. Therefore, the historical financial information included in this report does not necessarily reflect what our financial position, results of operations and cash flows would have been had our generation facilities been operated in an unregulated market.

Under the terms of the auctions pursuant to which we are obligated to sell our capacity, we are obligated to provide specified amounts of capacity to successful bidders. The products we sell in the auctions are only entitlements to capacity dispatched from our units and do not convey the right to have power dispatched from a particular unit. This flexibility exposes us to the risk that, depending on the availability of our units, we could be required to supply energy from a higher cost unit to meet an obligation for lower cost generation or to obtain the energy on the open market. Obtaining such replacement generation could involve significant additional costs. We manage this risk by maintaining appropriate reserves within our generation asset base but these reserves may not cover an entire exposure in the event of a significant outage at one of our facilities. For information about operating risks associated with our Texas generation business, please read "Factors Affecting the Results of Our Wholesale Energy Operations -- Operating Risks" below.

Also, market volatility in the price of fuel for our generation operations, as well as in the price of purchased power, could have an effect on our cost to generate or acquire power. For additional information regarding commodity prices and supplies, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility."

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. The Texas Electric Restructuring Law prescribes specific methods for determining the amount of stranded costs and the details for their recovery, and our recovery of stranded costs is dependent upon the outcome of regulatory proceedings in which we will be required to establish the extent of our stranded costs and related underlying matters. During the base rate freeze period from July 1999 through 2001, earnings above the utility's authorized rate of return formula were applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets was redirected to generation assets for regulatory purposes from 1998. The Texas Electric Restructuring Law also provided for us, or a special purpose entity formed by us, to issue securitization bonds for the recovery of generation related regulatory assets and a portion of stranded costs. Reliant Energy Transition Bond Company LLC, our wholly owned subsidiary, issued $749 million of securitization bonds on October 24, 2001. Any stranded costs not recovered through the sale of securitization bonds may be recovered through a charge to transmission and distribution customers. For additional information regarding these securitization bonds, please read Note 4(a) to our consolidated financial statements. For information regarding recovery of under-collected fuel expenses, please read "Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Fuel Filing in Item 7 of this Form 10-K".

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution rates that became effective January 2002. In this Order, the Texas Utility Commission found that we had overmitigated our stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. In December 2001, we recorded a regulatory liability of $1.1 billion to reflect the prospective refund of accelerated depreciation, removed our previously recorded embedded regulatory asset of $841 million related to redirected depreciation and recorded a regulatory asset of $2.0 billion based upon current projections of market value of the Reliant Energy HL&P generation assets to be covered by the 2004 true-up proceeding provided for in the Texas Electric Restructuring Law. Recovery of this asset is subject to regulatory risk. We began refunding the excess mitigation credits in January 2002 and will continue 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. One of the results of discontinuing the application of regulatory accounting for the generation operations is the elimination of the regulatory accounting effects of excess deferred income taxes and investment tax credits related to these operations. We believe it is probable that some parties will seek to return these amounts to ratepayers and, accordingly, we have recorded an offsetting liability.

The Texas Electric Restructuring Law requires us to auction 15% of the output of the installed generating capacity of our Texas generation business until January 1, 2007 unless certain criteria are met (state mandated auctions). In addition, the master separation agreement between Reliant Energy and Reliant Resources requires us to auction to third parties, including Reliant Resources, the capacity available in excess of amounts included in the state mandated auctions (contractually mandated auctions). Beginning January 2002, our Texas generation business began delivering power sold through the state mandated auctions and contractually mandated auctions at market rates. However, the Texas Electric Restructuring Law provides for recovery of any difference between market power prices received in these capacity auctions and the Texas Utility Commission's earlier estimates of those market prices. This capacity auction true-up should provide for revenues earned by our Texas generation business during the two-year period ending December 2003 to approximate a regulated return on the invested capital of our Texas generation business. The Texas Utility Commission's estimate serves as a preliminary identification of stranded costs for recovery through securitization. This component of the true-up is intended to ensure that neither the customers nor we are disadvantaged economically as a result of the two-year transition period by providing this pricing structure. The underlying data for the true-up calculation has not been finalized. Because the capacity true-up process provided for in the Texas Electric Restructuring Law will take into account only the prices we receive in the state mandated auctions, lower prices that we may receive in the contractually mandated auctions will not be considered and we may therefore not recover all of our stranded costs. We cannot predict the amount, if any, of these costs that would not be recovered.

Retail. For a discussion of factors affecting our retail operations, please read "-- Factors Affecting the Results of Our Retail Operations."

Other. For additional information regarding litigation over franchise fees, please read Note 14(f) to our consolidated financial statements.

FACTORS AFFECTING THE RESULTS OF RERC'S OPERATIONS

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

Generally, the regulations of the states in which our Natural Gas Distribution business segment operates allow us to pass through changes in the costs of natural gas to our customers through purchased gas adjustment provisions in rates. There is, however, an inherent timing difference between our purchases of natural gas and the ultimate recovery of these costs. Consequently, we may incur additional "carrying" costs as a result of this timing difference and the resulting, temporary under-recovery of our purchased gas costs. To a large extent, these additional carrying costs are not recovered from our customers.

On November 21, 2001, Arkla filed a rate case (Docket 01-243-U) with the Arkansas Public Service Commission seeking an increase in rates for its Arkansas customers of approximately $47 million on an annual basis. Arkla's last rate increase was authorized in 1995. In the rate filing, Arkla maintains that its rate base has grown by $183 million, and its operating expenses have increased from $93 million to $106 million on an annual basis and, therefore, Arkla's current rates for service to Arkansas customers do not provide a reasonable opportunity for Arkla to cover its operating costs and earn a fair return on its investment. A decision in the case is expected by the fourth quarter of 2002.

Pipelines and Gathering. Our Pipelines and Gathering business segment competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Our Pipelines and Gathering business segment competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas we serve and the level of competition for transportation and storage services. Since FERC Order No. 636, REGT's and MRT's commodity sales activity has been minimal. Commodity transactions are usually related to system management activity which we have been able to manage with little exposure. We have not been nor do we anticipate being negatively impacted by higher price levels and the tightening of supply experienced in the fourth quarter of 2000 and the first quarter of 2001. In addition, competition for our gathering operations is impacted by commodity pricing levels in its markets because these prices influence the level of drilling activity in those markets.

Natural Gas Pipeline Company of America has proposed, and is soliciting customers for a 30" pipeline paralleling MRT's East Line in Illinois to a point 17 miles east of St. Louis Metro, with a proposed in-service date of June 2002. This service would represent an alternative to that provided by MRT. MRT has renewed or is engaged in negotiations to renew service agreements under multi-year terms, including service and potential expansion needs along MRT's existing East Line in Illinois. Our Pipelines and Gathering business segment derives approximately 14% of its revenues from Laclede Gas Company, which has an annual evergreen term provision. In February 2002, MRT negotiated an agreement to extend its existing service relationship with Laclede for a five year period subject to acceptance by the FERC. However, the Pipelines and Gathering business segment's financial results could be materially adversely affected after this five year period if Laclede decides to engage another pipeline for the transportation services currently provided by the Pipelines and Gathering business segment.

FACTORS AFFECTING THE RESULTS OF OUR WHOLESALE ENERGY OPERATIONS

Price Volatility. Our Wholesale Energy business segment, which is conducted through Reliant Resources, sells electricity from its facilities into spot markets under short- and long-term contractual arrangements. We are not guaranteed any rate of return on our capital investments through cost of service rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity and fuel in our regional markets. In addition to our power generation operations, we trade and market power. Market prices may fluctuate substantially over relatively short periods of time. Demand for electricity can fluctuate dramatically, creating periods of substantial under- or over-supply. During periods of over-supply, prices are depressed. During periods of under-supply, there is frequently regulatory or political pressure to regulate prices to compensate for product scarcity.

In addition, the FERC, which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, have imposed price limitations, bidding rules and other mechanisms to attempt to address some of the volatility in these markets and mitigate market prices. For a discussion of the implementation of price limitations and other rules in the California market, please read Note 14(g) to our consolidated financial statements.

Most of our Wholesale Energy business segment's domestic power generation facilities purchase fuel under short-term contracts or on the spot market. Fuel prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel costs. In addition, we trade and market natural gas and other energy-related commodities. These factors could have an adverse impact on our revenues, margins and results of operations.

Volatility in market prices for fuel and electricity may result from:

- weather conditions;
- seasonality;
- forced or unscheduled plant outages;
- addition of generating capacity;
- changes in market liquidity;
- disruption of electricity or gas transmission or transportation, infrastructure or other constraints or inefficiencies;
- availability of competitively priced alternative energy sources;
- demand for energy commodities and general economic conditions;
- availability and levels of storage and inventory for fuel stocks;
- natural gas, crude oil and refined products, and coal production levels;
- natural disasters, wars, embargoes and other catastrophic events; and
- federal, state and foreign governmental regulation and legislation.

Risks Associated with Our Hedging and Risk Management Activities. To lower our financial exposure related to commodity price fluctuations, our trading, marketing and risk management services operations routinely enter into contracts to hedge a portion of our purchase and sale commitments, exposure to weather fluctuations, fuel requirements and inventories of natural gas, coal, crude oil and refined products, and other commodities. As part of this strategy, we routinely utilize fixed-price forward physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets and on exchanges. However, we do not expect to cover the entire exposure of our assets or our positions to market price volatility, and the coverage will vary over time. This hedging activity fluctuates according to strategic objectives, taking into account the desire for cash flow or earnings certainty and our view on market prices. To the extent we have unhedged positions, fluctuating commodity prices could negatively impact our financial results and financial position. For additional information regarding the accounting treatment for our hedging, trading and marketing and risk management activities, please read Notes 2(d) and 5 to our consolidated financial statements. For additional information regarding the types of contracts and activities of our trading and marketing operations, please read "-- Trading and Marketing Operations" and "Qualitative and Quantitative Disclosures about Market Risk" in Item 7A of this Form 10-K.

We manage our power generation hedge objectives in the context of market conditions while targeting certain hedge percentages of future earnings through hedge actions in the current year. As of December 31, 2001, we had hedged 39% and 29% of our planned Wholesale Energy margins for 2002 and 2003, respectively, excluding margins related to Orion Power. Margins for 2002 and 2003 are expected to be positively impacted by the acquisition of Orion Power and negatively affected by lower forward electric power prices as they relate to unhedged positions and an estimated decline in our trading and marketing operations due to projected decreases in volatility in energy commodity markets.

At times, we have open trading positions in the market, within established corporate risk management guidelines, resulting from the management of our trading portfolio. To the extent open trading positions exist, changes in commodity prices could negatively impact our financial results and financial position.

The risk management procedures we have in place may not always be followed or may not always work as planned. As a result of these and other factors, we cannot predict with precision the impact that our risk management decisions may have on our businesses, operating results or financial position. For information regarding our risk management policies, please read "Quantitative and Qualitative Disclosures about Market Risk -- Risk Management Structure" in Item 7A to this Form 10-K.

The trading, marketing and risk management services operations conducted by our Wholesale Energy business segment are also exposed to the risk that counterparties who owe us money or physical commodities, such as power, natural gas or coal, will not perform their obligations. Should the counterparties to these arrangements fail to perform, we might be forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In this event, we might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding our credit risk, including exposure to Enron and utilities in California, please read "Quantitative and Qualitative Disclosure About Market Risk -- Credit Risk" in Item 7A of this Form 10-K and Notes 5(c), 14(g) and 21 to our consolidated financial statements.

In the ordinary course of business, and as part of our hedging strategy, we enter into long-term sales arrangements for power, as well as long-term purchase arrangements. For information regarding our long-term fuel supply contracts, purchase power and electric capacity contracts and commitments, electric energy and electric sale contracts and tolling arrangements, please read Notes 5, 14(a) and 14(b) to our consolidated financial statements.

Uncertainty in the California Market. During portions of 2000 and 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreased net electric imports and limitations on supply as a result of maintenance and other outages. Because of the high prices that prevailed during this period, we, and several of Reliant Resources' subsidiaries, including Reliant Energy Services and REPG, as well as some of the officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets.

In response to the filing of a number of complaints challenging the level of these wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms and modifications to those reforms. On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the West region for the period January 1, 2000 forward. Some of our long-term bilateral contracts already have been challenged by one of our many counterparties based on the alleged market dysfunction in Western power markets in 2000 and 2001. If these challenges are successful, the precedent set by the challenge could have larger ramifications to our business and operations beyond the challenged contracts at issue. Furthermore, in addition to FERC investigations, several state and other federal regulatory investigations have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action.

Finally, there have been proposals in the California state legislature to regulate the operations of our California generating subsidiaries, beyond the existing state regulation regarding siting, environmental and other health and safety matters. For additional information regarding the litigation and market uncertainty in California, please read Notes 14(f) and 14(g) to our consolidated financial statements.

Industry Restructuring, the Risk of Re-regulation and the Impact of Current Regulations. The regulatory environment applicable to the United States electric power industry is undergoing significant changes as a result of varying restructuring initiatives at both the state and federal levels and the reassessment of existing regulatory mechanisms stemming from the California power market situation and the bankruptcy of Enron. These initiatives have had a significant impact on the nature of the industry and the manner in which its participants conduct their business. These changes are ongoing and we cannot predict the future development of restructuring in these markets or the ultimate effect that this changing regulatory environment will have on our business.

Moreover, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us, our facilities or our commercial activities, and future changes in laws and regulations may have a detrimental effect on our business. Some restructured markets, particularly California, have experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some markets, including California, proposals have been made by governmental agencies and/or other interested parties to delay or discontinue proposed restructuring or to re-regulate areas of these markets, especially with respect to residential retail customers, that have previously been deregulated. In this connection, state officials, the California Independent System Operator (Cal ISO) and the investor-owned utilities in California have argued to the FERC that our California generating subsidiaries should not continue to have market-based rate authority. While the FERC to date has consistently refused petitions to force entities with market-based rates to return to cost-based rates, some of these proceedings are ongoing and we cannot predict what action the FERC may take on such petitions in the future. If we were forced to adopt cost-based rates, future earnings would be affected. Furthermore, the Cal ISO is undertaking a market redesign process to fundamentally change the structure of wholesale electricity markets and transmission service in California. These changes, if approved by the FERC, could include a revised market monitoring and mitigation structure, a revised congestion management mechanism and an obligation for load-serving entities in California to maintain capacity reserves. The Cal ISO's stated goal is to complete the first phase of this redesign by September 30, 2002, when the existing FERC market mitigation scheme for California will expire.

On November 20, 2001, the FERC instituted an investigation under Section 206 of the Federal Power Act regarding the tariffs of all sellers with market-based rates authority, including Reliant Energy. For information regarding this FERC proceeding and other FERC actions relating to the California market, please read Note 14(g) to our consolidated financial statements. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, our future earnings may be affected by the open-ended refund obligation.

Additionally, federal legislative initiatives have been introduced and discussed to address the problems being experienced in some of these markets, including legislation seeking to impose price caps on sales. We cannot predict whether other proposals to re-regulate will be made or whether legislative or other attention to the restructuring of the electric power industry will cause the restructuring to be delayed or reversed. If the trend towards competitive restructuring of the wholesale power markets is reversed, discontinued or delayed, the business growth prospects and financial results of our Wholesale Energy and Retail Energy segments could be adversely affected.

If RTOs are established as envisioned by Order No. 2000, "rate pancaking," or multiple transmission charges that apply to a single point-to-point delivery of energy will be eliminated within a region, and wholesale transactions within the region, and between regions will be facilitated. The end result could be a more competitive, transparent market for the sale of energy and a more economic and efficient use and allocation of resources; however, considerable opposition exists to the development of RTOs.

The FERC also has initiated a rulemaking proceeding to establish standardized transmission service throughout the United States, a standard wholesale electric market design, including forward and spot markets for energy and an ancillary services market, and specifications regarding the entities that administer these markets and for market monitoring and mitigation, that could be used in all RTOs. We cannot predict at this time what effect FERC's standard market design will have on our business growth prospects and financial results.

Partly in response to the bankruptcy of Enron, there have been proposals in the United States Congress to make online platforms that trade energy and metals derivatives subject to oversight by the Commodities Futures Trading Commission (CFTC), to prohibit market price manipulation and fraud. Under some of these proposals, dealers in energy derivatives would be required to file reports with the CFTC and maintain amounts of capital, as determined by the CFTC, to support the risks of their transactions. Other proposals would require the CFTC to review these markets for potential regulatory recommendations. We do not know what impact, if any, these proposals would have on our business if enacted. Additionally, there may be other broader proposals introduced to submit energy trading to comprehensive regulation by the FERC or by the CFTC.

The acquisition, ownership and operation of power generation facilities require numerous permits, approvals and certificates from federal, state and local governmental agencies. The operation of our generation facilities must also comply with environmental protection and other legislation and regulations. At present, we have operations in Arizona, California, Florida, Illinois, Maryland, Nevada, New Jersey, New York, Ohio, Pennsylvania, Texas and West Virginia. Most of our existing domestic generation facilities are exempt wholesale generators that sell electricity exclusively into the wholesale market. These facilities are subject to regulation by the FERC regarding rate matters and by state public utility commissions regarding siting, environmental and other health and safety matters. The FERC has authorized us to sell our generation from these facilities at market prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that market pricing is not in the public interest.

Uncertainty Related to the New York Regulatory Environment. The New York market is subject to significant regulatory oversight and control. Our operating results are as dependent on the continuance of the regulatory structure as they are on fluctuations in the market price for electricity. The rules governing the current regulatory structure are subject to change. We cannot assure you that we will be able to adapt our business in a timely manner in response to any changes in the regulatory structure, which could have a material adverse effect on our revenues and costs. The primary regulatory risk in this market is associated with the oversight activity of the New York Public Service Commission, the New York Independent System Operator (NYISO) and the FERC.

Our assets located in New York are subject to "lightened regulation" by the New York Public Service Commission, including provisions of the New York Public Service Law that relate to enforcement, investigation, safety, reliability, system improvements, construction, excavation, and the issuance of securities. Because "lightened regulation" was accomplished administratively, it could be revoked.

The NYISO has the ability to revise wholesale prices, which could lead to delayed or disputed collection of amounts due to us for sales of energy and ancillary services. The NYISO also has the ability, in some cases subject to FERC approval, to impose cost-based pricing and/or price caps. The NYISO has implemented a measure known as the "Automated Mitigation Procedure" (AMP) under which day-ahead energy bids will be automatically reviewed and, if necessary, mitigated if economic or physical withholding is determined. Proposed modifications to the AMP provide a level of uncertainty over the impacts of that procedure in the summer of 2002. FERC has also directed the NYISO to adopt mitigation measures for all limits in New York City consistent with its overall market-monitoring plan. NYISO has filed in-city mitigation measures with the FERC, which it is proposing to be implemented beginning in late spring of 2002. The full impact of these revisions may not be known until the summer of 2002.

Integration and Other Risks Associated with Our Orion Power Assets. We have made a substantial investment in our recent acquisition of Orion Power. If we are unable to profitably integrate, operate, maintain and manage our newly acquired power generation facilities our results of operations will be adversely affected.

Duquesne Light Company is obligated to supply electricity at predetermined tariff rates to all retail customers in its existing service territory who do not select another electricity supplier. Orion Power has committed to provide 100% of the energy that Duquesne Light Company needs to meet this obligation under a contract that was recently extended through December 2004. If our obligation under this contract exceeds the available output from the combination of Orion Power's generation facilities and our additional generation facilities in the region, we would be forced to buy additional energy at prevailing market prices and, in certain cases where we failed to deliver the required amount, we could incur penalties during periods of peak demand of up to $1,000 per megawatt hour. If this situation were to occur during periods of peak energy prices, we could suffer substantial losses that could materially adversely affect our results of operations. In addition, our revenues generated under this contract may be adversely impacted if a substantial number of Duquesne Light Company's retail customers select other retail electric providers.

Operating Risks. Our Electric Generation, Wholesale Energy operations and our European Energy operations are exposed to risks relating to the breakdown or failure of equipment or processes, fuel supply interruptions, shortages of equipment, material and labor, and operating performance below expected levels of output or efficiency. A significant portion of our facilities were constructed many years ago. Older generating equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to add or upgrade equipment to keep it operating at peak efficiency, to comply with changing environmental requirements, or to provide reliable operations. Such changes could affect operating costs. Any unexpected failure to produce power, including failure caused by breakdown or forced outage, could result in reduced earnings.

We depend on transmission and distribution facilities owned and operated by utilities and other power companies to deliver the electricity we sell from our power generation facilities to our customers, who in turn deliver these products to the ultimate consumers of the power. If transmission is disrupted, or transmission capacity is inadequate, our ability to sell and deliver our products may be hindered.

Factors Affecting Our Acquisition and Project Development Activities. Our plans for our Wholesale Energy business segment indicate a shift in emphasis from identifying and pursuing acquisition and development candidates to construction and integration of generation facilities. We believe this is a temporary shift based on the requirements of integrating the Orion Power assets and the maturation of both our and Orion Power's development projects and by the current state of the wholesale electricity and capital markets.

There are numerous risks relating to the acquisition and development of power generation plants and construction and integration of these facilities. We may not be able to identify attractive acquisitions or development opportunities, complete acquisitions or development projects we undertake, or we may not be able to integrate these plants, especially larger acquisitions, into the portfolios of our Wholesale Energy business segment and achieve the synergies, including cost savings, we originally envisioned.

Currently, our Wholesale Energy business segment has a select number of power generation facilities under development and many under construction (either owned or leased). Our completion of these facilities is subject to the following:

- market prices;

- shortages and inconsistent quality of equipment, material and labor;

- financial market conditions and the results of our financing efforts;

- actions by rating agencies with respect to us or our competitors;

- work stoppages, due to plant bankruptcies and contract labor disputes;

- permitting and other regulatory matters;

- unforeseen weather conditions;

- unforeseen equipment problems;

- environmental and geological conditions; and

- unanticipated capital cost increases.

Any of these factors could give rise to delays, cost overruns or the termination of the plant expansion, construction or development. Many of these risks cannot be adequately covered by insurance. While we maintain insurance, obtain warranties from vendors and obligate contractors to meet specified performance standards, the proceeds of such insurance, warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or liquidated damages payments we may owe.

If we were unable to complete the development of a facility, we would generally not be able to recover our investment in the project. The process for obtaining initial environmental, siting and other governmental permits and approvals is complicated, expensive, lengthy and subject to significant uncertainties. Transmission interconnection, fuel supply and cooling water represent some cost uncertainties during project development that may also result in termination of the project. In addition, construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect our results of operations. The failure to complete construction according to specifications can result in liabilities, reduced plant efficiency, higher operating costs and reduced earnings. We may not be successful in the development or construction of power generation facilities in the future.

As a result of several recent events, including the United States economic recession, the price decline of our industry sector in the equity capital markets and the downgrading of the credit ratings of several of our significant competitors, the availability and cost of capital for our business and the businesses of our competitors has been adversely affected. In response to these events and the intensified scrutiny of companies in our industry sector by the rating agencies, our Wholesale Energy business segment has reduced its planned capital expenditures by $2.7 billion over the 2002-2006 time frame.

Successful integration of plants, especially acquisitions, is subject to a number of risks, including the following:

- unforeseen liabilities or other exposures;

- inaccurate due diligence of acquired facilities, such as underestimates of outage rates and operating costs;

- inability to achieve adequate cost savings in both overhead and operations;

- inability to achieve various commercial synergies with existing operations; and

- market prices for power and fuels.

Any of these factors could significantly affect the economic impact of an acquisition on our results of operations.

As part of this integration process and our temporary shift in emphasis, the Orion Power plants will be part of an operations improvement process that strives to achieve both reduced operating and maintenance costs and increase gross margins through improved availability and reliability of plants. This process is currently underway at our other plants and will be introduced at the Orion Power facilities beginning in the third quarter of 2002.

Increasing Competition in Our Industry. Our Wholesale Energy business segment competes with other energy merchants. In order to successfully compete, we must have the ability to aggregate supplies at competitive prices from different sources and locations and must be able to efficiently utilize transportation services from third-party pipelines and transmission services from electric utilities. We also compete against other energy merchants on the basis of our relative skills, financial position and access to credit sources. Energy customers, wholesale energy suppliers and transporters often seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy trading and marketing business, we anticipate that our operations will experience greater competition and downward pressure on per-unit profit margins. Furthermore, demands for liquidity to support trading and merchant asset businesses are increasing at the same time that the credit rating agencies are reviewing the liquidity and other credit criteria for trading, marketing and merchant generation firms. Other companies we compete with may not have similar credit ratings pressure or may have higher credit ratings. The growth of electronic trading platforms has increased the number of transactions, potential counterparties and level of price transparency in the energy commodity market. As a result, we are likely to transact with a wide range of customers potentially increasing our risk due to their changing credit circumstances, while at the same time potentially diversifying our reliance on a smaller number of customers.

Developments with respect to our competitors frequently have a collateral and tangible impact on us. Credit and liquidity concerns impact our ability to do business with counterparties. Adverse regulatory and political ramifications can result from activities and investigations directed at our competitors.

Hydroelectric Facilities Licensing. The Federal Power Act gives the FERC exclusive authority to license non-federal hydroelectric projects on navigable waterways and federal lands. The FERC hydroelectric licenses are issued for terms of 30 to 50 years. Some of the hydroelectric facilities in our Wholesale Energy business segment, representing approximately 90 MW of capacity, have licenses that expire within the next ten years. Facilities that we own representing approximately 160 MW of capacity have new or initial license applications pending before the FERC. Upon expiration of a FERC license, the federal government can take over the project and compensate the licensee, or the FERC can issue a new license to either the existing licensee or a new licensee. In addition, upon license expiration, the FERC can decommission an operating project and even order that it be removed from the river at the owner's expense. In deciding whether to issue a license, the FERC gives equal consideration to a full range of licensing purposes related to the potential value of a stream or river. It is not uncommon for the relicensing process to take between four and ten years to complete. Generally, the relicensing process begins at least five years before the license expiration date and the FERC issues annual licenses to permit a hydroelectric facility to continue operations pending conclusion of the relicensing process. We expect that the FERC will issue to us new or initial hydroelectric licenses for all the facilities with pending applications. Presently, there are no applications for competing licenses and there is no indication that the FERC will decommission or order any of the projects to be removed.

FACTORS AFFECTING THE RESULTS OF OUR EUROPEAN ENERGY OPERATIONS

General. Our European Energy segment, which is operated by subsidiaries of Reliant Resources, intends to focus its activities in existing trading markets in the Netherlands, the United Kingdom, Germany, the Scandinavian countries, Austria and Switzerland. Historical results of operations may not be indicative of future results of operations. In particular, results of operations for our European Energy segment prior to 2001 reflect the impact of a regulated generation price system that has been discontinued. In addition, in 2001 and prior years, under Dutch corporate income tax laws, the earnings of REPGB were subject to a zero percent Dutch corporate income tax rate as a result of the Dutch tax holiday applicable to its electric industry. After December 31, 2001, all of European Energy's earnings in the Netherlands will be subject to the standard Dutch corporate income tax rate, which currently is 34.5%. Furthermore, European Energy's results of operations for 2001 include the effect of a number of non-recurring items, including the $37 million net gain resulting from the settlement of a stranded cost indemnity agreement.

Future results of operations of our European Energy segment could be affected by, among other things, the following:

- increasing competition in the Dutch wholesale energy market, resulting in declining electric power margins;

- the timing and pace of the deregulation of other sectors of the European energy markets;

- the continuing negative impact of the bankruptcy of Enron on market liquidity and credit requirements in European trading markets;

- the mark-to-market price risk exposure associated with certain stranded cost electricity and natural gas supply contracts;

- the impact of any renegotiation of European Energy's stranded cost contracts;

- the impact and changes of natural gas tariffs pursuant to changes in the regulatory structure;

- the ability to negotiate new contracts or renew contracts with customers on favorable terms; and

- the impact of slowing economic growth on power generation demand in the markets in which our European Energy segment operates.

Competition in the European Market. Competition for energy customers in the markets in which our European Energy segment operates is high. The primary factors affecting our European Energy segment's competitive position are price, regulation, the economic resources of its competitors, and its market reputation and perceived creditworthiness.

Our European Energy segment competes in the Dutch Wholesale market against a variety of other companies, including other Dutch generation companies, cogenerators, various producers of alternate sources of power and non-Dutch generators of electric power, primarily from France and Germany. As of December 31, 2001, the Dutch electricity system had three operational interconnection points with Germany and two interconnection points with Belgium. There are also a number of projects that are at various stages of development and that may increase the number of interconnections in the future (post 2005), including interconnections with Norway and the United Kingdom. The Belgian interconnections are primarily used to import electricity from France, but a larger portion of Dutch electricity imports comes from Germany. It is anticipated that over time, transmission constraints between the Netherlands and other European markets will be reduced, thereby exposing our European Energy segment to even greater competitive pressures.

Our European Energy segment's trading and marketing operations are also subject to increasing levels of competition. Competition among power generators for customers is intense and is expected to increase as more participants enter increasingly deregulated markets. Many of our European Energy segment's existing competitors have geographic market positions far more extensive than that of our European Energy segment. In addition, many of these competitors possess significantly greater financial, personnel and other resources than our European Energy segment.

Deregulation of the Dutch Market. The Dutch wholesale electric market was completely opened to competition on January 1, 2001. Consistent with our expectations at the time we acquired our operations in the Netherlands, the gross margin of our European Energy segment declined in 2001 as a result of the deregulation of the market and the termination of an agreement with the other Dutch generators and the Dutch distributors. Commercial markets were generally opened to retail competition in January 2002. We expect the remainder of the market, consisting of mainly residential customers, will be open to competition by January 1, 2003. The timing of opening of the residential segment of the market is subject to change, however, at the discretion of the Dutch Minister of Economic Affairs. Since our European Energy segment's operations focus on the wholesale market, we do not expect that the opening of the Dutch commercial or residential electric market will have a significant impact on the segment's results of operations.

Plant Outages. During 2001, our margins were negatively impacted by unplanned outages at some of our Dutch generation facilities. The unplanned outages were primarily due to malfunctions of the generation turbines and related equipment and complications encountered in the maintenance of one of our facilities. We estimate that these unplanned outages resulted in losses of approximately $11 million, a significant portion of which is covered by property damage and business interruption insurance. For additional information regarding operational risks applicable to our European Energy segment, including unplanned plant outages, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Operating Risks."

Other Factors. In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. For additional information regarding the stranded cost indemnity settlement and the potential impact on earnings from changes in the valuation in the future of the related stranded cost contracts, please read Notes 5(b) and 14(h) to our consolidated financial statements. We have begun discussions with the other parties to these contracts to modify the terms of certain of the out-of-market contracts. The structure of these settlements, if consummated, likely would entail an upfront cash payment to the counterparty in exchange for amendments to price and other terms intended to make the contracts more market conforming. REPGB would seek to fund these payments, if made, to the extent possible through the proceeds from the settlement of its stranded cost indemnity agreement and, possibly, anticipated distributions from NEA. We cannot currently predict the outcome of these negotiations. However, to the extent that these discussions result in amendments to the contracts, we could realize a gain.

We are in the process of reviewing our European Energy segment's goodwill and certain intangibles for impairment pursuant to SFAS No. 142. For information regarding assessing the impairment in 2002 under SFAS No. 142, please read "-- New Accounting Pronouncements."

Our European operations are subject to various risks incidental to investing or operating in foreign countries. These risks include economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. For example, we estimate that the impact of the devaluation of the Euro relative to the U.S. dollar during 2001 negatively affected U.S. dollar net income by approximately $2 million.

FACTORS AFFECTING THE RESULTS OF OUR RETAIL ENERGY OPERATIONS

General. The Texas retail electricity market fully opened to competition in January 2002. Therefore, we do not expect the earnings from our Retail Energy segment, which is operated by subsidiaries of Reliant Resources, for past years to be indicative of our future earnings and results. The level of future earnings generated by our Retail Energy segment will depend on numerous factors including:

- legislative and regulatory developments related to the newly opened retail electricity market in Texas and changes in the application of such laws and regulations;

- the effects of competition, including the extent and timing of the entry or exit of competitors in our markets and the impact of competition on retail prices and margins;

- customer attrition rates and cost associated with acquiring and retaining new customers;

- our ability to negotiate new contracts or renew contracts with customers on favorable terms;

- the timing and extent of changes in wholesale commodity prices and transmission and distribution rates;

- our ability to procure adequate electricity supply upon economic terms;

- our ability to effectively hedge commodity prices;

- our ability to pass increased supply costs on to customers in a timely manner;

- our ability to timely perform our obligations under our customer contracts;

- market liquidity for wholesale power;

- the financial condition and payment patterns of our customers;

- weather variations and other natural phenomena;

- the timely and accurate implementation of the new internal and external information technology systems and processes necessary to provide customer information and to implement customer switching in the retail electricity market in Texas which was established in late 2001;

- the costs associated with operating our internal customer service and other operating functions; and

- the timing and accuracy of ERCOT settlements, and the exchange of information between ERCOT, the T&D Utility and our Retail Energy segment's retail electric provider, which facilitates our Retail Energy business segment's billing, collection and supply management processes.

Competition in the Texas Market. Under the Texas Electric Restructuring Law, beginning in 2002, all classes of Texas customers of most investor-owned utilities, and those of any municipal utility and electric cooperative that opted to participate in the competitive marketplace, are able to choose their retail electric provider. In January 2002, Reliant Resources began to provide retail electric services to all customers of Reliant Energy HL&P who did not select another retail electric provider. Under the market framework established by the Texas Electric Restructuring Law, Reliant Resources is recognized as the affiliated retail electric provider of Reliant Energy's electric utility. The Distribution will not change this treatment, even though Reliant Resources will cease to be a subsidiary of Reliant Energy after the Distribution. As an affiliated retail electric provider, Reliant Resources is initially required to sell electricity to these Houston area residential and small commercial customers at a specified price, which is referred to in the law as the "price to beat," whereas other retail electric providers are allowed to sell electricity to these customers at any price. Reliant Resources' price to beat was set at a level resulting in an estimated average 17% reduction from December 31, 2001 rates for its residential customers and an estimated average 22% reduction from December 31, 2001 rates for its pre-existing small commercial customers. The wholesale energy supply cost component, or "fuel factor," included in its price to beat was initially set by the Texas Utility Commission at the then average forward 12 month gas price strip of approximately $3.11/MMBtu.

Reliant Resources is not permitted to offer electricity to these customers at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers in the Houston metropolitan area is committed to be served by retail electric providers other than Reliant Resources. In addition, as the affiliated retail electric provider, Reliant Resources is obligated to offer the price to beat to requesting residential and small commercial customers in Reliant Energy's electric utility service territory through January 1, 2007. Because Reliant Resources will not be able to compete for residential and small commercial customers on the basis of price in the Houston area, it may lose a significant number of these customers to other retail electric providers. Customers were given the opportunity to switch beginning in August 2001 through the retail pilot project. Due to system related problems which restricted the timely switching of customers during the pilot project and in early 2002, we cannot be sure of the number of customers that have attempted to switch to other retail electric providers. For additional information regarding retail market systems problems, please read "-- Operational Risks." Between the beginning of the pilot project in August 2001 and February 28, 2002, Reliant Resources estimates that approximately 67,000 customers (or approximately 4% of their residential and small commercial customers) have switched to other retail electric providers. Due to the switching systems problems, the actual numbers of customers that switched or attempted to switch by this date may actually be higher.

Reliant Resources is providing commodity service to the large commercial, industrial and institutional customers previously served by Reliant Energy's electric utility who did not take action to select another retail electric provider. In addition, Reliant Resources has signed contracts to provide electricity and services to large commercial, industrial and institutional customers, both in the Houston area as well as outside of the Houston market. Reliant Resources or any other retail electric provider can provide services to these customers at any negotiated price. The market for these customers is very competitive, and any of these customers that select Reliant Resources as their provider may subsequently decide to switch to another provider at the conclusion of the term of their contract with Reliant Resources.

In most retail electric markets outside the Houston area, Reliant Resources' principal competitor may be the local incumbent utility company's retail affiliate. These retail affiliates have the advantage of long-standing relationships with their customers. In addition to competition from the incumbent utilities' affiliates, Reliant Resources may face competition from a number of other retail providers, including affiliates of other non-incumbent utilities, independent retail electric providers and, with respect to sales to large commercial and industrial customers, independent power producers acting as retail electric providers. Some of these competitors or potential competitors may be larger and better capitalized than Reliant Resources.

Generally, retail electric providers will purchase electricity from the wholesale generators at unregulated rates, sell electricity to their retail customers and pay the transmission and distribution utility a regulated tariffed rate for delivering the electricity to their customers. Retail electric providers will then bill and collect payments from the customers. Because Reliant Resources is required to sell electricity to residential and small commercial customers in the Houston area at the price to beat, it may lose a significant number of these customers to non-affiliated retail electric providers if their cost to provide electricity to these customers is lower than the price to beat. In addition, the results of our Retail Energy operations for sales to residential and small commercial customers over the next several years in Texas will be largely dependent upon the amount of gross margin, or "headroom," available in our price to beat. Until 2004, when Reliant Resources will have the option to acquire our ownership interest in Texas Genco, Reliant Resources' results will be largely based on the ability of the Wholesale Energy segment to buy power at prices that yield acceptable gross margins at revenue levels determined by the price to beat set by the Texas Utility Commission. The available headroom in the price to beat is equal to the difference between the price to beat and the sum of the charges, fees and transmission and distribution utility rates approved by the Texas Utility Commission and the price Reliant Resources pays for power to serve its price to beat customers. The larger the amount of headroom, the more incentive new market entrants should have to provide retail electric services in that particular market. The Texas Utility Commission's regulations allow affiliated retail electric providers to adjust their price to beat fuel factor based on the percentage change in the price of natural gas. In addition, they may also request an adjustment as a result of changes in their price of purchased energy. In such a request, they may adjust the fuel factor to the extent necessary to restore the amount of headroom that existed at the time the initial price to beat fuel factor was set by the Texas Utility Commission. Affiliated retail electric providers may not request that their price to beat be adjusted more than twice a year. Reliant Resources cannot estimate with any certainty the magnitude and frequency of the adjustments they may seek, if any, and the eventual impact of such adjustments on the amount of headroom. Based on forward gas prices at the end of March 2002, Reliant Resources would be able to increase its price to beat rates by approximately 4-5%. Available headroom in the Houston market, as well as in other Texas markets where Reliant Resources intends to compete, will be affected by any changes in transmission and distribution rates that may be requested by the transmission and distribution provider in the respective service territory and in taxes, fees and other charges assessed or levied by third parties. Any changes in transmission and distribution rates must be approved by the Texas Utility Commission. The Texas Utility Commission has initiated a proceeding to determine what taxes a municipality or other local taxing authority can charge retail electric providers relating to the provision of electricity.

In Texas, our Wholesale Energy business segment and our Retail Energy business segment work together in order to determine the price, demand and supply of energy required to meet the needs of our Retail Energy business segments' customers. Reliant Resources may purchase capacity from non-affiliated parties in the state mandated auctions and from our Texas generation business in the contractually mandated auctions. Reliant Resources also enters into bilateral contracts with third parties for capacity, energy and ancillary services. Supply positions are continuously monitored and updated based on retail sales forecasts and market conditions. However, Reliant Resources does not expect to cover the entire exposure of these positions to market price volatility, and the coverage will vary over time. For a discussion of risks similar to those associated with our Retail Energy segment's hedging activities, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility," and "-- Risks Associated with Our Hedging and Risk Management Activities." In addition to the factors noted in these sections, Reliant Resources' ability to adequately hedge its retail electricity requirements is also dependent on the accurate forecast of the number of our customers in each customer class and uncertainties associated with the recently established ERCOT settlement procedures.

Obligations as a Provider of Last Resort. The Texas Electric Restructuring Law requires the Texas Utility Commission to designate certain retail electric providers as providers of last resort in areas of the state in which retail competition is in effect. A provider of last resort is required to offer a standard retail electric service package for each class of customers designated by the Texas Utility Commission at a fixed, nondiscountable rate approved by the Texas Utility Commission, and is required to provide the service package to any requesting retail customer in the territory for which it is the provider of last resort. In the event that another retail electric provider fails to serve any or all of its customers, the provider of last resort is required to offer that customer the standard retail service package for that customer class with no interruption of service to the customer. The Texas Utility Commission designated Reliant Resources' subsidiary, StarEn Power to serve as the provider of last resort for residential and small commercial customers in the western portion of the Dallas/Fort Worth metropolitan area formally served by Texas Utilities, Inc., a subsidiary of TXU, Inc. In addition, StarEn Power has been appointed as the provider of last resort for large commercial, industrial and institutional customers in Reliant Energy's electric utility service territory. StarEn Power will serve two consecutive six month terms as the provider of last resort. The first term began on January 1, 2002. The second six-month term, beginning July 1, 2002, will include a potential adjustment to the energy component of our provider of last resort rate based on a NYMEX Henry Hub natural gas index. The terms and rates for provider of last resort service are governed by a settlement between Reliant Resources and various interested parties, which settlement was approved by the Texas Utility Commission. In this role, StarEn Power retains the rights to require customer deposits and disconnect service in accordance with Texas Utility Commission rules, and to petition the Texas Utility Commission for a price change in the event it is determined that StarEn power will experience a net financial loss over the term of its provider of last resort obligations. In the first quarter of 2002, the Texas Utility Commission initiated a proceeding to review and possibly amend both the governing rules and structure of provider of last resort service and obligations. This proceeding is in its initial stages and we cannot be sure whether the structure of provider of last resort service and obligations will change, how they will change or what effect, if any, any changes would have on the financial condition, results of operations or cash flows of StarEn Power or our Retail Energy business segment.

"Clawback" Payment to Reliant Energy. To the extent the price to beat exceeds the market price of electricity, Reliant Resources will be required to make a payment to Reliant Energy in 2004 unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers (at or below one MW), as applicable, within Reliant Energy HL&P's service territory is committed to be served by retail electric providers other than Reliant Resources. If the 40% test is not met and the reconciliation and a retail payment is required, the amount of this retail payment will be equal to (a) the amount that the price to beat, less non-bypassable delivery charges, is in excess of the prevailing market price of electricity during such period per customer, but not to exceed $150 per customer, multiplied by (b) the number of residential or small commercial customers, as the case may be, that we serve on January 1, 2004 in Reliant Energy HL&P's service territory, less the number of new retail electric customers Reliant Resources serves in other areas of Texas. Amounts received from Reliant Resources with respect to the clawback payment, if any, will be included in the 2004 stranded cost true-up as a reduction of stranded costs.

Operational Risks. The price of purchased power could have an adverse effect on the costs incurred by our Retail Energy segment in acquiring power to serve the demand of its retail customers. For additional information regarding commodity price volatility, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility."

Reliant Resources is dependent on local transmission and distribution utilities for maintenance of the infrastructure through which electricity is delivered to its retail customers. Any infrastructure failure that interrupts or impairs delivery of electricity to its customers could negatively impact the satisfaction of its customers with its service. Additionally, Reliant Resources is dependent on the local transmission and distribution utilities for the reading of its customers' energy meters. Reliant Resources is required to rely on the local utility or, in some cases, the independent transmission system operator, to provide it with its customers' information regarding energy usage, and Reliant Resources may be limited in its ability to confirm the accuracy of the information. The provision of inaccurate information or delayed provision of such information by the local utilities or system operators could have a material negative impact on our business and results of operations and cash flows.

The ERCOT ISO is the independent system operator 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. Problems in the flow of information between the ERCOT ISO, the transmission and distribution utility and the retail electric providers have resulted in delays in switching customers. While the flow of information is improving, operational problems in the new system and processes are still being worked out.

The ERCOT ISO is also responsible for handling scheduling and settlement for all electricity supply volumes in the Texas deregulated electricity market. In addition, the ERCOT ISO plays a vital role in the collection and dissemination of metering data from the transmission and distribution utilities to the retail electric providers. Reliant Resources and other retail electric providers schedule volumes based on forecasts. As part of settlement, the ERCOT ISO communicates the actual volumes delivered compared to the forecast volumes scheduled. The ERCOT ISO calculates an additional charge or credit based on the difference between the actual and forecast volumes, utilizing a market clearing price for the difference. Settlement charges also include allocated costs such as unaccounted-for energy. Currently, there is a three to four month delay in receiving the final settlement information. As a result, Reliant Resources must estimate its supply costs. Timing delays in receiving final settlement information creates supply cost estimation risk.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding our exposure to risk as a result of fluctuations in commodity prices and derivative instruments, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

ENVIRONMENTAL EXPENDITURES

We are subject to numerous environmental laws and regulations, which require us to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment. For additional information regarding environmental contingencies, please read Note 14(f) to our consolidated financial statements.

Clean Air Act Expenditures. We expect the majority of capital expenditures associated with environmental matters to be incurred by our Electric Generation and Wholesale Energy business segments in connection with emission limitations for NOx under the Clean Air Act, or to enhance operational flexibility under Clean Air Act requirements. In 2000, emission reduction requirements for NOx were finalized for our electric generating facilities in the United States. We currently estimate that up to $476 million will be required to comply with the requirements through the end of 2004, with an estimated $287 million to be incurred in 2002. The Texas regulations require additional reductions that must be completed by March 2007. Plans for the Texas units for the period 2004 through 2007 have not been finalized, but have been estimated at $88 million. We are currently litigating the economic and technical viability of the Texas post-2004 reduction requirements, but cannot predict the outcome of this litigation. In addition, the Texas Electric Restructuring Law created a program mandating air emissions reductions for some generating facilities of our Electric Generation business segment. The Texas Electric Restructuring Law provides for stranded cost recovery of costs associated with this obligation incurred before May 1, 2003. For additional information regarding the Texas Electric Restructuring Law, please read "-- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- The Texas Electric Restructuring Law" in Item 1 of this Form 10-K and Note 4(a) to our consolidated financial statements. For additional information regarding environmental regulation of air emissions, please read "Business -- Environmental Matters -- Air Emissions" in Item 1 of this Form 10-K.

Site Remediation Expenditures. From time to time we have received notices from regulatory authorities or others regarding our status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. Based on currently available information, we believe that remediation costs will not materially affect our financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to our estimates. For information about specific sites that are the subject of remediation claims, please read Note 14(f) to our consolidated financial statements.

Water, Mercury and Other Expenditures. As discussed under "Business -- Environmental Matters -- Water Issues" in Item 1 of this Form 10-K, regulatory authorities are in the process of implementing regulations and quality standards in connection with the discharge of pollutants into waterways. Once these regulations and quality standards are enacted, we will be able to determine if our operations are in compliance, or if we will have to incur costs in order to comply with the quality standards and regulations. Until that time, however, we are not able to predict the amount of these expenditures, if any. To date, however, our expenditures associated with respect to permits, registrations and authorizations for operation of facilities under the statutes regulating the discharge of pollutants into surface water have not been material. With regard to mercury remediation and other environmental matters, such as the disposal of solid wastes, our expenditures have not been, and are not expected to be material, based on our experiences and that of others in our industries. Please read "Business -- Environmental Matters -- Mercury Contamination" and "-- Other" in Item 1 of this Form 10-K.

OTHER FACTORS

Terrorist Attacks and 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 generation facilities or the power transmission and distribution facilities on which we rely 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, 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 or gas. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

Environmental Regulation. Our Electric Generation and Wholesale Energy business segments are subject to extensive environmental regulation by federal, state and local authorities. We are required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits, in operating our facilities. We may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements, we could be subject to civil or criminal liability and fines. Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events occur, our business, operations and financial condition could be adversely affected.

We may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be prevented or become subject to additional costs.

We are generally responsible for all on-site liabilities associated with the environmental condition of our power generation facilities which we have acquired and developed, regardless of when the liabilities arose and whether they are known or unknown. These liabilities may be substantial.

Holding Company Organizational Structure. We are a holding company, and we conduct a significant portion of our operations through our subsidiaries. After the Restructuring and Distribution, CenterPoint Energy will be a holding company that conducts substantially all of its operations through its respective subsidiaries. CenterPoint Energy's only significant assets will be the capital stock of its subsidiaries, and its subsidiaries will generate substantially all of CenterPoint Energy's operating income and cash flow. As a result, dividends or advances from CenterPoint Energy's subsidiaries will be the principal source of funds necessary to meet its debt service obligations. In some circumstances, contractual provisions (including terms of indebtedness) or laws, as well as the financial condition or operating requirements of our respective subsidiaries, may limit our or CenterPoint Energy's ability to obtain cash from our respective subsidiaries. As of December 31, 2001, all conditions on payments to us by our subsidiaries that are contained in existing agreements were satisfied. After the Distribution, Reliant Resources will also be a holding company that conducts all of its operations through its subsidiaries and will be subject to similar structural limitations as described above with respect to CenterPoint Energy. For information regarding payment of dividends please read Item 5 of this Form 10-K.

In addition, the ability of REMA, a Reliant Resources subsidiary that owns some of the power generation facilities in our Northeast regional portfolio, to pay dividends or make restricted payments to Reliant Resources is restricted under the terms of three lease agreements under which we lease all or an undivided interest in these generating facilities. These agreements allow our Mid-Atlantic subsidiary to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified fixed charge coverage ratios.

Liquidity Concerns. For a discussion of factors affecting our sources of cash and liquidity, please read "-- Liquidity and Capital Resources -- Future Sources and Uses of Cash."

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by/used in operating, investing and financing activities for 1999, 2000 and 2001 is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Cash provided by (used in):			
Operating activities..................................	$ 1,104	$ 1,344	$ 1,713
Investing activities..................................	(2,870)	(3,286)	(2,085)
Financing activities..................................	1,823	2,032	337

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operations in 2001 increased $369 million compared to 2000. This increase primarily resulted from:

- an increase in recovered fuel costs by our Electric Operations business segment;

- a decrease in net margin deposits on energy trading activities as a result of reduced commodity volatility and relative price levels of natural gas and power compared to the fourth quarter of 2000; and

- an increase in operating margins from Wholesale Energy's power generation operations.

This increase is partially offset by:

- a prepayment of a lease obligation related to REMA sale/leaseback transactions (please read Note 14(b) to our consolidated financial statements);

- an increase in restricted cash related to our REMA operations;

- an increase in deposits in a collateral account related to an equipment financing structure (please read Note 14(l) to our consolidated financial statements);

- an increase in costs related to our Retail Energy business segments' increased staffing levels and preparation for competition in the retail electric market in Texas;

- reduced cash flows from our European Energy business segment primarily resulting from a decline in electric power generation gross margins as the Dutch electric market was completely opened to wholesale competition on January 1, 2001; and

- other changes in working capital.

Net cash provided by operations in 2000 increased $240 million compared to 1999. This increase primarily resulted from:

- proceeds from the sale of an investment in marketable debt securities by REPGB;

- improved operating results of our Wholesale Energy business segment's California generating facilities;

- incremental cash flows provided by REPGB, acquired in the fourth quarter of 1999;

- cash flows from REMA, acquired in the second quarter of 2000; and

- increased sales from our Electric Operations business segment due to growth in usage and number of customers.

These increases were partially offset by increases in under-recovered fuel costs of our Electric Operations business segment and Wholesale Energy's net margin deposits on energy trading activities.

CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased $1.2 billion during 2001 compared to 2000. This decrease was primarily due to no acquisitions being made in 2001 as compared to the $2.1 billion acquisition of REMA in 2000, and the funding of the remaining $982 million purchase obligation for REPGB in 2000.

These decreases were partially offset by additional capital expenditures in 2001 of $211 million primarily related to our Electric Operations business segment, proceeds of $1.0 billion received in 2000 from the REMA sale-leaseback and $642 million received in 2000 from the sale of our Latin America assets, net of investments and advances.

Net cash used in investing activities increased $416 million during 2000 compared to 1999. This increase was primarily due to:

- the funding of the remaining purchase obligation for REPGB of $982 million on March 1, 2000;

- the acquisition of REMA for $2.1 billion on May 12, 2000; and

- increased capital expenditures related to the construction of domestic power generation projects.

Proceeds of $1.0 billion from the REMA sale-leaseback in 2000, the sale of a substantial portion of our Latin America investments in 2000 and the purchase of $537 million of AOL Time Warner securities in 1999 partially offset these increases.

CASH PROVIDED BY FINANCING ACTIVITIES

Cash flows provided by financing activities decreased $1.7 billion in 2001 compared to 2000, primarily due to a decline in short term borrowings partially offset by $1.7 billion in net proceeds from the initial public offering of Reliant Resources.

Cash flows provided by financing activities increased $209 million in 2000 compared to 1999, primarily due to an increase in short-term borrowings partially offset by a decline in proceeds from long-term debt and the sale of trust preferred securities.

FUTURE SOURCES AND USES OF CASH

The following table sets forth our consolidated capital requirements for 2001, and estimates of our consolidated capital requirements for 2002 through 2006 (in millions).

	2001	2002	2003	2004	2005	2006
Electric Operations (with nuclear fuel) (1)..........................	$ 936	$ --	$ --	$ --	$ --	$ --
Electric Transmission and Distribution(1)..................	--	338	320	381	362	352
Electric Generation (with nuclear fuel) (1)..........................	--	285	192	89	79	45
Natural Gas Distribution...........	209	219	231	231	234	231
Pipelines and Gathering............	54	76	45	45	43	38
Wholesale Energy(2) (3).............	658	3,579	322	147	215	146
European Energy....................	21	22	--	--	--	--
Retail Energy......................	117	40	19	18	14	16
Other Operations...................	58	111	80	46	73	38
Major maintenance cash outlays.....	88	94	87	106	86	85
Total............................	$2,141	$4,764	$1,296	$1,063	$1,106	$951

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(1) Beginning in 2002, the Electric Operations business segment will be replaced by the Electric Transmission and Distribution business segment and the Electric Generation business segment. In December 2001, we formed Texas Genco, LP, a Texas limited partnership, as an indirect, wholly owned subsidiary (Texas Genco). It is anticipated that the majority interest in Texas Genco held by CenterPoint Energy will be purchased by Reliant Resources in early 2004 pursuant to the terms of an option that Reliant Resources holds, or will otherwise be sold to one or more other parties. The Texas generation operations referred to as our "Texas generation business" throughout this Form 10-K will be reported as the "Electric Generation" business segment beginning in 2002. Capital requirements for current generation operations of Reliant Energy HL&P are included in the Electric Generation business segment. Capital requirements for the remainder of Reliant Energy HL&P's operations are included in the Electric Transmission and Distribution business segment.

(2) Capital requirements for 2002 include $2.9 billion for the acquisition of Orion Power by Reliant Resources.

(3) We currently estimate the capital expenditures by off-balance sheet special purpose entities to be $704 million, $343 million, $163 million and $48 million in 2002, 2003, 2004 and 2005, respectively. Capital expenditures for these projects have been excluded from the table above. Please read "Future Sources and Uses -- Reliant Resources (unregulated businesses)," "-- Off-Balance Sheet Transactions -- Construction Agency Agreements" and "-- Equipment Financing Structure" below for additional information.

The following table sets forth estimates of our consolidated contractual obligations as of December 31, 2001 to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt, including capital leases(1)	$ 6,403	$ 538	$1,226	$ 90	$ 390	$218	$3,941
Short-term borrowing, including credit facilities(1)	3,435	3,435	--	--	--	--	--
Trust preferred securities(2)	706	--	--	--	--	--	706
REMA operating lease payments(3)	1,560	136	77	84	75	64	1,124
Other operating lease payments(3)	969	66	84	94	95	95	535
Trading and marketing liabilities(4)	1,840	1,478	216	85	33	13	15
Non-trading derivative liabilities(4)	1,121	472	198	115	62	35	239
Other commodity commitments(5)	4,014	451	314	340	344	348	2,217
Other long-term obligations	300	10	10	10	10	10	250
Total contractual cash obligations	$20,348	$6,586	$2,125	$818	$1,009	$783	$9,027

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(1) For a discussion of short-term and long-term debt, please read Note 10 to our consolidated financial statements.

(2) For a discussion of trust preferred securities, please read Note 11 to our consolidated financial statements.

(3) For a discussion of REMA and other operating leases, please read Note 14(b) to our consolidated financial statements.

(4) For a discussion of trading and marketing liabilities and non-trading derivative liabilities, please read Note 5 to our consolidated financial statements.

(5) For a discussion of other commodity commitments, please read Note 14(a) to our consolidated financial statements. Excluded from the table above are amounts to be acquired by Reliant Resources from Texas Genco under purchase power and electric capacity commitments of $213 million and $57 million in 2002 and 2003, respectively.

The following discussion regarding future sources and uses of cash over the next twelve months is presented separately for our regulated businesses and unregulated businesses consistent with the separate liquidity plans that our management has developed for CenterPoint Energy and Reliant Resources. We believe that our borrowing capability combined with cash flows from operations will be sufficient to meet the operational needs of our businesses for the next twelve months.

RELIANT ENERGY (TO BECOME CENTERPOINT ENERGY SUBSEQUENT TO THE RESTRUCTURING)

Our liquidity and capital requirements will be affected by:

- capital expenditures;

- debt service requirements;

- the repayment of notes payable to Reliant Resources;

- the reduction in, and elimination of, programs under which we have sold customer accounts receivable;

- proceeds from the expected initial public offering of Texas Genco;

- various regulatory actions; and

- working capital requirements.

We expect capital requirements to be met with cash flows from operations, as well as proceeds from debt offerings and other borrowings. The following table sets forth our capital requirements for 2001, and estimates of our capital requirements for 2002 through 2006 (in millions):

	2001	2002	2003	2004	2005	2006
Electric Operations (with nuclear fuel) (1)	$ 936	$ --	$ --	$ --	$ --	$ --
Electric Transmission and Distribution(1)	--	338	320	381	362	352
Electric Generation (with nuclear fuel) (1)	--	285	192	89	79	45
Natural Gas Distribution	209	219	231	231	234	231
Pipelines and Gathering	54	76	45	45	43	38
Other Operations	14	36	34	15	41	5
Total	$1,213	$954	$822	$761	$759	$671

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(1) Beginning in 2002, the Electric Operations business segment will be replaced by the Electric Transmission and Distribution business segment and the Electric Generation business segment. It is anticipated that the majority interest in Texas Genco held by CenterPoint Energy will be purchased by Reliant Resources in early 2004 pursuant to the terms of an option that Reliant Resources holds, or will otherwise be sold to one or more other parties. The Texas generation operations referred to as our "Texas generation business" throughout this Form 10-K will be reported as the "Electric Generation" business segment beginning in 2002. Capital requirements for current generation operations of Reliant Energy HL&P are included in the Electric Generation business segment. Capital requirements for the remainder of Reliant Energy HL&P's operations are included in the Electric Transmission and Distribution business segment.

The following table sets forth estimates of our contractual obligations to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt, including capital leases	$ 5,511	$ 514	$687	$ 48	$378	$206	$3,678
Short-term borrowing, including credit facilities	3,138	3,138	--	--	--	--	--
Trust preferred securities	706	--	--	--	--	--	706
Other operating lease payments(1)	110	14	12	7	6	5	66
Non-trading derivative liabilities	83	73	7	2	1	--	--
Other commodity commitments(2)	1,150	199	129	133	137	141	411
Total contractual cash obligations	$10,698	$3,938	$835	$190	$522	$352	$4,861

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(1) For a discussion of other operating leases, please read Note 14(b) to our consolidated financial statements.

(2) For a discussion of other commodity commitments, please read Note 14(a) to our consolidated financial statements.

Credit Facilities. As of December 31, 2001, we had credit facilities, including facilities of Houston Industries FinanceCo LP (FinanceCo) and RERC Corp., that provided for an aggregate of $5.4 billion in committed credit. As of December 31, 2001, $3.1 billion was outstanding under these facilities including $2.5 billion of commercial paper supported by the facilities, borrowings of $636 million and letters of credit of $2.5 million.

The following table summarizes amounts available under these credit facilities at December 31, 2001 and commitments expiring in 2002 (in millions):

BORROWER	TYPE OF FACILITY	AMOUNT OF COMMITTED CREDIT	TOTAL UNUSED AMOUNT AT 12/31/01	COMMITMENTS EXPIRING IN 2002
Reliant Energy	Revolver	$ 400	$ 236	$ 400
FinanceCo	Revolvers	4,300	1,671	4,300
RERC Corp.	Revolver	350	347	--
RERC Corp.	Receivables	350	4	350
Total		$5,400	$2,258	$5,050

The RERC Corp. receivables facility was reduced from $350 million to $150 million in January 2002. Proceeds for the repayment of $196 million of advances under the facility were obtained from the liquidation of a temporary investment and the sale of commercial paper.

The revolving credit facilities contain various business and financial covenants requiring us to, among other things, maintain leverage (as defined in the credit facilities) below specified ratios. We are in compliance with the covenants under all of these credit agreements. We do not expect these covenants to materially limit our ability to borrow under these facilities. For additional discussion, please read Note 10(a) to our consolidated financial statements.

The revolving credit facilities support commercial paper programs. The maximum amount of outstanding commercial paper of an issuer is limited to the amount of the issuer's aggregate revolving credit facilities less any direct loans or letters of credit obtained under its revolvers. Due to an inability to consistently satisfy all short-term borrowing needs by issuing commercial paper, short-term borrowing needs have been met with a combination of commercial paper and bank loans. The extent to which commercial paper will be issued in lieu of bank loans will depend on market conditions and our credit ratings.

Pursuant to the terms of the existing agreements (but subject to certain conditions precedent which we anticipate will be met) the revolving credit agreements aggregating $4.3 billion of FinanceCo will terminate and CenterPoint Energy revolving credit facilities of the same amount and with the same termination dates will become effective on the date of Restructuring.

To the extent that we continue to need access to current amounts of committed credit prior to the Distribution, we expect to extend or replace the credit facilities on a timely basis. The terms of any new credit facilities are expected to be adversely affected by the leverage of Reliant Energy, the amount of bank capacity utilized by Reliant Energy, any delay in the date of Restructuring and Distribution and conditions in the bank market. These same factors are expected to make the syndication of new credit facilities more difficult in the future. Proceeds from any issuance of debt in the capital markets are expected to be used to retire a portion of our short-term debt and reduce our need for committed revolving credit facilities.

Shelf Registrations. The following table lists shelf registration statements existing at December 31, 2001 for securities expected to be sold in public offerings.

REGISTRANT	SECURITY	AMOUNT(1)	TERMINATING ON DATE OF RESTRUCTURING
Reliant Energy..............	Preferred Stock	$230 million	Yes
Reliant Energy..............	Debt Securities	580 million	Yes
Reliant Energy..............	Common Stock	398 million	No
REI Trust II/Reliant Energy....................	Trust Preferred and related Junior Subordinated Debentures	125 million	Yes
RERC Corp...................	Debt Securities	50 million	No

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(1) The amount reflects the principal amount of debt securities, the aggregate liquidation value of trust preferred securities and the estimated market value of common stock based on the number of shares registered as of December 31, 2001 and the closing market price of Reliant Energy common stock on that date.

We expect to register $2.5 billion of debt securities some or all of which may be issued either by Reliant Energy prior to the Restructuring or by CenterPoint Energy after the Restructuring. Proceeds from the sale of these debt securities are expected to be used to repay short-term borrowings. The amount actually issued will depend on interest rates and other market conditions.

Debt Service Requirements. Excluding the repayments expected to be made on the transition bonds described in Note 4(a) to our consolidated financial statements, we have maturing long-term debt in 2002 aggregating $500 million. Maturing debt is expected to be refinanced with new debt. In addition, Reliant Energy has $175 million of 5.20% pollution control bonds that are expected to be remarketed in 2002 as multi-year fixed-rate debt.

Debt service requirements will be affected by the overall level of interest rates in 2002 and credit spreads applicable to the various issuers of debt in 2002. Up to $2.7 billion of long-term debt is expected to be issued or remarketed in 2002 and we expect to have large amounts of short-term floating-rate debt in 2002. At December 31, 2001, we had entered into five year forward starting interest rate swaps having an aggregate notional amount of $500 million to hedge the interest rate on an anticipated 2002 offering of five year notes. The weighted average rate on the swaps was 5.6%. At December 31, 2001, we also had entered into interest rate swaps to fix the rate on $1.8 billion of our floating rate debt. The weighted average rate on these swaps was 4.1% and the swaps expire in 2002 and 2003. While we have, in some instances, hedged our exposure to changes in interest rates by entering into interest rate swaps, the swaps leave us exposed to changes in our credit spread relative to the market indices reflected in the swaps.

Money Fund. We have a "money fund" through which Reliant Energy and participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money fund's net funding requirements are generally met with commercial paper and/or bank loans. At December 31, 2001, Reliant Resources had $390 million invested in the money fund. Reliant Resources is expected to withdraw its investment from the money fund on or before the Distribution. Funds for repayment of the notes payable to Reliant Resources will be obtained from bank loans or the issuance of commercial paper.

Environmental Issues. We anticipate investing up to $397 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance. Of this amount, we anticipate expenditures to be approximately $234 million and $132 million in 2002 and 2003, respectively. These environmental compliance expenditures are included in the capital requirements table presented above. For additional information related to environmental issues, please read Note 14(f) to our consolidated financial statements.

Initial Public Offering of Texas Genco. In 2002, approximately 20% of Texas Genco is expected to be sold in an initial public offering or distributed to holders of CenterPoint Energy common stock. The decision

whether to distribute the Texas Genco shares or to sell the shares in an initial public offering will depend on numerous factors, including market conditions. Proceeds, if any, are expected to be used to retire short-term debt.

Fuel Filing. As of December 31, 2000 and 2001, Reliant Energy HL&P was under-collected on fuel recovery by $558 million and $200 million, respectively. In two separate filings with the Texas Utility Commission in 2000, Reliant Energy HL&P received approval to implement fuel surcharges to collect the under-recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas. Under the Texas Electric Restructuring Law, a final settlement of these stranded costs will occur in 2004.

Reliant Energy HL&P Rate Matters. The October 3, 2001 Order established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that Reliant Energy HL&P had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. In this final order, Reliant Energy HL&P is required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the Transition Plan and the Texas Electric Restructuring Law. Per the October 3, 2001 Order, our Electric Operations business segment recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. Our Electric Operations business segment began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven year period. The annual cash flow impact of the reversal of both redirected and accelerated depreciation is a decrease of approximately $225 million. Under the Texas Electric Restructuring Law, a final settlement of these stranded costs will occur in 2004. For further discussion, please read Note 4(a) to our consolidated financial statements.

In addition to the above factors, our liquidity and capital requirements could be affected by:

- a downgrade in credit ratings;

- the need to provide cash collateral in connection with trading activities;

- various regulatory actions; and

- funding of our pension plan.

Impact on Liquidity of a Downgrade in Credit Ratings. At December 31, 2001, Moody's Investors Service, Inc. (Moody's), Standard & Poor's, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to senior debt of Reliant Energy and certain subsidiaries:

	MOODY'S		S&P		FITCH		
COMPANY/INSTRUMENT	RATING	OUTLOOK	RATING	OUTLOOK	RATING	WATCH	OUTLOOK
- Reliant Energy							
Senior Secured Debt.......	A3	Stable(1)	BBB+	Stable(2)	A-	Negative(3)	N/A
Senior Unsecured Debt.....	Baa1	Stable(1)	BBB	Stable(2)	BBB+	Negative(3)	N/A
Reliant Energy FinanceCo II LP Senior Debt...............	Baa1	Stable(1)	BBB	Stable(2)	BBB	N/A	Stable(4)
RERC Corp. Senior Debt...............	Baa2	Stable(1)	BBB+	Stable(2)	BBB+	Negative(3)	N/A

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(1) A "stable" outlook from Moody's indicates that Moody's does not expect to

put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

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

(3) A "negative" watch from Fitch signals that the rating may be downgraded or affirmed in the near term. Fitch has indicated that the Reliant Energy senior secured debt ratings will change from A- to BBB+

upon the distribution of Reliant Resources shares and that the RERC Corp. senior debt ratings will change from BBB+ to BBB upon the distribution of Reliant Resources shares.

(4) A "stable" outlook from Fitch signals that the medium term view of the credit trend of an issuer is stable rather than positive or negative.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

A decline in credit ratings would increase commitment fees and borrowing costs under our existing bank credit facilities. A decline in credit ratings would also adversely affect our ability to issue commercial paper and the interest rates applicable to commercial paper. Increased direct borrowings under our bank credit facilities could also result in the payment of usage fees under the terms of these arrangements. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets.

Our revolving credit agreements are broadly syndicated committed facilities which contain "material adverse change" clauses that could impact our ability to borrow under these facilities. The "material adverse change" clauses generally relate to our ability to perform our obligations under the agreements.

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

As previously discussed, bank facilities of FinanceCo are expected to be converted into bank facilities of CenterPoint Energy on the date of Restructuring. There is a ratings-related condition precedent to the conversion from the existing FinanceCo bank credit facilities (totaling $4.3 billion) to facilities under which CenterPoint Energy will become the obligor. The condition precedent requires that CenterPoint Energy be rated at least BBB by S&P and Baa2 by Moody's at the time of Restructuring. We believe that we could obtain a waiver of this condition, if necessary. However, if we were unable to obtain such a waiver, the facilities would remain obligations of FinanceCo until the earlier of 90 days after the date of Restructuring or the expiration of the facilities in July 2002, subject to compliance with applicable covenants.

Similar ratings-related provisions govern the transfer to CenterPoint Energy of rights and obligations under certain interest rate swap agreements entered into by Reliant Energy and Houston Industries FinanceCo LP to effect interest rate hedging. Interest rate swaps having an aggregate notional amount of $1.5 billion as of December 31, 2001 contained such provisions. These agreements are generally assumable by CenterPoint Energy without the consent of the counterparties, provided that CenterPoint Energy's rating is at least BBB- from S&P or Baa3 from Moody's. We believe that we could obtain the consent of the counterparties if necessary, but if we were unable to do so, the swaps would remain obligations of the current counterparties until their expiration. All of the swaps terminate no later than 2004.

As discussed in Note 8 to our consolidated financial statements, each ZENS note is exchangeable at the holder's option at any time for an amount of cash equal to 95% of the market value of the reference shares of AOL TW common stock attributable to each ZENS note. If our credit worthiness were to drop such that ZENS note holders felt our liquidity was adversely affected or the market for the ZENS notes was to become illiquid, some ZENS holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the AOL TW common stock that we own or from other sources. We own shares of AOL TW common stock equal to 100% of the "reference shares" used to calculate our obligation to the holders of the ZENS notes.

Certain of the contracts that we have entered into on behalf of Texas Genco for the sale of capacity from our Texas generation business contain requirements obligating us to put up additional security in the event that our rating or the rating of CenterPoint Energy falls below BBB- from S&P or Baa3 from Moody's. These requirements stem from reciprocal provisions under power purchase and sale agreements with purchasers of capacity to be delivered in various monthly, 12-month or 24-month periods or "strips" until December 2003. If a downgrade below either of these levels were to occur, the purchasers would be entitled to call upon us to provide collateral to secure our obligations in a "commercially reasonable" amount within three business days of notice. Failure to provide this collateral entitles the other party to terminate the agreement and unwind all pending transactions under the agreement. Our Texas generation business is always the seller under these agreements, and its performance obligation in all cases is one of delivery, rather than payment. Accordingly, it is difficult to quantify the amount of collateral we would be required to provide as assurance for these delivery obligations. We believe that any such quantification should be predicated on our Texas generation business' ultimate exposure under these agreements. Our Texas generation business has no exposure until (1) it cannot deliver power as called for in the agreements and (2) the market cost of replacement power has increased above the contract price. In the unlikely event that our Texas generation business could not deliver any of this power as agreed, we estimate that our Texas generation business' total exposure under these contracts at December 31, 2001 was approximately $73 million.

As part of its normal business operations, our Texas generation business has also entered power purchase and sale agreements with counterparties that contain similar provisions that require a party to provide additional collateral on three business days notice when that party's rating falls below BBB- from S&P or Baa3 from Moody's. Our Texas generation business both buys and sells under these agreements, and we use them whenever possible either to locate less expensive power than our Texas generation business' marginal cost of generation or to sell power to another party who is willing to pay more than our marginal cost of generation. Our Texas generation business' purchases for 2001 under agreements with ratings triggers were approximately $23 million and its sales under those agreements were approximately $8 million. This compares to total purchases of approximately $125 million and total sales of approximately $32 million under all buy/sell agreements in 2001. We believe that this risk is mitigated because most of the purchases and sales under these arrangements take place over relatively short time periods; typically, these transactions are for one-day deliveries and rarely exceed periods of one month.

Entex Gas Resources Corp., a wholly owned subsidiary of RERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, Entex Gas Resources Corp. will have agreements with provisions standard to the industry that establish credit thresholds and then require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (RERC Corp. in this case), falls below those levels. The senior unsecured debt of RERC Corp. is currently rated BBB+ by S&P and Baa2 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to Entex Gas Resources Corp. by counterparties could aggregate $250 million; however, utilized credit capacity would typically be lower.

Regulatory Matters. Our liquidity can be impacted by regulatory actions affecting our Electric Operations and our Natural Gas Distribution business segments. For further discussion, please read Note 4 to our consolidated financial statements.

Treasury Stock Purchases. As of December 31, 2001, we were authorized under our common stock repurchase program to purchase an additional $271 million of our common stock. Our purchases under our repurchase program depend on market conditions, might not be announced in advance and may be made in open market or privately negotiated transactions. CenterPoint Energy has no current plans to engage in a significant stock buy-back program, but may seek to repurchase shares in the open market for use in various benefit and employee compensation plans, or to maintain a targeted balance of outstanding shares to the extent that original issue stock is used for such purposes.

Pension and Postretirement Benefits Funding. We make contributions to achieve adequate funding of Company sponsored pension and postretirement benefits in accordance with applicable regulations and rate orders. Based on current estimates, we expect to have funding requirements, excluding Reliant Resources, of approximately $330 million for the period 2002-2006. These anticipated funding requirements are not reflected in the table of contractual obligations presented above.

RELIANT RESOURCES -- UNREGULATED BUSINESSES

Liquidity and capital requirements for these businesses are affected primarily by the results of operations, capital expenditures, debt service requirements and working capital needs. Reliant Resources expects to grow these businesses through the construction of new generation facilities and the acquisition of generation facilities, the expansion of their energy trading and marketing activities and the expansion of their energy retail business. Reliant Resources expects any resulting capital requirements to be met with cash flows from operations, and proceeds from debt and equity offerings, project financings, securitization of assets, other borrowings and off-balance sheet financings. Additional capital expenditures, some of which may be substantial, depend to a large extent upon the nature and extent of future project commitments which are discretionary. In the discussion below, Reliant Resources has provided several tables outlining their expected future capital requirements by category of expenditure followed by more detailed descriptions of the most significant of their currently known future capital requirements and descriptions of known uncertainties that could impact these items.

The following table sets forth Reliant Resources' consolidated capital requirements for 2001, and estimates of their consolidated capital requirements for 2002 through 2006 (in millions).

	2001	2002	2003	2004	2005	2006
Wholesale Energy(1)(2)(3)	$658	$3,579	$322	$147	$215	$146
European Energy	21	22	--	--	--	--
Retail Energy	117	40	19	18	14	16
Other Operations	44	75	46	31	32	33
Major maintenance cash outlays	88	94	87	106	86	85
Total	$928	$3,810	$474	$302	$347	$280

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(1) Capital requirements for 2002 includes $2.9 billion for the acquisition of Orion Power.

(2) In connection with Reliant Resources' separation from Reliant Energy, Reliant Energy has granted Reliant Resources an option, subject to completion of the Distribution, to purchase the majority interest in Texas Genco held by CenterPoint Energy in January 2004. This option may be exercised between January 10, 2004 and January 24, 2004. The purchase of Texas Genco has been excluded from the above table. For additional information regarding this option to purchase Texas Genco, please read Note 4(b) to our consolidated financial statements.

(3) Reliant Resources currently estimates the capital expenditures by off-balance sheet special purpose entities to be $704 million, $343 million, $163 million and $48 million in 2002, 2003, 2004 and 2005, respectively. Capital expenditures for these projects have been excluded from the table above. Please read "Future Sources and Uses -- Reliant Resources -- unregulated businesses," "-- Off-Balance Sheet Transactions -- Construction Agency Agreements" and "-- Equipment Financing Structure" below for additional information.

Acquisition of Orion Power. On February 19, 2002, Reliant Resources acquired all of the outstanding shares of common stock of Orion Power for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. As of February 19, 2002, Orion Power's debt obligations were $2.4 billion ($2.1 billion net of cash acquired, some of which is restricted pursuant to debt covenants). Reliant Resources funded the purchase of Orion Power with a $2.9 billion credit facility (Orion Bridge Facility) and $41 million of cash on hand. Please read "-- Consolidated Sources of Cash -- Orion Bridge Facility" for further information.

Generating Projects. As of December 31, 2001, Reliant Resources had three generating facilities under construction. Total estimated costs of constructing these facilities are $1.1 billion, including $304 million in commitments for the purchase of combustion turbines. As of December 31, 2001, Reliant Resources had incurred $690 million of the total projected costs of these projects, which were funded primarily from equity and debt facilities. In addition, Reliant Resources has options to purchase additional combustion turbines for a total estimated cost of $42 million, but is actively attempting to market these turbines, having determined that they are in excess of their current needs. In addition to these facilities, Reliant Resources is constructing facilities as construction agents under the construction agency agreements under synthetic leasing arrangements, which permit them to lease or buy each of these facilities at the conclusion of their construction. For more information regarding the construction agency agreements, please read "-- Off Balance Sheet Transactions -- Construction Agency Agreements."

Environmental Expenditures. Reliant Resources anticipates investing up to $135 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance, totaling approximately $53 million, $20 million, $9 million, $29 million and $24 million in 2002, 2003, 2004, 2005 and 2006, respectively, which is included in the above table. Additionally, environmental capital expenditures for the recently acquired Orion Power assets were estimated by Orion Power to be approximately $241 million over the same time period. Reliant Resources is currently reviewing Orion Power's estimates.

The following table sets forth estimates of Reliant Resources' consolidated contractual obligations as of December 31, 2001 to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt	$ 892	$ 24	$ 539	$ 42	$ 12	$ 12	$ 263
Short-term borrowing, including credit facilities	297	297	--	--	--	--	--
Mid-Atlantic generating assets operating lease payments	1,560	136	77	84	75	64	1,124
Other operating lease payments	859	52	72	87	89	90	469
Trading and marketing liabilities	1,840	1,478	216	85	33	13	15
Non-trading derivative liabilities	1,038	399	191	113	61	35	239
Other commodity commitments	3,134	465	242	207	207	207	1,806
Other long-term obligations	300	10	10	10	10	10	250
Total contractual cash obligations	$9,920	$2,861	$1,347	$628	$487	$431	$4,166

Long-term debt obligations as of December 31, 2001, include $829 million of borrowings under credit facilities that have been classified as long-term debt, based upon the availability of committed credit facilities and management's intention to maintain these borrowings in excess of one year.

As of December 31, 2001, Reliant Resources has issued $396 million of letters of credit, of which $345 million were issued under two credit facilities expiring in 2003 and $51 million were issued under a credit facility expiring in 2004.

Mid-Atlantic Assets Lease Obligation. In August 2000, Reliant Resources' subsidiaries entered into separate sale-leaseback transactions with each of the three owner-lessors for their respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, which Reliant Resources acquired as part of the REMA acquisition. These lessees lease an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting specified criteria, including having a credit rating on its long-term unsecured senior debt of at least BBB from Standard & Poor's and Baa2 from Moody's, guarantees the lease obligations. For additional discussion of these lease transactions, please read Notes 3(a) and 14(b) to our consolidated financial statements. Reliant Resources expects to make lease payments through 2029 under these leases, with total cash payments of $1.6 billion. The lease terms expire in 2034. During 2000 and 2001, cash lease payments totalled $1 million and $259 million, respectively.

Other Operating Lease Commitments. For a discussion of other operating leases, please read Note 14(b) to our consolidated financial statements.

Other Commodity Commitments. For a discussion of other commodity commitments, please read Note 14(a) to our consolidated financial statements.

Naming Rights to Houston Sports Complex. In October 2000, Reliant Resources acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's thirty-second franchise. The agreement extends for 31 years. The aggregate undiscounted cost of the naming rights under this agreement is expected to be $300 million. Starting in 2002, when the new stadium is operational, Reliant Resources will pay $10 million each year through 2032 for annual advertising under this agreement. For additional information on the naming rights agreement, please read Note 14(d) to our consolidated financial statements.

Payment to Reliant Energy. To the extent that Reliant Resources' price for providing retail electric service to residential and small commercial customers in Reliant Energy HL&P's historical service territory during 2002 and 2003, which price is mandated by the Texas Electric Restructuring Law, exceeds the market price of electricity, Reliant Resources will be required to make a payment to Reliant Energy in early 2004. Due to the nature of this possible payment, Reliant Resources currently cannot reasonably estimate this payment, and accordingly, it is excluded from the above tables.

Treasury Stock Purchases. On December 6, 2001, the Reliant Resources' board of directors authorized the purchase of up to 10 million additional shares of common stock through June 2003. Purchases will be made on a discretionary basis in the open market or otherwise at times and in amounts as determined by management subject to market conditions, legal requirements and other factors. Since the date of such authorization through March 28, 2002, Reliant Resources has not purchased any of these shares of their common stock under this program.

In addition to the capital requirements discussed above, the following items, among others, could impact future capital requirements for Reliant Resources.

Downgrade in Credit Rating. In accordance with industry practice, Reliant Resources has entered into commercial contracts or issued guarantees related to their trading, marketing and risk management operations that require them to maintain an investment grade credit rating. If one or more of their credit ratings decline below investment grade, Reliant Resources may be obligated to provide additional or other credit support to the guaranteed parties in the form of a pledge of cash collateral, a letter of credit or other similar credit support.

Counterparty Credit Risk. Reliant Resources is exposed to the risk that counterparties who owe them money or physical commodities, such as energy or gas, as a result of market transactions fail to perform their obligations. Should the counterparties to these arrangements fail to perform, Reliant Resources might incur losses if they are forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In addition, Reliant Resources might incur additional losses to the extent of amounts, if any, already paid to the defaulting counterparties.

CONSOLIDATED SOURCES OF CASH

Reliant Resources believes that their current level of cash and borrowing capability, along with their future anticipated cash flows from operations and assuming successful refinancings of credit facilities as they mature, will be sufficient to meet the existing operational needs of their business for the next 12 months. If cash generated from operations is insufficient to satisfy their liquidity requirements, Reliant Resources may seek to sell either equity or debt securities or obtain additional credit facilities or long-term financings from financial institutions. In the discussion below, Reliant Resources has provided a description of the significant factors that could impact their cash flows from operations, their currently available liquidity sources, currently contemplated future liquidity sources and known uncertainties that could impact these sources.

The following items will affect Reliant Resources' future cash flows from operations:

Reliant Resources Restricted Cash. Covenants under the Mid-Atlantic assets lease, discussed above, restrict REMA's ability to make dividend distributions. The restricted cash is available for REMA's working capital needs and for it to make future lease payments. As of December 31, 2001, REMA had $167 million of restricted cash. Reliant Resources currently anticipates that REMA will be able to satisfy the conditions necessary to distribute these restricted funds in 2002. In addition, the terms of two of their subsidiaries' indebtedness restrict the subsidiaries' ability to pay dividends or make restricted payments to Reliant Resources in some circumstances. Specifically, their subsidiary which holds an electric power generation facility in Channelview, Texas (Channelview) and their subsidiary which holds an equity investment in the entity owning and operating an electric power generation facility in Nevada (El Dorado) are each party to credit agreements used to finance construction of these generating plants. Both the Channelview credit agreement and the El Dorado credit agreement allow the respective subsidiary to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified debt service coverage ratios and debt service reserve account balances. In both cases, the amount of the dividends or restricted payments that may be paid if the conditions are met is limited to a specified level and may be paid only from a particular account.

Orion Power Restricted Cash. Substantially all of Orion Power's operations are conducted by its subsidiaries. The terms of some of its subsidiaries' indebtedness restrict the subsidiaries' ability to pay dividends to Orion Power or Reliant Resources. Restricted funds are available for such subsidiaries to make debt service payments and to meet their working capital needs. In addition, covenants under some indebtedness of Orion Power restrict its ability to pay dividends to Reliant Resources unless Orion Power meets certain conditions, including the ability to incur additional indebtedness without violating the required fixed charge coverage ratio of 2.0 to 1.0. A credit facility of Orion Power also restricts its ability to pay dividends to Reliant Resources unless the restrictions contained in certain of its subsidiaries' credit agreements have terminated and no restrictions remain under its credit agreements.

California Trade Receivables. As of December 31, 2001, Reliant Resources was owed $302 million by Cal ISO, the California Power Exchange (Cal PX) and the California Department of Water Resources (CDWR) and California Energy Resource Scheduling for energy sales in the California wholesale market, during the fourth quarter of 2000 through December 31, 2001 and has recorded an allowance against such receivables of $68 million. From January 1, 2002 through March 26, 2002, Reliant Resources has collected $45 million of these receivable balances. For additional information regarding uncertainties in the California wholesale market, please read Notes 14(f) and 14(g) to our consolidated financial statements.

Other Items. For other items that may affect our future cash flows from operations, please read "-- Certain Factors Affecting Our Future Earnings" related to the Reliant Resources business segments.

The following discussion summarizes Reliant Resources' currently available liquidity sources and material factors that could impact that availability.

Credit Facilities. The following table provides a summary of the amounts owed and amounts available under Reliant Resources' various credit facilities (in millions).

	TOTAL COMMITTED CREDIT	DRAWN AMOUNT	LETTERS OF CREDIT	UNUSED AMOUNT	EXPIRING BY DECEMBER 31, 2002(1)
Reliant Resources, as of December 31, 2001	$5,563	$1,078	$396	$4,089	$1,114
Orion Power, as of February 19, 2002	2,028	1,827	95	106	1,736
Total					$2,850

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(1) Excludes $383 million of facilities expiring in November 2002 as borrowings under such facilities are convertible into a long-term loan.

As of February 19, 2002, Reliant Resources has $2.9 billion of credit facilities which will expire in 2002. To the extent that they continue to need access to this amount of committed credit, Reliant Resources expects to extend or replace these facilities. The current credit environment currently impacting their industry may require their future facilities to include terms that are more restrictive or burdensome or at higher borrowing rates than those of their current facilities.

Reliant Resources Credit Facilities Covenants. As of December 31, 2001, Reliant Resources, including certain of their subsidiaries, had committed credit facilities of $5.6 billion. Of these facilities, $5.0 billion contain various business and financial covenants requiring them to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt, subordinated affiliate balance sheet debt and stockholders' equity not to exceed 0.60 to 1.00. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit under these facilities. The remaining credit facilities of $0.6 billion, which were held by certain of their domestic power generation subsidiaries, contain various business and financial covenants that are typical for limited or non-recourse project financings. Such covenants include restrictions on dividends and capital expenditures, as well as requirements regarding insurance, approval of operating budgets and commercial contracts. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit under their credit facilities. None of the above committed bank credit facilities have any defaults or prepayments triggered by changes in credit ratings, or are in any way linked to the price of Reliant Resources' common stock or any other traded instrument.

For additional information regarding the terms and related interest rates of these credit facilities, please read Note 10 of our consolidated financial statements.

Orion Power Credit Facilities. The credit facilities of Orion Power and its subsidiaries contain various business and financial covenants that are typical for limited or non-recourse project financings. Such covenants include restrictions on dividends and capital expenditures, as well as requirements regarding insurance, approval of operating budgets and commercial contracts. These include covenants that require two of Orion Power's significant subsidiaries which have credit facilities with outstanding borrowings of $1.6 billion as of December 31, 2001, to, among other things, maintain a debt service coverage ratio of at least 1.5 to 1.0, and for Orion Power, which has a $75 million credit facility, to, among other things, maintain a debt service coverage ratio of at least 1.4 to 1.0. One of the subsidiaries may not be able to meet this debt service coverage ratio for the quarter ended June 30, 2002, and Orion Power did not meet the debt service coverage ratio for the quarter ended March 31, 2002. In the event that Orion Power is unable to meet this financial covenant for a second consecutive fiscal quarter, it would constitute a default under its credit facility. Reliant Resources currently intends to arrange for the repayment, refinancing or amendment of these facilities prior to June 30, 2002. If these facilities are not repaid, refinanced or amended prior to that date, and if a waiver is required under either or both of these credit facilities, Reliant Resources believes that they will be able to obtain such a waiver on or prior to June 30, 2002. Reliant Resources currently has no assurance that they will be able to obtain such a waiver or amendment from the respective lender groups if required under either or both of these credit facilities.

Orion Bridge Facility. In November 2001, Reliant Resources entered into a $2.2 billion term loan facility to be utilized for the acquisition of Orion Power. In January 2002, the facility was increased to $2.9 billion. On February 19, 2002, in connection with the Orion Power acquisition Reliant Resources borrowed $2.9 billion under the Orion Bridge Facility, which is required to be repaid on or before February 19, 2003.

Potential Future Liquidity Sources. Reliant Resources is currently considering pursuing the following sources of cash to meet their future capital requirements.

Commercial Paper Program. Reliant Resources plans to commence a commercial paper program in 2002, which will be supported by their existing credit facilities. Although they have not yet determined the size of such program, Reliant Resources does not expect that it would exceed $300 million initially, due to market conditions and their current credit ratings. To the extent that they are not successful in placing commercial paper consistently, Reliant Resources will borrow directly under their existing credit facilities.

Debt Securities in the Capital Markets. As part of refinancing the Orion Bridge Facility, Reliant Resources currently expects that they will issue various fixed and floating rate debt securities in 2002 having maturities up to ten years or greater depending upon market conditions. Reliant Resources expects to offer debt securities in the amount of $2.5 to $3.0 billion, depending on market conditions. Their ability to complete such debt offerings in the capital markets will depend on their future performance and prevailing market conditions. This Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy debt securities of Reliant Resources or their subsidiaries.

Settlement of Indemnification of REPGB Stranded Costs. In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. Under the settlement agreement, the former shareholders paid to REPGB NLG 500 million ($202 million based on an exchange rate of 2.48 NLG per U.S. dollar as of December 31, 2001) in January and February 2002. In addition, under the settlement agreement, the former shareholders waived all rights under the original indemnification agreement to claim distributions from NEA, a 22.5% owned equity investment. Reliant Resources estimates that there will be future distributions from 2002 through 2005 from NEA to REPGB totaling approximately $299 million. For additional information regarding the settlement agreement, Reliant Resources' investment in NEA and indemnification of district heat contract obligations, please read Note 14(h) to our consolidated financial statements.

Factors Affecting Our Sources of Cash and Liquidity. As a result of several recent events, including the United States economic recession, the price decline of the common stock of participants in Reliant Resources' industry sector and the downgrading of the credit ratings of several of Reliant Resources' significant competitors, the availability and cost of capital for their business and the businesses of their competitors have been adversely affected. Any future acquisition or development projects will likely require Reliant Resources to access substantial amounts of capital from outside sources on acceptable terms. Reliant Resources may also need external financing to fund capital expenditures, including capital expenditures necessary to comply with air emission regulations or other regulatory requirements. If Reliant Resources is are unable to obtain outside financing to meet their future capital requirements on terms that are acceptable to them, their financial condition and future results of operations could be materially adversely affected. In order to meet their future capital requirements, Reliant Resources may increase the proportion of debt in their overall capital structure. Increases in their debt levels may adversely affect their credit ratings thereby increasing the cost of their debt. In addition, the capital constraints currently impacting their industry may require Reliant Resources' future indebtedness to include terms and/or pricing that are more restrictive or burdensome than those of their current indebtedness. This may negatively impact their ability to operate their business, or severely restrict or prohibit distributions from their subsidiaries.

Reliant Resources' ability to arrange financing, including refinancing, and their cost of capital are dependent on the following factors:

- general economic and capital market conditions;
- maintenance of acceptable credit ratings;
- credit availability from banks and other financial institutions;
- investor confidence in Reliant Resources, their competitors and peer companies and their wholesale power markets;
- market expectations regarding their future earnings and probable cash flows;
- market perceptions of Reliant Resources' ability to access capital markets on reasonable terms;
- the success of current power generation projects;
- the perceived quality of new power generation projects; and
- provisions of relevant tax and securities laws.

Credit Ratings. Credit ratings for Reliant Resources' senior unsecured debt are as follows:

DATE ASSIGNED	RATING AGENCY	RATING	OUTLOOK
March 22, 2002	Moody's	Baa3	Stable
February 14, 2002	Fitch(1)	BBB	Negative
March 21, 2002	Standard & Poor's	BBB	Stable

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(1) Fitch assigned a negative rating outlook to reflect its analysis of Reliant Resources' plan for financing and integrating the acquisition of Orion Power.

Reliant Resources cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. Reliant Resources notes that these credit ratings are not recommendations to buy, sell or hold Reliant Resources' securities and may be revised or withdrawn at any time by a rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of their credit ratings could have a material adverse impact on Reliant Resources' ability to access capital on acceptable terms. Reliant Resources has commercial contracts and/or guarantees related to their trading, marketing and risk management and hedging operations that require them to maintain an investment grade credit rating. If their credit rating declines below investment grade, Reliant Resources estimates that they could be obligated to provide significant credit support to the counterparties in the form of a pledge of cash collateral, a letter of credit or other similar credit support.

Furthermore, if their credit ratings decline below an investment grade credit rating, Reliant Resources' trading partners may refuse to trade with them or trade only on terms less favorable to them. As of December 31, 2001, Reliant Resources had $214 million of margin deposits on energy trading and hedging activities posted as collateral with counterparties. As of December 31, 2001, Reliant Resources had $1.5 billion available under their credit facilities to satisfy future commodity obligations.

OFF-BALANCE SHEET TRANSACTIONS

Construction Agency Agreements. In 2001, Reliant Resources, through several of their subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. The special purpose entities are not consolidated by Reliant Resources. The special purpose entities have an aggregate financing commitment from equity and debt participants (Investors) of $2.5 billion of which the last $1.1 billion is currently available only if the cash is collateralized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 27, 2004. Reliant Resources, through several of their subsidiaries, acts as construction agent for the special purpose entities and is responsible for completing construction of these projects by December 31, 2004, but Reliant Resources has generally limited their risk during construction to an amount not in excess of 89.9% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, their subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise their option to lease any project upon its completion, they must purchase the project or remarket the project on behalf of the special purpose entities. Reliant Resources' ability to exercise the lease option is subject to certain conditions. Reliant Resources must guarantee that the Investors will receive an amount at least equal to 89.9% of their investment in the case of a remarketing sale at the end of construction. At the end of an individual project's initial operating lease term (approximately five years from construction completion), Reliant Resources' subsidiary lessees have the option to extend the lease with the approval of Investors, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of an amount not to exceed 85% of the project cost, if the proceeds from remarketing are not sufficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of their subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At anytime during the construction period or during the lease, Reliant Resources may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs. As of December 31, 2001, the special purpose entities had property, plant and equipment of $428 million and net other assets of $52 million, which were primarily restricted cash and debt obligations of $465 million. As of December 31, 2001, the special purpose entities had equity from unaffiliated third parties of $15 million. Reliant Resources currently estimates the aggregate cost of the three generating facilities that are currently under construction by the special purpose entities to be approximately $1.8 billion.

Equipment Financing Structure. Reliant Resources, through their subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. Under the agreement, the bank has agreed to provide up to a maximum aggregate amount of $650 million. REPG and its subagents must cash collateralize their obligation to administer the contracts. This cash collateral is approximately equivalent to the total payments by the bank for the equipment, interest and other fees. As of December 31, 2001, the bank had assumed contracts for the purchase of eleven turbines, two heat recovery steam generators and one air-cooled condenser with an aggregate cost of $398 million. REPG, or its designee, has the option at any time to purchase or, at equipment completion, subject to certain conditions, including the agreement of the bank to extend financing, to lease equipment, or to assist in the remarketing of the equipment under terms specified in the agreement. All costs, including the purchase commitment on the turbines, are the responsibility of the bank. The cash collateral is deposited by REPG or an affiliate into a collateral account with the bank and earns interest at the London inter-bank offered rate (LIBOR) less 0.15%. Under certain circumstances, the collateral deposit or a portion of it will be returned to REPG or its designee. Otherwise it will be retained by the bank. At December 31, 2001, REPG and its subsidiary had deposited $230 million into the collateral account. The bank's payments for equipment under the contracts totaled $227 million as of December 31, 2001. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million under which payments and interest during construction totaled $142 million. Accordingly, $142 million of our collateral deposits were returned to Reliant Resources. As of December 31, 2001, there were equipment contracts with a total contractual obligation of $140 million under which payments during construction totaled $83 million. Currently this equipment is not designated for current planned power generation construction projects. Therefore, Reliant Resources anticipates that it will either purchase the equipment, assist in the remarketing of the equipment or negotiate to cancel the related contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (collectively, the Company), is a diversified international energy services company that provides energy and energy services primarily in North America and Western Europe. Reliant Energy is both an electric utility company and a utility holding company through its wholly owned subsidiary Reliant Energy Resources Corp. (RERC).

The Company's financial reporting business segments include the following: Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy, Retail Energy, Latin America and Other Operations. Electric Operations includes the operations of Reliant Energy HL&P, an electric utility. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers and some non-rate regulated retail gas marketing operations to commercial and industrial customers. Pipelines and Gathering includes the interstate natural gas pipeline operations and the natural gas gathering and pipelines services businesses. Wholesale Energy is engaged in the acquisition, development and operation of non-rate regulated power generation facilities as well as the wholesale energy trading, marketing, power origination and risk management services in North America. European Energy is engaged in the operation of power generation facilities in the Netherlands as well as wholesale energy trading and power origination activities in Europe. Retail Energy consists of the Company's unregulated retail electric operations, and has historically been reported in the Other Operations business segment. Other Operations includes unallocated general corporate expenses, a communications business and non-operating investments. Latin America primarily consists of an electric utility and an electric cogeneration plant located in Argentina. Wholesale Energy, European Energy, Retail Energy and certain operations included within Other Operations are currently owned by Reliant Resources.

Reliant Energy is in the process of separating its regulated and unregulated businesses into two publicly traded companies. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources) which, at the time, was a wholly owned subsidiary. In May 2001, Reliant Resources conducted an initial public offering (Offering) of approximately 20% of its common stock (59.8 million shares of its common stock) at a price of $30 per share, and received net proceeds from the Offering of $1.7 billion. After the Offering, Reliant Energy owned approximately 80% of Reliant Resources. As of December 31, 2001, Reliant Energy owns approximately 83% of Reliant Resources due to treasury stock repurchases of $189 million during 2001 by Reliant Resources. As a result of the Offering, the Company recorded directly into stockholders' equity as a component of common stock a $509 million unrealized gain on the sale of subsidiaries' stock. Pursuant to a master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. In connection with the Offering, Reliant Energy converted $1.7 billion of intercompany indebtedness owed by Reliant Resources and its subsidiaries prior to the closing of the Offering to equity as a capital contribution to Reliant Resources. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger by which the following will occur (which we refer to as the Restructuring):

- CenterPoint Energy will become the holding company for Reliant Energy and its subsidiaries;

- Reliant Energy and its subsidiaries will become subsidiaries of CenterPoint Energy; and

- each share of Reliant Energy common stock will be converted into one share of CenterPoint Energy common stock.

After the Restructuring, Reliant Energy plans, subject to further corporate approvals, market and other conditions, to complete the separation of its regulated and unregulated businesses by distributing the shares of common stock of Reliant Resources that the Company owns to its shareholders (Distribution). The Company's goal is to complete the Restructuring and subsequent Distribution as quickly as possible after all the necessary conditions are fulfilled, including receipt of an order from the Securities and Exchange Commission (SEC) granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act) and an extension from the IRS of its private letter ruling that the Company has obtained regarding the tax-free treatment of the Distribution. Although receipt or timing of regulatory approvals cannot be assured, the Company believes it meets the standards for such approvals. Reliant Energy currently expects to complete the Restructuring and Distribution in the summer of 2002.

Effective December 1, 2000, Reliant Energy's board of directors approved a plan to dispose of the Company's Latin America business segment through sales of its assets. Accordingly, in its 2000 consolidated financial statements, the Company reported the results of its Latin America business segment as discontinued operations in accordance with Accounting Principles Board (APB) Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," (APB Opinion No. 30) for each of the three years in the period ended December 31, 2000. On December 20, 2001, negotiations for the sale of the remaining Latin America investments were terminated as a result of the recent economic developments in Argentina. The Company will continue to evaluate options related to the future disposition of these assets.

Accordingly, the Latin America business segment is no longer reported as discontinued operations. The related operating results and loss on disposal have been reclassified within the Consolidated Statements of Income for all periods into operating income with respect to consolidated subsidiaries and other income with respect to equity investments in unconsolidated subsidiaries as required for assets held for sale by Emerging Issues Task Force (EITF) Issue No. 90-6 (EITF 90-6). For additional information regarding the disposal of the Latin America business segment, see Note 19.

RESTATEMENT

On May 9, 2002, Reliant Resources determined that it had engaged in same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price, which the personnel who effected these transactions apparently did so with the sole objective of increasing volumes. Reliant Resources commenced a review to quantify the amount and assess the impact of these trades (round trip trades). The Audit Committees of each of the Board of Directors of Reliant Energy and Reliant Resources (Audit Committees) also directed an internal investigation by outside legal counsel, with assistance by outside accountants, of the facts and circumstances relating to the round trip trades and related matters.

The Company currently reports all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Therefore, the round trip trades were reflected in both the Company's revenues and expenses. The round trip trades should not have been recognized in revenues or expenses (i.e. they should have been reflected on a net basis). However, since the round trip trades were done at the same volume and substantially the same price, they had no impact on the Company's reported cash flows, operating income or net income.

Based on Reliant Resources' review, Reliant Resources determined that it engaged in such round trip trades in 1999, 2000 and 2001. The results of the Audit Committees' investigation were consistent with the results of Reliant Resources' review. The round trip trades were for 30 million megawatt hours (MWh) of power and 182 billion cubic feet (Bcf) in 1999, 30 million MWh of power in 2000, and 74 million MWh of power and 46 Bcf of natural gas in 2001. On May 13, 2002, Reliant Resources previously announced its preliminary findings of round trip trades which had identified 30 million MWh of power in 1999, 30 million MWh of power in 2000, and 78 million MWh of power and 45 Bcf of natural gas in 2001. In addition to the round trip trades reported on May 13, 2002, Reliant Resources' review also identified an additional transaction in 1999 involving 182 Bcf of natural gas totaling $364 million, which based on available information, Reliant

Resources believes was also recorded with the sole objective of increasing volumes but also resulted in increased revenues and fuel and cost of gas sold expense.

In the course of Reliant Resources' review, Reliant Resources also identified and determined to record on a net basis several transactions for energy related services (not involving round trip trades) that totaled $85 million over the three year period ended December 31, 2001. These transactions were originally recorded on a gross basis.

During 1999, 2000 and 2001, these transactions, referred to above, collectively, had the effect of increasing revenues, fuel and cost of gas sold expense and purchased power expense as follows:

YEAR ENDED DECEMBER 31,	1999	2000	2001
	(IN MILLIONS)		
Revenues	$1,417	$1,070	$3,902
Fuel and cost of gas sold expense	376	27	208
Purchase power expense	1,041	1,043	3,694

In addition, during the May 2001 through September 2001 time frame, Reliant Resources entered into four structured transactions involving a series of forward or swap contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003 (four structured transactions). The four structured transactions were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. Each series of contracts in a structure were executed contemporaneously with the same counterparty and were for the same commodities, quantities and locations. The contracts in each structure were offsetting in terms of physical attributes. The transactions that settled in 2001 were previously recorded on a gross basis with such transactions being reported in revenues and expenses which resulted in $1.5 billion of revenues, $364 million in fuel and cost of gas sold and $1.2 billion of purchased power expense being recognized during the period from May 2001 through December 31, 2001. Having further reviewed the transactions, Reliant Resources now believes these transactions should have been accounted for on a net basis.

During the fourth quarter of 2000, two power generation swap contracts with a fair value of $261 million were terminated and replaced with a substantially similar contract providing for physical delivery and designated to hedge electric generation. The termination of the original contracts and execution of the replacement contract represented a substantive modification to the original contract. As a result, upon termination of the original contracts, a contractual liability representing the fair value of the original contracts and a deferred asset of equal amount should have been recorded. As of January 1, 2001, in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), the deferred asset should have been recorded as a transition adjustment to other comprehensive loss. The liability and transition adjustment should have been amortized on a straight-line basis over the term of the power generation contract replacing the terminated power generation contracts (through May 2004). The Company previously did not give accounting recognition to these transactions. As a result, the Company has restated its Consolidated Balance Sheets as of December 31, 2000 and 2001 and the Statements of Consolidated Stockholders' Equity and Comprehensive Income for the year ended December 31, 2001, to appropriately account for these transactions as described above. The restatement had no impact on the Company's reported consolidated cash flows, operating income or net income.

The consolidated financial statements for 1999, 2000 and 2001 have been restated from amounts previously reported to reflect all of the transactions described herein. In addition, the unaudited quarterly financial data for the interim periods ended March 31, 2001, June 30, 2000 and 2001, and September 30, 2000 and 2001 have been restated from amounts previously reported to reflect all of the transactions described herein. The unaudited restated condensed quarterly financial statement information for the quarters ended March 31, 2001, June 30, 2000 and 2001, September 30, 2000 and 2001, and December 31, 2000 and 2001 have been included in Note 17. The restatement had no impact on previously reported consolidated cash flows, operating income or net income. A summary of the principal effects of the restatement are as follows for 1999, 2000 and 2001: (Note -- Those line items for which no change in amounts is shown were not affected by the restatement.)

YEAR ENDED DECEMBER 31, 1999	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
Revenues	$13,794	$15,211
Expenses:		
Fuel and Cost of Gas Sold	6,331	6,707
Purchased Power	3,095	4,136
Other Expenses	3,109	3,109
Total	12,535	13,952
Operating Income	1,259	1,259
Other Income, net	1,305	1,305
Income Tax Expense	(899)	(899)
Income Before Extraordinary Loss	1,665	1,665
Extraordinary Loss	(183)	(183)
Net Income Attributable to Common Stockholders	$ 1,482	$ 1,482

YEAR ENDED DECEMBER 31, 2000	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
Revenues	$28,269	$29,339
Expenses:		
Fuel and Cost of Gas Sold	15,050	15,077
Purchased Power	7,580	8,623
Other Expenses	3,802	3,802
Total	26,432	27,502
Operating Income	1,837	1,837
Other Expense, net	(1,079)	(1,079)
Income Tax Expense	(318)	(318)
Income Before Extraordinary Gain	440	440
Extraordinary Gain	7	7
Net Income Attributable to Common Stockholders	$ 447	$ 447

	YEAR ENDED DECEMBER 31, 2001	
	AS RESTATED	AS PREVIOUSLY REPORTED
	(IN MILLIONS)	
Revenues	$40,810	$46,226
Expenses:		
Fuel and Cost of Gas Sold	19,504	20,075
Purchased Power	15,127	19,972
Other Expenses	4,186	4,186
Total	38,817	44,233
Operating Income	1,993	1,993
Other Expense, net	(574)	(574)
Income Tax Expense	(500)	(500)
Income Before Cumulative Effect of Accounting Change	919	919
Cumulative Effect of Accounting Change, net of tax	61	61
Net Income Attributable to Common Stockholders	$ 980	$ 980

DECEMBER 31, 2000	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
ASSETS		
CURRENT ASSETS:		
Other current assets	$ 279	$ 203
Other	9,634	9,634
Total current assets	9,913	9,837
OTHER ASSETS:		
Other noncurrent assets	932	747
Property, plant and equipment and other assets	21,115	21,115
Total other assets	22,047	21,862
TOTAL ASSETS	$31,960	$31,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Other current liabilities	$ 706	$ 630
Other	14,939	14,939
Total current liabilities	15,645	15,569
OTHER LIABILITIES:		
Other liabilities	1,048	863
Other	4,074	4,074
Total other liabilities	5,122	4,937
LONG-TERM DEBT	4,996	4,996
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	9	9
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	706	706
STOCKHOLDERS' EQUITY:		
Cumulative Preferred Stock	10	10
Common Stock	3,257	3,257
Treasury Stock	(121)	(121)
Unearned ESOP	(161)	(161)
Retained earnings	2,520	2,520
Accumulated other comprehensive loss	(23)	(23)
Stockholders' equity	5,482	5,482
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$31,960	$31,699

DECEMBER 31, 2001	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
ASSETS		
CURRENT ASSETS	$ 6,249	$ 6,249
PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS	24,432	24,432
TOTAL ASSETS	$30,681	$30,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Non-trading derivative liabilities	$ 472	$ 396
Accumulated deferred income taxes, net	359	386
Other	8,875	8,875
Total current liabilities	9,706	9,657
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,308	2,346
Non-trading derivative liabilities	649	540
Other	3,785	3,785
Total other liabilities	6,742	6,671
LONG-TERM DEBT	5,742	5,742
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,047	1,047
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	706	706
STOCKHOLDERS' EQUITY:		
Common Stock	3,897	3,897
Unearned ESOP	(132)	(132)
Retained earnings	3,177	3,177
Accumulated other comprehensive loss	(204)	(84)
Stockholders' equity	6,738	6,858
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$30,681	$30,681

The restatement did not impact earnings per share for 1999, 2000 and 2001, the Statements of Consolidated Cash Flows for 1999, 2000 and 2001, the Statements of Consolidated Comprehensive Income for 1999 and 2000 or the Statements of Consolidated Stockholders' Equity as of December 31, 1999 and 2000.

In addition to the round trip trades described above, Reliant Resources' review and the Audit Committees' investigation also considered other transactions executed on the same day at the same volume, price and delivery terms and with the same counterparty. These transactions were executed in the normal course of Reliant Resources' trading and marketing activities, and were historically reported on a gross basis, and were not material.

Beginning with the quarter ended September 30, 2002, the Company will report all energy trading and marketing activities on a net basis in the Statements of Consolidated Income pursuant to Emerging Issues

Task Force Issue No. 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) LONG-LIVED ASSETS AND INTANGIBLES

The Company records property, plant and equipment at historical cost. The Company recognizes repair and maintenance costs incurred in connection with planned major maintenance, such as turbine and generator overhauls, control system upgrades and air conditioner replacements, under the "accrual in advance" method for its non-rate regulated power generation operations acquired or developed prior to December 31, 1999. Planned major maintenance cycles primarily range from two to ten years. Under the accrual in advance method, the Company estimates the costs of planned major maintenance and accrues the related expense over the maintenance cycle. As of December 31, 2000 and 2001, the Company's maintenance reserve was $27 million and $19 million, respectively, of which $20 million and $17 million, respectively, were included in other long-term liabilities and the remainder in other current liabilities. The Company expenses all other repair and maintenance costs as incurred. Property, plant and equipment includes the following:

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 2001
		(IN MILLIONS)	
Electric	5-75	$18,754	$20,092
Natural gas distribution	5-50	1,809	2,002
Pipelines and gathering	5-75	1,582	1,627
Other property	3-40	247	450
Total		22,392	24,171
Accumulated depreciation and amortization		(7,132)	(8,357)
Property, plant and equipment, net		$15,260	$15,814

The Company records goodwill for the excess of the purchase price over the fair value assigned to the net assets of an acquisition. Goodwill has been amortized on a straight-line basis over 5 to 40 years. See Note 3 and the following table for additional information regarding goodwill and the related amortization periods.

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 2001
		(IN MILLIONS)	
Reliant Energy Resources Corp. (RERC Corp.)	40	$1,955	$1,955
Reliant Energy Mid-Atlantic Power Holdings, LLC	35	7	5
Reliant Energy Power Generation Benelux N.V.	30	897	877
Florida Generation Plant	35	2	2
California Generation Plants	30	70	70
Reliant Energy Services, Inc.	40	131	131
Other	5-35	64	45
Total		3,126	3,085
Accumulated amortization		(222)	(303)
Foreign currency exchange impact		(107)	(150)
Total goodwill, net		$2,797	$2,632

The Company recognizes specifically identifiable intangibles, including air emissions regulatory allowances and water rights and permits, when specific rights and contracts are acquired. As of December 31, 2000 and 2001, specific intangibles were $284 million and $315 million, respectively. The Company amortizes air emissions regulatory allowances primarily on a units-of-production basis as utilized. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range between 5 and 35 years.

The Company periodically evaluates long-lived assets, including property, plant and equipment, goodwill and specifically identifiable intangibles, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions. During 2001, the Company determined equipment and goodwill associated with its Communications business was impaired and accordingly recognized $22 million of fixed asset impairments and $19 million of goodwill impairments (see Note 20). For discussion of goodwill impairment analysis in 2002, see Note 2(q).

During December 2001, the Company evaluated its European Energy business segment's long-lived assets and goodwill for impairment. As of December 31, 2001, pursuant to Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), no impairment had been indicated. For discussion of goodwill impairment analysis in 2002, see Note 2(q).

During the fourth quarter of 2001, the Distribution of Reliant Resources was deemed to be a probable event. As Reliant Resources has an option, subject to the completion of the Distribution, to purchase the Company's Texas generation assets in 2004 (see Note 4(b)), the Company was required to evaluate these assets for potential impairment in accordance with SFAS No. 121, due to an expected decrease in the number of years the Company expects to hold and operate these assets. As of December 31, 2001, no impairment had been indicated. The Company anticipates that future events, such as the expected public offering of the Company's Texas generation operations (see Note 4(b)), or change in the estimated holding period of the Texas generation assets, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and will not be fully recoverable through the 2004 true-up proceeding calculations (see Note 4(a)).

The Texas Electric Restructuring Law provides the Company recovery of the regulatory book value of its Texas generating assets for the amount the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold to Reliant Resources, or to a third party in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset (see Note 2(f)), will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of December 31, 2001, the recorded book value was $638 million in excess of the regulatory book value. This amount declines each year as the recorded book value is depreciated and increases by the amount of non-environmental capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4.

(f) REGULATORY ASSETS AND LIABILITIES

The Company applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of transmission and distribution operations of Reliant Energy HL&P and the utility operations of Natural Gas Distribution and to some of the accounts of Pipelines and Gathering. For information regarding Reliant Energy HL&P's electric generation operations' discontinuance of the application of SFAS No. 71 in 1999 and the effect on its regulatory assets and the Texas Electric Choice Plan (Texas Electric Restructuring Law), see Note 4(a).

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2000 and 2001:

	DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Recoverable impaired plant costs, net	$ 281	$ --
Recoverable electric generation related regulatory assets, net	1,150	160
Securitized regulatory asset	--	740
Regulatory tax asset, net	186	111
Unamortized loss on reacquired debt	66	62
Recoverable electric generation plant mitigation	--	1,967
Excess mitigation liability	--	(1,126)
Other long-term assets/liabilities	6	3
Total	$1,689	$ 1,917

If, as a result of changes in regulation or competition, the Company's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment to the carrying costs of plant and inventory assets. See Note 4(a) for a discussion of the discontinuation of SFAS No. 71 related to Reliant Energy HL&P's electric generation operations.

Through December 31, 2001, the Texas Utility Commission provided for the recovery of most of Reliant Energy HL&P's fuel and purchased power costs from customers through a fixed fuel factor included in electric rates. Included in the above table in recoverable electric generation related regulatory assets, net are $558 million and $200 million of regulatory assets related to the recovery of fuel costs as of December 31, 2000 and 2001.

In December 2001, the Company recorded a regulatory asset for recoverable electric generation plant mitigation for $2.0 billion and recorded a regulatory liability of $1.1 billion for excess mitigation, resulting in net regulatory assets of $841 million on which the Company will not earn a return and which are not included in the Company's rate base. Recoverable electric plant generation regulatory assets are anticipated to be recovered in the 2004 true-up proceedings as further discussed in Note 4(a). The Company is entitled to recover its full amount of stranded costs in the 2004 true-up proceeding. That recovery would include any amounts whose earlier mitigation was prevented by excess mitigation credits and the reversal of redirected depreciation ordered by the Texas Utility Commission.

In 2001, the Company monetized $738 million of regulatory assets in a securitization financing authorized by the Texas Utility Commission pursuant to the Texas Electric Restructuring Law. For additional information regarding the securitization financing, see Note 4(a).

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets and the related amortization during 1999, 2000 and 2001, see Notes 2(g) and 4(a).

(l) INVESTMENT IN OTHER DEBT AND EQUITY SECURITIES

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

As of December 31, 2000 and 2001, the Company held "available-for-sale" debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of $159 million and $169 million, respectively, in the Company's Consolidated Balance Sheets in other long-term assets. Any unrealized losses or gains are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability.

In addition, as of December 31, 2000 and 2001, the Company held marketable equity securities of $5 million and $12 million, respectively, classified as "available-for-sale." At December 31, 2000, the accumulated unrealized loss, net of tax, relating to these equity securities was $2 million. At December 31, 2001, the accumulated unrealized gain, net of tax, relating to these equity securities was $6 million.

During 2000, pursuant to SFAS No. 115, the Company incurred a pre-tax impairment loss equal to the $27 million of cumulative unrealized losses that had been charged to accumulated other comprehensive loss through December 31, 1999. Management's determination to recognize this impairment resulted from a combination of events occurring in 2000 related to this investment. These events affecting the investment included changes occurring in the investment's senior management, announcement of significant restructuring charges and related downsizing for the entity, reduced earnings estimates for this entity by brokerage analysts and the bankruptcy of a competitor of the investment in the first quarter of 2000. These events, coupled with the stock market value of the Company's investment in these securities continuing to be below the Company's cost basis, caused management to believe the decline in fair value of these "available-for-sale" securities to be other than temporary.

As of December 31, 2000 and 2001, the Company held an investment in AOL Time Warner common stock, which was classified as a "trading" security. For information regarding the Company's investment in AOL Time Warner, Inc. common stock, see Note 8.

As of December 31, 2000, the Company did not hold debt or equity securities that are classified as "trading", other than its investment in AOL Time Warner. As of December 31, 2001, the Company held equity securities classified as "trading" totaling $1 million, other than its investment in AOL Time Warner. The Company recorded unrealized holding gains on "trading" securities, excluding unrealized gains and losses related to the Company's investment in AOL Time Warner, included in gains from investments in the Statements of Consolidated Income of $16 million, $4 million and $5 million during 1999, 2000 and 2001, respectively.

(4) REGULATORY MATTERS

(a) TEXAS ELECTRIC CHOICE PLAN AND DISCONTINUANCE OF SFAS NO. 71 FOR ELECTRIC GENERATION OPERATIONS

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

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

Retail Choice. Under the Texas Electric Restructuring Law, beginning January 1, 2002, retail customers of most investor owned electric utilities in Texas became eligible to purchase their electricity from any of a number of "retail electric providers," which are certified by the Texas Utility Commission. Retail electric providers may not own or operate generation assets and their sales prices are not subject to traditional cost-of-service rate regulation. Retail electric providers that are affiliates of electric utilities may compete substantially statewide for these sales, but prices they charge within the affiliated electric utility's traditional service territory are subject to some limitations at the outset of retail choice, as described below. The Texas Utility Commission has prescribed regulations governing quality, reliability and other aspects of service from retail electric providers. Reliant Resources intends to compete in the Texas retail market and, as a result, has certified three of its subsidiaries as retail electric providers.

Unbundling. As of January 1, 2002, electric utilities in Texas such as Reliant Energy HL&P unbundled their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Texas Electric Restructuring Law, the Company submitted a plan in January 2000 that was later amended and updated to accomplish the required separation (the Business Separation Plan). For additional information regarding the Business Separation Plan, see Note 4(b). The transmission and distribution business will continue to be subject to cost-of-service rate regulation and will be responsible for the delivery of electricity to retail customers. The Company plans to transfer the Texas generation facilities that were formerly part of the Reliant Energy HL&P integrated utility (Texas generation business) to an indirect wholly owned partnership (Texas Genco) in connection with the Restructuring. As a result of these changes, the Company's Texas generation operations will no longer be conducted as part of an integrated utility and will comprise a new business segment in 2002, Electric Generation. Additionally, these operations will not be part of the Company's business if they are acquired in 2004 by Reliant Resources pursuant to an option agreement as described below. At that time, Reliant Resources will be an unaffiliated company as a result of the planned Distribution.

Generation. Power generators began selling electric energy to wholesale purchasers, including retail electric providers, at unregulated prices on January 1, 2002. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility is required to sell at auction 15% of the output of its installed generating capacity. The first auction was held in September 2001 for power delivered beginning January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Texas Utility Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial load in the electric utility's service area is being served by retail electric providers other than the affiliated retail electric provider. See Note 4(b) for information regarding the capacity auctions and the effect of the Business Separation Plan on the Company. Texas Genco plans to auction all of its remaining capacity (less approximately 10% withheld to provide for unforeseen outages) during the time period prior to Reliant Resources' exercise of the Texas Genco option discussed below. Pursuant to the Business Separation Plan, Reliant Resources is entitled to purchase, at prices established in these auctions, 50% (but no less than 50%) of the remaining capacity, energy and ancillary services auctioned by Texas Genco.

Rates. Base rates charged by Reliant Energy HL&P on September 1, 1999 were frozen until January 1, 2002. Pursuant to Texas Utility Commission regulations, effective January 1, 2002, after the cycle meter read in January 2002, retail rates charged to residential and small commercial customers by an affiliated retail electric provider were reduced by 6% from the average rates (on a bundled basis) in effect on January 1, 1999. Following adjustments for changes in fuel prices, this actually resulted in a 17% rate reduction for Reliant Resources, through its subsidiaries, as an affiliated retail provider. That reduced rate, known as the "price to beat", is being charged by the affiliated retail electric provider to residential and small commercial customers in the utility's service area who have not elected service from another retail electric provider. The affiliated retail electric provider may not offer different rates to residential or small commercial customer classes in the utility's service area until the earlier of the date the Texas Utility Commission determines that 40% of power consumed by that class in the affiliated transmission and distribution utility's service area is being served by non-affiliated retail electric providers or January 1, 2005. In addition, the affiliated retail electric provider must make the price to beat rate available to eligible consumers until January 1, 2007.

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

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

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

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

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

True-Up Proceeding. The Texas Electric Restructuring Law and current Texas Utility Commission implementation guidance provide for a True-up Proceeding to be initiated in January 2004. The purpose of the True-up Proceeding is to quantify and reconcile the amount of stranded costs, the capacity auction true-up, unreconciled fuel costs (see Note 2(f)), and other regulatory assets associated with Reliant Energy HL&P's

electric generating operations that were not previously securitized through the Transition Bonds. The True-up Proceeding will result in either additional charges or credits being assessed on certain retail electric customers.

Accounting. Historically, Reliant Energy HL&P has applied the accounting policies established in SFAS No. 71. Effective June 30, 1999, the Company applied SFAS No. 101 to Reliant Energy HL&P's electric generation operations. Reliant Energy HL&P's transmission and distribution operations continue to meet the criteria of SFAS No. 71.

In 1999, the Company evaluated the effects that the Texas Electric Restructuring Law would have on the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of $282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Texas Electric Restructuring Law) will be recovered. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. Pursuant to EITF Issue No. 97-4, the remaining recoverable regulatory assets will not be written off and will become associated with the transmission and distribution portion of the Company's electric utility business. For details regarding Reliant Energy HL&P's regulatory assets, see Note 2(f).

At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121 on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, the Company determined the fair value for each generating plant by estimating the net present value of future cash inflows and outflows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. The Company determined that $808 million of electric generation assets were impaired in 1999. Of this amount, $756 million related to the South Texas Project Electric Generating Station (South Texas Project) and $52 million related to two gas-fired generation plants. The Texas Electric Restructuring Law provides for recovery of this impairment through regulated cash flows during the transition period and through charges to transmission and distribution customers. As such, a regulatory asset was recorded for an amount equal to the impairment loss and was included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of $221 million in the third and fourth quarters of 1999, $329 million in 2000 and $258 million in 2001.

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

In order to reduce potential exposure to stranded costs related to generation assets, Reliant Energy HL&P redirected $195 million and $99 million of depreciation in 1998 and for the six months ended June 30, 1999, respectively, from transmission and distribution related plant assets to generation assets for regulatory and financial reporting purposes (Redirected Depreciation). This redirection was in accordance with the Company's Transition Plan. Subsequent to June 30, 1999, Redirected Depreciation expense could no longer be recorded by the electric generation operations portion of Reliant Energy HL&P for financial reporting purposes as this portion of electric operations is no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $99 million, $218 million and $230 million in depreciation expense, respectively, was redirected from transmission and distribution for regulatory and financial reporting purposes and was established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 2000 and 2001, the cumulative amount of Redirected Depreciation for regulatory purposes was $611 million and $841 million, respectively, prior to the effects of the October 3, 2001 order discussed below.

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

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution utility rates that became effective January 2002. In this Order, the Texas Utility Commission found that Reliant Energy HL&P had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. As a result of the October 3, 2001 Order, Reliant Energy HL&P was required to reverse the $841 million embedded regulatory asset related to Redirected Depreciation, thereby reducing the net book value of transmission and distribution assets. Reliant Energy HL&P was required to record a regulatory liability of $1.1 billion related to Accelerated Depreciation. The October 3, 2001 Order requires this amount to be refunded through excess mitigation credits to certain retail electric customers during a seven year period beginning in January 2002. On appeal, a Texas District court upheld the Texas Utility Commission's order. An appeal may be taken to a Texas Court of Appeal, but no further appeal has yet been filed.

As of December 31, 2001, in contemplation of the True-up Proceeding, Reliant Energy HL&P has recorded a regulatory asset of $2.0 billion representing the estimated recovery of previously incurred stranded costs, which includes a regulatory liability of $1.1 billion plus the reversal of previously recorded Redirected Depreciation. This estimated recovery is based upon current projections of the market value of the Reliant Energy HL&P electric generation assets to be covered by the True-up Proceeding calculations. Because generally accepted accounting principles require the Company to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas Electric Restructuring Law with respect to the final determination of stranded costs in 2004 are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the remaining balance of such assets as a charge against earnings. For additional discussion of potential future impairment of the assets of the Company's Texas generation business, see Note 2(e).

Other Accounting Policy Changes. As a result of discontinuing SFAS No. 71, effective July 1, 1999, allowance for funds used during construction is no longer accrued on generation related construction projects. Instead, interest is being capitalized on these projects in accordance with SFAS No. 34, "Capitalization of Interest Cost."

Previously, in accordance with SFAS No. 71, Reliant Energy HL&P deferred the premiums and expenses that arose when long-term debt was redeemed and amortized these costs over the life of the new debt. If no new debt was issued, these costs would be amortized over the remaining original life of the retired debt. Effective July 1, 1999, costs resulting from the retirement of debt attributable to the generation operations of Reliant Energy HL&P will be recorded in accordance with SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," unless these costs will be recovered through regulated cash flows. In that case, these costs will be deferred and recorded as a regulatory asset by the entity through which the source of the regulated cash flows will be derived.

(b) BUSINESS SEPARATION PLAN

Restructuring of Regulated Entities and Distribution of Reliant Resources Stock. Pursuant to the Business Separation Plan, subject to receipt of an order from the Securities and Exchange Commission (SEC) described below, Reliant Energy will become a subsidiary of a new holding company, CenterPoint Energy, which initially will own the Company's (a) electric transmission and distribution operations, (b) natural gas distribution businesses, (c) electric generating assets in Texas that were formerly operated by Reliant Energy HL&P, (d) interstate pipelines, gas gathering and pipeline services operations, (e) interests in energy companies in Latin America (see Note 19) and (f) interests in Reliant Resources. In these Notes, references to Reliant Energy in connection with events occurring or the performance of agreements after the Restructuring generally refer to CenterPoint Energy.

Upon becoming a subsidiary of CenterPoint Energy, Reliant Energy will transfer the stock of its principal operating subsidiaries to a subsidiary of CenterPoint Energy and will transfer its electric generating assets in Texas that were formerly operated by Reliant Energy HL&P to Texas Genco. In January 2004, Reliant Resources will have the right to exercise an option to acquire Texas Genco, as further discussed below. As a result of the stock and asset transfers described above, Reliant Energy will become solely a transmission and distribution utility, with its other businesses becoming indirect subsidiaries of CenterPoint Energy, which will assume all of Reliant Energy's debt other than its first mortgage bonds. The indebtedness of certain wholly owned financing subsidiaries of Reliant Energy is expected to be refinanced by the regulated holding company by the end of 2002.

The Company anticipates that, upon completion of the Restructuring and subject to approval by the Company's board of directors, market and other conditions, CenterPoint Energy will distribute all of the stock it owns in Reliant Resources to CenterPoint Energy's shareholders, affecting the separation of its operations into two publicly traded corporations. The Company has obtained a private letter ruling from the IRS providing for the tax-free treatment of the Distribution that is predicated on the completion of the Distribution by April 30, 2002. The Company has requested an extension of this deadline. While there can be no assurance that the Company will receive the extension, the Company anticipates that it will receive an extension that allows it to proceed with the Distribution after April 30, 2002.

Reliant Energy has made and will continue to make internal asset and stock transfers intended to allocate the assets and liabilities of Reliant Energy in accordance with regulatory requirements and as contemplated by the Business Separation Plan. Forms of each of the intercompany agreements described below were prepared and entered into by Reliant Energy and Reliant Resources prior to the Offering.

The Restructuring as currently planned cannot be completed unless and until the SEC issues an order granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act). While the Company believes such an order will be received, and that both the Restructuring and Distribution will be completed during the summer of 2002, there can be no assurances that such will be the case. The Restructuring has been designed to enable the Company to meet all of the requirements of the Texas Electric Restructuring Law. The Company has not formulated an alternative restructuring plan that could be implemented were the SEC to refuse to grant the requested approvals for CenterPoint Energy.

Agreements Related to Texas Generating Assets. Pursuant to the Business Separation Plan, Reliant Energy expects to cause Texas Genco to conduct an initial public offering of approximately 20% of its capital stock by the end of 2002. If the initial public offering is not conducted, Reliant Energy may distribute approximately 20% of Texas Genco's capital stock to its stockholders in a transaction taxable both to it and its stockholders as part of the valuation of stranded costs. In connection with the separation of its unregulated businesses from its regulated businesses, Reliant Energy granted Reliant Resources an option, subject to the completion of the Distribution, to purchase all of the shares of capital stock of Texas Genco that will be owned by Reliant Energy after the initial public offering or distribution (Texas Genco Option). The Texas Genco Option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the option will be the average daily closing price on the national exchange for publicly held shares of common stock of Texas Genco for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, plus a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco's common stock equity. The exercise price is also subject to adjustment based on the difference between the cash dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's earnings during that period. Reliant Resources has agreed that if it exercises the Texas Genco Option and purchases the shares of Texas Genco common stock, Reliant Resources will also purchase all notes and other receivables from Texas Genco then held by Reliant Energy, at their principal amount plus accrued interest. Similarly, if Texas Genco holds notes or receivables from the Company, Reliant Resources will assume those obligations in exchange for a payment to Reliant Resources by the Company of an amount equal to the principal plus accrued interest.

Exercise of the Texas Genco Option by Reliant Resources will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and United States Nuclear Regulatory Commission (NRC) license transfer approval. The option will be exercisable only if Reliant Energy or CenterPoint Energy distributes all of the shares of Reliant Resources common stock it owns to its shareholders.

At the time of the Restructuring, Texas Genco will become the beneficiary of the decommissioning trust that has been established to provide funding for decontamination and decommissioning of a nuclear electric generation station in which Reliant Energy owns a 30.8% interest (see Note 6). The master separation agreement provides that Reliant Energy will collect through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and will pay the amounts to Texas Genco. Texas Genco will in turn be required to deposit these amounts received from Reliant Energy into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust are inadequate, Reliant Energy or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to Reliant Energy's or its successor's ratepayers.

(c) RELIANT ENERGY HL&P REGULATORY FILINGS

As of December 31, 2000 and 2001, Reliant Energy HL&P was under-collected on fuel recovery by $558 million and $200 million, respectively. In two separate filings with the Texas Utility Commission in 2000, Reliant Energy HL&P received approval to implement fuel surcharges to collect the under-recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas. For additional information regarding this matter, see Note 2(f).

On March 15, 2001, Reliant Energy HL&P filed an application with the Texas Utility Commission to revise its fuel factor and address its undercollected fuel costs of $389 million, which was the accumulated amount from September 2000 through February 2001, plus estimates for March and April 2001. Reliant

Energy HL&P requested to revise its fixed fuel factor to be implemented with the May 2001 billing cycle and proposed to defer the collection of the $389 million until the 2004 stranded costs True-up Proceeding. On April 16, 2001, the Texas Utility Commission issued an order approving interim rates effective with the May 2001 billing cycle.

On June 21, 2001, Reliant Energy HL&P filed an application with the Texas Utility Commission to terminate the interim factor and return to the prior fuel factor due to the forecasted decline in natural gas prices. On July 20, 2001, the Texas Utility Commission issued an order of dismissal approving Reliant Energy HL&P's request that the interim rates approved on April 16, 2001, effective with Reliant Energy HL&P's May 2001 billing month, be terminated and Reliant Energy HL&P prospectively bill its customers using the prior fuel factor established in a previous order beginning with Reliant Energy HL&P's August billing month. The Texas Utility Commission also granted Reliant Energy HL&P a good cause exception in that Reliant Energy HL&P will not be required to refund amounts collected through the interim rates. Reliant Energy HL&P did not waive its right to collect any final fuel balance. The final fuel balance is subject to review, and the amount to be included in the 2004 stranded cost true-up will be determined during the final fuel reconciliation. The Texas Utility Commission currently has scheduled Reliant Energy HL&P to file its final fuel reconciliation in July 2002.

(d) ARKLA RATE CASE

On November 21, 2001, Arkla filed a rate case (Docket 01-243-U) with the Arkansas Public Service Commission seeking an increase in rates for its Arkansas customers of approximately $47 million on an annual basis. Arkla's last rate increase was authorized in 1995. In the rate filing, Arkla maintains that its rate base has grown by $183 million, and its operating expenses have increased from $93 million to $106 million on an annual basis and, therefore, Arkla's current rates for service to Arkansas customers do not provide a reasonable opportunity for Arkla to cover its operating costs and earn a fair return on its investment. A decision in the case is expected by the fourth quarter of 2002.

(5) DERIVATIVE FINANCIAL INSTRUMENTS

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

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $61 million and a cumulative after-tax increase in accumulated other comprehensive loss of $422 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately $627 million, $67 million, $778 million, and $277 million, respectively, in the Company's Consolidated Balance Sheets. During the year ended December 31, 2001, $165 million of the initial after-tax transition adjustment recognized in other comprehensive income was recognized in net income.

The application of SFAS No. 133 is still evolving as the FASB clears issues previously submitted to the Derivatives Implementation Group for consideration. During the second quarter of 2001, an issue that applies exclusively to the electric industry and allows the normal purchases and normal sales exception for option-type contracts if certain criteria are met was approved by the FASB with an effective date of July 1, 2001. The adoption of this cleared guidance had no impact on the Company's results of operations. Certain criteria of this previously approved guidance were revised in October and December 2001 and became effective on April 1, 2002. The Company is currently in the process of determining the effect of adoption of the revised guidance.

During the third quarter of 2001, the FASB cleared an issue related to application of the normal purchases and normal sales exception to contracts that combine forward and purchased option contracts. The effective date of this guidance is April 1, 2002, and the Company is currently assessing the impact of this cleared issue and does not believe it will have a material impact on the Company's consolidated financial statements.

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business and are inherent in the Company's consolidated financial statements. The Company utilizes derivative instruments such as futures, physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes in electricity, natural gas and fuel prices on its operating results and cash flows. The Company utilizes cross-currency swaps, forward contracts and options to hedge its net investments in and cash flows of its foreign subsidiaries, interest rate swaps to mitigate the impact of changes in interest rates and other financial instruments to manage various other market risks.

Trading and marketing operations often involve risk associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. These risks fall into three different categories: price and volume volatility, credit risk of trading counterparties and adequacy of the control environment for trading. The Company routinely enters into Energy Derivatives to hedge purchase and sale commitments, fuel requirements and inventories of natural gas, coal, electricity, crude oil and products, emission allowances and other commodities and to minimize the risk of market fluctuations in its trading, marketing, power origination and risk management services operations.

Energy Derivatives primarily used by the Company are described below:

- Future contracts are exchange-traded standardized commitments to purchase or sell an energy commodity or financial instrument, or to make a cash settlement, at a specific price and future date.

- Physical forward contracts are commitments to purchase or sell energy commodities in the future.

- Swap agreements require payments to or from counterparties based upon the differential between a fixed price and variable index price (fixed price swap) or two variable index prices (variable price swap) for a predetermined contractual notional amount. The respective index may be an exchange quotation or an industry pricing publication.

- Option contracts convey the right to buy or sell an energy commodity, financial instrument at a predetermined price or settlement of the differential between a fixed price and a variable index price or two variable index prices.

(a) ENERGY TRADING, MARKETING, POWER ORIGINATION AND PRICE RISK MANAGEMENT ACTIVITIES

The Company offers energy price risk management services primarily related to natural gas, electric power and other energy related commodities. These activities also include the establishing of open positions in the energy markets, primarily on a short-term basis, and transactions intended to optimize the Company's power generation portfolio, but which do not qualify for hedge accounting. The Company provides these services by utilizing a variety of derivative instruments (Trading Energy Derivatives).

The Company applies mark-to-market accounting for all of its energy trading, marketing, power origination and price risk management services operations in North America and Europe, as well as to retail contracted sales to large commercial, industrial and institutional customers. Accordingly, these Trading Energy Derivatives are recorded at fair value with net realized and unrealized gains (losses) recorded as a component of revenues. The recognized, unrealized balances are recorded as trading and marketing assets/liabilities.

	FAIR VALUE	
	ASSETS	LIABILITIES
	(IN MILLIONS)	
December 31, 2000		
Natural gas	$3,823	$3,818
Electricity	974	946
Oil and other	39	39
	$4,836	$4,803
December 31, 2001		
Natural gas	$1,389	$1,303
Electricity	648	517
Oil and other	21	20
	$2,058	$1,840

All of the fair values shown in the table above at December 31, 2000 and 2001 have been recognized in income. The fair values as of December 31, 2000 and 2001, are estimated using quoted prices where available, other valuation techniques when market data is not available, for example in illiquid markets, and other factors such as time value and volatility factor for the underlying commitment. The Company's alternative pricing methodologies include, but are not limited to, extrapolation of forward pricing curves using historically reported data from illiquid pricing points. These same pricing techniques are used to evaluate a contract prior to taking the position.

The fair values in the above table are subject to significant changes based on fluctuating market prices and conditions. Changes in the assets and liabilities from trading, power origination, marketing and price risk management services result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlements. The most significant estimates include natural gas and power forward market prices, volatility and credit risk. For the contracted retail electric sales to large commercial, industrial and institutional customers, significant variables affecting contract values also include the variability in electricity consumption patterns due to weather and operational uncertainties (within contract parameters). Market prices assume a normal functioning market with an adequate number of buyers and sellers providing market liquidity. Insufficient market liquidity could significantly affect the values that could be obtained for these contracts, as well as the costs at which these contracts could be hedged.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum term of the trading portfolio is 17 years. These maximum and average terms are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(b) NON-TRADING ACTIVITIES

Cash Flow Hedges. To reduce the risk from market fluctuations in revenues and the resulting cash flows derived from the sale of electric power, natural gas and other commodities, the Company may enter into Energy Derivatives in order to hedge exposure to variability in cash flows (Non-trading Energy Derivatives).

The Non-trading Energy Derivative portfolios are managed to complement the physical transaction portfolio, reducing overall risks within authorized limits.

The Company applies hedge accounting for its Non-trading Energy Derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% to 120% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied. During 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges was a gain of $8 million. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, the Company realizes in net income the deferred gains and losses recognized in accumulated other comprehensive income (loss). During the year ended December 31, 2001, there was a $3.6 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur due to credit problems of a customer. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive income (loss) is reclassified and included in the Company's Statements of Consolidated Income under the captions (a) fuel expenses, in the case of natural gas purchase transactions, (b) purchased power, in the case of electric power purchase transactions and (c) revenues, in the case of electric power and natural gas sales transactions and financial electric power or natural gas derivatives. Cash flows resulting from these transactions in Non-trading Energy Derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2001, the Company's current non-trading derivative assets and liabilities and corresponding amounts in accumulated other comprehensive loss were expected to be reclassified into net income during the next twelve months.

The maximum length of time the Company is hedging its exposure to the variability in future cash flows for forecasted transactions excluding the payment of variable interest on existing financial instruments is eleven years.

In addition, as of December 31, 2001, the European Energy business segment had entered into transactions to purchase $271 million at fixed exchange rates in order to hedge future fuel purchases payable in U.S. dollars.

Interest Rate Swaps. During 2001, the Company entered into interest rate swaps with an aggregate notional amount of $1.8 billion to fix the interest rate applicable to floating rate short-term debt and interest rate swaps with a notional amount of $425 million to fix the interest rate applicable to floating rate long-term debt. At December 31, 2001, $225 million of the swaps relating to long-term debt had expired. The swaps relating to short-term debt do not qualify as cash flow hedges under SFAS No. 133, and are marked to market on the Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. The swaps relating to long-term debt qualify for hedge accounting under SFAS No. 133 and the periodic settlements are recognized as an adjustment to interest expense in the Statements of Consolidated Income over the term of the swap agreement. During 2001, the Company entered into forward-starting interest rate swaps having an aggregate notional amount of $500 million to hedge the interest rate on a portion of a future offering of five-year notes. These swaps qualify as cash flow hedges under SFAS No. 133. Should the expected issuance of the debt no longer be probable, any deferred amount will be recognized immediately into income. The maximum length of time the Company is hedging its exposure to the payment of variable interest rates is four years.

Hedge of the Foreign Currency Exposure of Net Investment in Foreign Subsidiaries. The Company has substantially hedged the foreign currency exposure of its net investment in its European subsidiaries through a combination of Euro-denominated borrowings, foreign currency swaps and foreign currency forward contracts to reduce the Company's exposure to changes in foreign currency rates. During the normal course of business, the Company reviews its currency hedging strategies and determines the hedging approach deemed appropriate based upon the circumstances of each situation.

The Company records the changes in the value of the foreign currency hedging instruments and Euro-denominated borrowings as foreign currency translation adjustments included as a component of accumulated other comprehensive loss. The effectiveness of the hedging instruments can be measured by the net change in foreign currency translation adjustments attributed to the Company's net investment in its European subsidiaries. These amounts generally offset amounts recorded in stockholders' equity as adjustments resulting from translation of the hedged investment into U.S. dollars. During 2001, the derivative and non-derivative instruments designated as hedging the net investment in the Company's European subsidiaries resulted in a gain of $31 million, which is included in the balance of the cumulative translation adjustment.

Other Derivatives. In December 2000, the Dutch parliament adopted legislation allocating to the Dutch generation sector, including REPGB, financial responsibility for various stranded costs contracts and other liabilities. The legislation became effective in all material respects on January 1, 2001. In particular, the legislation allocated to the Dutch generation sectors, including REPGB, financial responsibility to purchase electricity and gas under gas supply and electricity contracts. These contracts are derivatives pursuant to SFAS No. 133. As of December 31, 2001, the Company had recognized $369 million in short-term and long-term non-trading derivative liabilities for REPGB's portion of these stranded costs contracts. Future changes in the valuation of these stranded cost import contracts which remain an obligation of REPGB will be recorded as adjustments to the Company's Statements of Consolidated Income. The valuation of the contracts could be affected by, among other things, changes in the price of electric power, coal, low sulfur fuel oil and the value of the United States dollar and British pound relative to the Euro. For additional information regarding REPGB's stranded costs and the related indemnification by former shareholders of these stranded costs during 2001, see Note 14(h).

During 2001, Reliant Resources entered into two structured transactions which were recorded on the Consolidated Balance Sheets in non-trading derivative assets and liabilities involving a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. The change in fair value of these derivative assets and liabilities must be recorded in the Statements of Consolidated Income for each reporting period. During 2001, $117 million of net non-trading derivative liabilities were settled related to these transactions, and a $1 million pre-tax unrealized gain was recognized. As of December 31, 2001, Reliant Resources has recognized $221 million of non-trading derivative assets and $103 million of non-trading derivative liabilities related to these transactions.

(c) CREDIT RISKS

In addition to the risk associated with price movements, credit risk is inherent in the Company's risk management activities and hedging activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The Company has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each contract. The Company enters into derivative instruments primarily with counterparties having at least a minimum investment grade credit rating (i.e. a minimum credit rating for such entity's senior unsecured debt of BBB- for Standard & Poor's and Fitch or Baa3 for Moody's). In addition, the Company seeks to enter into netting agreements that permit it to offset receivables and payables with a given counterparty. The Company also attempts to enter into agreements that enable the Company to obtain collateral from a counterparty or to terminate upon the occurrence of credit-related events. For long-term arrangements, the Company periodically reviews the financial condition of these counterparties in addition to monitoring the effectiveness of these financial contracts in achieving the Company's objectives. If the counterparties to these arrangements fail to perform, the Company would seek to compel performance at law or otherwise obtain compensatory damages.

The Company might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then-current market prices. In this event, the Company might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding the provision related to energy sales in California, see Note 14(g). For information regarding the net provision recorded in 2001 related to energy sales to Enron, see Note 21.

The following tables show the composition of the trading and marketing assets of the Company as of December 31, 2000 and 2001 and the non-trading derivative assets as of December 31, 2001.

	DECEMBER 31, 2000		DECEMBER 31, 2001	
TRADING AND MARKETING ASSETS	INVESTMENT GRADE(2)	TOTAL	INVESTMENT GRADE(2)	TOTAL
	(IN MILLIONS)			
Energy marketers	$2,291	$2,481	$ 683	$ 757
Financial institutions	1,099	1,228	495	495
Gas and electric utilities	472	542	538	544
Oil and gas producers	474	566	135	176
Commercial, industrial and institutional customers	73	85	119	184
Total	$4,409	4,902	$1,970	2,156
Credit and other reserves		(66)		(98)
Trading and marketing assets		$4,836		$2,058

	DECEMBER 31, 2001	
NON-TRADING DERIVATIVE ASSETS	INVESTMENT GRADE(1)(2)	TOTAL
	(IN MILLIONS)	
Energy marketers	$371	$408
Financial institutions	76	76
Gas and electric utilities	89	90
Oil and gas producers	8	76
Commercial, industrial and institutional customers	7	8
Others	5	14
Total	$556	672
Credit and other reserves		(16)
Non-trading derivative assets		$656

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(1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (such as parent company guarantees) and collateral, which encompass cash and standby letters of credit.

(2) For unrated counterparties, the Company performs financial statement analysis, considering contractual rights and restrictions, and collateral, to create a synthetic credit rating.

(d) TRADING AND NON-TRADING -- GENERAL POLICY

The Company has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price, foreign currency and credit risk activities, including the Company's trading, marketing, power origination, risk management services and hedging activities. The committee's duties are to approve the Company's commodity risk policies, allocate risk capital within limits established by the Company's board of directors, approve trading of new products and commodities, monitor risk positions and monitor compliance with the Company's risk management policies and procedures and trading limits established by the Company's board of directors.

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

(8) INDEXED DEBT SECURITIES (ACES AND ZENS) AND AOL TIME WARNER SECURITIES

(a) ORIGINAL INVESTMENT IN TIME WARNER SECURITIES

On July 6, 1999, the Company converted its 11 million shares of Time Warner Inc. (TW) convertible preferred stock (TW Preferred) into 45.8 million shares of Time Warner common stock (TW Common). Prior to the conversion, the Company's investment in the TW Preferred was accounted for under the cost method at a value of $990 million in the Company's Consolidated Balance Sheets. The TW Preferred which was redeemable after July 6, 2000, had an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), was entitled to annual dividends of $3.75 per share until July 6, 1999 and was convertible by the Company. The Company recorded pre-tax dividend income with respect to the TW Preferred of $21 million in 1999 prior to the conversion. Effective on the conversion date, the shares of TW Common were classified as trading securities under SFAS No. 115 and an unrealized gain was recorded in the amount of $2.4 billion ($1.5 billion after-tax) to reflect the cumulative appreciation in the fair value of the Company's investment in Time Warner securities. Unrealized gains and losses resulting from changes in the market value of the TW Common (now AOL TW Common) are recorded in the Company's Statements of Consolidated Income.

(b) ACES

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

(c) ZENS

On September 21, 1999, the Company issued approximately 17.2 million of its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of $1.0 billion. The original principal amount per ZENS will increase each quarter to the extent that the sum of the quarterly cash dividends and the interest paid during a quarter on the reference shares attributable to one ZENS is less than $.045, so that the annual yield to investors from the date the Company issued the ZENS to the date of computation of the contingent principal amount is not less than 2.309%. At December 31, 2001, the principal amount of the ZENS had increased $3 million as the reference shares no longer pay dividends. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to adjustment as discussed above) or an amount based on the then-current market value of AOL TW

Common, or other securities distributed with respect to AOL TW Common (1.5 shares of AOL TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has an original principal amount of $58.25, and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in some cases) of the market value of the reference shares attributable to one ZENS. The Company pays interest on each ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the quarterly interest period on the reference shares attributable to each ZENS. Subject to some conditions, the Company has the right to defer interest payments from time to time on the ZENS for up to 20 consecutive quarterly periods. As of December 31, 2001, no interest payments on the ZENS had been deferred.

The Company used $537 million of the net proceeds from the offering of the ZENS to purchase 9.2 million shares of TW Common (now 13.8 million shares of AOL TW Common), which are classified as trading securities under SFAS No. 115. Prior to the purchase of additional shares of TW Common on September 21, 1999, the Company owned approximately 8 million shares of TW Common (now 12 million shares of AOL TW Common). The Company now holds 25.8 million shares of AOL TW Common that are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

Prior to January 1, 2001, an increase above $58.25 (subject to some adjustments) in the market value per share of TW Common resulted in an increase in the Company's liability for the ZENS. However, as the market value per share of TW Common declined below $58.25 (subject to some adjustments), the liability for the ZENS did not decline below the original principal amount. The market value per share of TW Common was $52.24 as of December 31, 2000 and the market value per share of AOL TW Common was $32.10 as of December 31, 2001. Upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component (the holder's option to receive the appreciated value of AOL TW Common at maturity). The derivative component was valued at fair value and determined the initial carrying value assigned to the debt component ($121 million) as the difference between the original principal amount of the ZENS ($1.0 billion) and the fair value of the derivative component at issuance ($879 million). Effective January 1, 2001 the debt component was recorded at its accreted amount of $122 million and the derivative component is recorded at its current fair value of $788 million, as a current liability, resulting in a transition adjustment pre-tax gain of $90 million ($58 million net of tax). The transition adjustment gain was reported in the first quarter of 2001 as the effect of a change in accounting principle. Subsequently, the debt component will accrete through interest charges at 17.5% up to the minimum amount payable upon maturity of the ZENS in 2029, approximately $1.1 billion, and changes in the fair value of the derivative component will be recorded in the Company's Statements of Consolidated Income. During 2001, the Company recorded a $70 million loss on the Company's investment in AOL TW Common. During 2001, the Company recorded a $58 million gain associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the AOL TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

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

	AOL TW INVESTMENT	ACES	DEBT COMPONENT OF ZENS	DERIVATIVE COMPONENT OF ZENS
Balance at December 31, 1998	$ 990	$ 2,350	$ --	$ --
Issuance of indexed debt securities	--	--	1,000	--
Purchase of TW Common	537	--	--	--
Loss on indexed debt securities	--	388	241	--
Gain on TW Common	2,452	--	--	--
Balance at December 31, 1999	3,979	2,738	1,241	--
Loss (gain) on indexed debt securities	--	139	(241)	--
Loss on TW Common	(205)	--	--	--
Settlement of ACES	(2,877)	(2,877)	--	--
Balance at December 31, 2000	897	--	1,000	--
Transition adjustment from adoption of SFAS No. 133	--	--	(90)	--
Bifurcation of ZENS obligation	--	--	(788)	788
Accretion of debt component of ZENS	--	--	1	--
Gain on indexed debt securities	--	--	--	(58)
Loss on AOL TW Common	(70)	--	--	--
Balance at December 31, 2001	$ 827	$ --	$ 123	$730

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

	DECEMBER 31, 2000		DECEMBER 31, 2001	
	LONG-TERM	CURRENT(1)	LONG-TERM	CURRENT(1)
	(IN MILLIONS)			
Short-term borrowings:				
Commercial paper		$3,675		$2,502
Lines of credit		853		290
Receivables facility		350		346
Other(2)		126		297
Total short-term borrowings		$5,004		$3,435
Long-term debt:				
Reliant Energy				
ZENS(3)	$ --	$1,000	$ --	$ 123
Debentures 7.88% to 9.38% due 2002	100	250	--	100
First mortgage bonds 4.90% to 9.15% due 2002 to 2027	1,261	--	1,161	100
Pollution control bonds 4.70% to 5.95% due 2011 to 2030	1,046	--	1,046	--
Series 2001-1 Transition Bonds 3.84% to 5.63% due 2002 to 2013	--	--	736	13
Other	12	1	11	1
Financing Subsidiaries (directly or indirectly owned by Reliant Energy)				
Debentures 7.40% due 2002	300	225	--	300
Reliant Energy Power Generation, Inc.				
Notes payable various market rates due 2002 to 2024	260	--	295	2
REPGB(2)				
Debentures 6.00% to 8.94% due 2002 to 2006	66	1	38	22
Reliant Energy Capital Europe(2)				
Notes payable various market rates due 2003	565	--	534	--
RERC Corp.(4)				
Convertible debentures 6.00% due 2012	93	--	82	--
Debentures 6.38% to 8.90% due 2003 to 2011	1,285	--	1,833	--
Notes payable 8.77% to 9.23% paid 2001	--	146	--	--
Unamortized discount and premium	8	--	6	--
Total long-term debt	4,996	1,623	5,742	661
Total borrowings	$4,996	$6,627	$5,742	$4,096

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

(2) Includes borrowings at December 31, 2000 and 2001 which are denominated in Euros. As of December 31, 2000 and 2001, the assumed exchange rate was 1.06 Euros and 1.12 Euros per U.S. dollar, respectively.

(3) Upon adoption of SFAS No. 133 effective January 1, 2001, the Company's ZENS obligation was bifurcated into a debt component and an embedded derivative component. For additional information regarding ZENS, see Note 8(b). As ZENS are exchangeable for cash at any time at the option of the holders, these notes are classified as a current portion of long-term debt.

(4) Debt acquired in business acquisitions is adjusted to fair market value as of the acquisition date. Included in long term debt is additional unamortized premium related to fair value adjustments of long-term debt of $12 million and $9 million at December 31, 2000 and 2001, respectively, which is being amortized over the respective remaining term of the related long-term debt.

(b) LONG-TERM DEBT

Maturities. The Company's maturities of long-term debt and sinking fund requirements, excluding the ZENS obligation, are $538 million in 2002, $1.2 billion in 2003, $90 million in 2004, $390 million in 2005 and $218 million in 2006. The 2002 and 2003 amounts are net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2001.

Liens. At December 31, 2001, substantially all physical assets used in the conduct of the business and operations of the Electric Operations business segment are subject to liens securing the First Mortgage Bonds. After the Restructuring, only the assets of the transmission and distribution utility are expected to be subject to liens securing the First Mortgage Bonds. Sinking fund requirements on the First Mortgage Bonds may be satisfied by certification of property additions at 100% of the requirements as defined by the Mortgage and Deed of Trust. Sinking or improvement/replacement fund requirements for 1999, 2000 and 2001 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2002 is $334 million.

RERC Corp. Debt Issuance. In February 2001, RERC Corp. issued $550 million of unsecured notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy, and for general corporate purposes. Reliant Energy used the $400 million proceeds from the dividend for general corporate purposes, including the repayment of short-term borrowings.

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

Purchase of Convertible Debentures. At December 31, 2000 and 2001, RERC Corp. had issued and outstanding $98 million and $86 million, respectively, aggregate principal amount ($93 million and $82 million, respectively, carrying amount) of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of Reliant Energy common stock and $14.24 in cash. After the Restructuring, each Subordinated Debenture will be convertible into 0.65 shares of CenterPoint Energy common stock and $14.24 in cash. After the Distribution, each Subordinated Debenture will be convertible into an increased number of CenterPoint Energy shares based on a formula as provided in the relevant indenture and $14.24 in cash. During 2001, RERC Corp. purchased $11 million aggregate principal amount of its Subordinated Debentures.

TERM Notes. RERC Corp.'s $500 million aggregate principal amount of 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) provide an investment bank with a call option, which gives it the right to have the TERM Notes redeemed from the investors on November 1, 2003 and then remarketed if it chooses to exercise the option. The TERM Notes are unsecured obligations of RERC Corp. which bear interest at an annual rate of 6 3/8% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the call option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, RERC Corp. will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by RERC Corp., within the 52-week period beginning November 1, 2003. During this period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by RERC Corp. If the TERM Notes are remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to adjustment, and the effective interest rate on the remarketed TERM Notes will be 5.66% plus RERC Corp.'s applicable credit spread at the time of such remarketing.

Extinguishments of Debt. During the second quarter of 2000, REPGB negotiated the repurchase of $272 million aggregate principal amount of its long-term debt for a total cost of $286 million, including $14 million in expenses. The book value of the debt repurchased was $293 million, resulting in an extraordinary gain on the early extinguishment of long-term debt of $7 million. Borrowings under a short-term

banking facility and proceeds from the sale of trading securities by REPGB were used to finance the debt repurchase.

During 1999, the Company's regulated operations recorded losses from the extinguishment of debt of $22 million. There were no losses recorded from the early extinguishment of debt in 2000 and 2001. As these costs will be recovered through regulated cash flows, these costs have been deferred and a regulatory asset has been recorded. For further discussion regarding the accounting, see Note 4(a).

(11) TRUST PREFERRED SECURITIES

In February 1997, two Delaware statutory business trusts created by Reliant Energy (HL&P Capital Trust I and HL&P Capital Trust II) issued to the public (a) $250 million aggregate amount of preferred securities and (b) $100 million aggregate amount of capital securities, respectively. In February 1999, a Delaware statutory business trust created by Reliant Energy (REI Trust I) issued $375 million aggregate amount of preferred securities to the public. Reliant Energy accounts for REI Trust I, HL&P Capital Trust I and HL&P Capital Trust II as wholly owned consolidated subsidiaries. Each of the trusts used the proceeds of the offerings to purchase junior subordinated debentures issued by Reliant Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities.

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

The preferred securities and capital securities are mandatorily redeemable upon the repayment of the related series of junior subordinated debentures at their stated maturity or earlier redemption. Subject to some limitations, Reliant Energy has the option of deferring payments of interest on the junior subordinated debentures. During any deferral or event of default, Reliant Energy may not pay dividends on its capital stock. As of December 31, 2001, no interest payments on the junior subordinated debentures had been deferred.

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

The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Reliant Energy common stock. During 2000 and 2001, convertible preferred securities of $0.3 million and $0.04 million, respectively, were converted. As of December 31, 2000 and 2001, $0.4 million liquidation amount of convertible preferred securities were outstanding. Subject to some limitations, RERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, RERC Corp. may not pay dividends on its common stock to Reliant Energy. As of December 31, 2001, no interest payments on the convertible junior subordinated debentures had been deferred.

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

AGGREGATE
LIQUIDATION AMOUNTS
AS OF MANDATORY
DECEMBER 31,
DISTRIBUTION
REDEMPTION TRUST
2000 AND 2001
RATE/INTEREST RATE
DATE/MATURITY DATE
JUNIOR SUBORDINATED
DEBENTURES - ----- -
------------ -------
----------- --------
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- (IN MILLIONS) REI
Trust I............
$375 7.20% March
2048 7.20% Junior
Subordinated
Debentures due 2048
HL&P Capital Trust
I... $250 8.125%
March 2046 8.125%
Junior Subordinated
Deferrable Interest
Debentures Series A
HL&P Capital Trust
$100 8.257% February
2037 8.257% Junior
Subordinated
II...................
Deferrable Interest
Debentures Series B
RERC
Trust............. $
1 6.25% June 2026
6.25% Convertible
Junior Subordinated
Debentures due 2026

(14) COMMITMENTS AND CONTINGENCIES

(a) COMMITMENTS AND GUARANTEES

The following information is presented separately for the Company's regulated and unregulated businesses:

RELIANT ENERGY (TO BECOME CENTERPOINT ENERGY SUBSEQUENT TO THE RESTRUCTURING)

Capital and Environmental Commitments. Reliant Energy anticipates investing up to $397 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance. Reliant Energy anticipates expenditures to be as follows (in millions):

2002	$234
2003	132
2004	28
2005	3
2006	--
Total	$397

Fuel and Purchased Power. Fuel commitments include several long-term coal, lignite and natural gas contracts related to Texas power generation operations, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities or trading and marketing assets and liabilities in the Company's Consolidated Balance Sheets as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 5) or do not meet the definition of a derivative. Minimum payment obligations for coal and transportation agreements that extend through 2009 are approximately $199 million in 2002, $129 million in 2003, $133 million in 2004, $137 million in 2005 and $141 million in 2006. Purchase commitments related to lignite mining and lease agreements, natural gas purchases and storage contracts, and purchased power are not material to Reliant Energy's operations. Prior to January 1, 2002, the Electric Operations business segment was allowed recovery of these costs through rates for electric service. As of December 31, 2001, some of these contracts are above market. Reliant Energy anticipates that stranded costs associated with these obligations will be recoverable through the stranded cost recovery mechanisms contained in the Texas Electric Restructuring Law. For information regarding the Texas Electric Restructuring Law, see Note 4(a).

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

RELIANT RESOURCES -- UNREGULATED BUSINESSES

As of December 31, 2001, the Wholesale Energy business segment had entered into commitments associated with various non-rate regulated electric generating projects, including commitments for the purchase of combustion turbines, aggregating $440 million. In addition, the Wholesale Energy business segment has options to purchase additional generating equipment for a total estimated cost of $42 million for future generation projects. Reliant Resources is actively attempting to remarket this equipment.

Reliant Resources is a party to several fuel supply contracts, commodity transportation contracts, and purchase power and electric capacity contracts, that have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities or trading and marketing assets and liabilities in the Consolidated Balance Sheets as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 5) or do not meet the definition of a derivative. The maximum duration of any of these commitments is 21 years. Minimum purchase commitment obligations under these agreements are as follows for the next five years, as of December 31, 2001 (in millions):

	PURCHASED POWER AND ELECTRIC CAPACITY COMMITMENTS	TRANSPORTATION COMMITMENTS	GAS AND FUEL COMMITMENTS
2002	$105	$ 45	$315
2003	39	84	119
2004	45	101	61
2005	45	101	61
2006	45	101	61
Total	$279	$432	$617

The maximum duration under any individual fuel supply contract and transportation contract is 18 years and 21 years, respectively.

Reliant Resources' aggregate electric capacity commitments, including capacity auction products, are for 7,496 MW, 1,800 MW, 1,000 MW, 1,000 MW and 1,000 MW for 2002, 2003, 2004, 2005 and 2006, respectively. The maximum duration under any individual commitment is five years. Included in the above purchase power and electric capacity commitments are amounts to be acquired from Texas Genco in 2002 and 2003 of $213 million and $57 million, respectively.

As of December 31, 2001, Reliant Resources has commitments, including electric energy and capacity sale contracts and district heating contracts (see Note 14(h)) which are not classified as non-trading derivative assets and liabilities or trading and marketing assets and liabilities in the Consolidated Balance Sheets as these contracts meet the SFAS No. 133 exception to be classified as "normal sales contracts" or do not meet the definition of a derivative. The estimated minimum sale commitments under these contracts are $450 million, $211 million, $194 million, $174 million and $159 million in 2002, 2003, 2004, 2005 and 2006, respectively.

In addition, in January 2002, Reliant Resources began providing retail electric services to approximately 1.5 million residential and small commercial customers previously served by Reliant Energy's electric utility division. Within Reliant Energy's electric utility division's territory, prices that may be charged to residential and small commercial customers by this retail electric service provider are subject to a fixed, specified price (price to beat) at the outset of retail competition. The Texas Utility Commission's regulations allow this retail electric provider to adjust its price to beat fuel factor based on a percentage change in the price of natural gas. In addition, the retail electric provider may also request an adjustment as a result of changes in its price of purchased energy. The retail electric provider may request that its price to beat be adjusted twice a year.

Reliant Resources will not be permitted to sell electricity to residential and small commercial customers in the incumbent's traditional service territory at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers is committed to be served by other retail electric providers.

Reliant Resources guarantees the performance of certain of its subsidiaries' trading and hedging obligations. As of December 31, 2001, the fixed maximum amount of such guarantees was $4.7 billion. In addition, Reliant Resources has issued letters of credit totaling $51 million in connection with its trading activities. Reliant Resources does not consider it likely that it would be required to perform or otherwise incur any losses associated with these guarantees.

In addition to the above discussions, Reliant Resources' other commitments have various quantity requirements and durations and are not considered material either individually or in the aggregate to its results of operations or cash flows.

(b) LEASE COMMITMENTS

In August 2000, the Company, entered into separate sale-leaseback transactions with each of three owner-lessors covering the subsidiaries' respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired in the REMA acquisition. As lessee, the Company leases an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting specified criteria, including having a rating on REMA's long-term unsecured senior debt of at least BBB from Standard and Poor's and Baa2 from Moody's, guarantees the lease obligations. The Company will make lease payments through 2029. The lease term expires in 2034. As of December 31, 2001, REMA had $167 million of restricted funds that are available for REMA's working capital needs and to make future lease payments, including a lease payment of $55 million which was made in January 2002.

In the first quarter of 2001, Reliant Resources entered into tolling arrangements with a third party to purchase the rights to utilize and dispatch electric generating capacity of approximately 1,100 MW extending through 2012. This electricity will be generated by two gas-fired, simple-cycle peaking plants, with fuel oil backup which are being constructed by a tolling partner. Reliant Resources anticipates construction to be completed by the summer of 2002, at which time Reliant Resources will commence tolling payments. The tolling arrangements qualify as operating leases.

In February 2001, the Company entered into a lease for office space for Reliant Resources in a building under construction. The lease agreement was assigned by the Company to Reliant Resources by an assignment and assumption agreement in June 2001. The lease term, which commences in the second quarter 2003, is 15 years with two five-year renewal options. Reliant Resources has the right to name the building.

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2001, which primarily relate to the REMA leases mentioned above. Other non-cancelable, long-term operating leases for Reliant Energy and Reliant Resources principally consist of tolling arrangements, as discussed above, rental agreements for building space, data processing equipment and vehicles, including major work equipment.

	REMA SALE-LEASE OBLIGATION	RELIANT RESOURCES OTHER	RELIANT ENERGY OTHER	TOTAL
	(IN MILLIONS)			
2002	$ 136	$ 52	$ 14	$ 202
2003	77	72	12	161
2004	84	87	7	178
2005	75	89	6	170
2006	64	90	5	159
2007 and beyond	1,124	469	66	1,659
Total	$1,560	$859	$110	$2,529

Total lease expense for all operating leases was $39 million, $62 million and $112 million during 1999, 2000 and 2001, respectively. During 2001, the Company made lease payments related to the REMA lease of $259 million. As of December 31, 2001, the Company had recorded a prepaid lease obligation related to the REMA sale-leaseback of $59 million and $122 million in other current assets and other long-term assets, respectively.

(c) CROSS BORDER LEASES

During the period from 1994 through 1997, under cross border lease transactions, REPGB leased several of its power plants and related equipment and turbines to non-Netherlands based investors (the head leases) and concurrently leased the facilities back under sublease arrangements with remaining terms as of December 31, 2001 of 1 to 23 years. REPGB utilized proceeds from the head lease transactions to prepay its sublease obligations and to provide a source for payment of end of term purchase options and other financial undertakings. The initial sublease obligations totaled $2.4 billion of which $1.6 billion remained outstanding as of December 31, 2001. These transactions involve REPGB providing to a foreign investor an ownership right in (but not necessarily title to) an asset, with a leaseback of that asset. The net proceeds to REPGB of the transactions were recorded as a deferred gain and are currently being amortized to income over the lease terms. At December 31, 2000 and 2001, the unamortized deferred gain on these transactions totaled $77 million and $68 million, respectively. The power plants, related equipment and turbines remain on the financial statements of REPGB and continue to be depreciated.

REPGB is required to maintain minimum insurance coverages, perform minimum annual maintenance and, in specified situations, post letters of credit. REPGB's shareholder is subject to some restrictions with respect to the liquidation of REPGB's shares. In the case of early termination of these contracts, REPGB would be contingently liable for some payments to the sublessors, which at December 31, 2001, are estimated to be $272 million. Starting in March 2000, REPGB was required by some of the lease agreements to obtain standby letters of credit in favor of the sublessors in the event of early termination. The amount of the required letters of credit was $272 million as of December 31, 2001. Commitments for these letters of credit have been obtained as of December 31, 2001.

(d) NAMING RIGHTS TO HOUSTON SPORTS COMPLEX

In October 2000, Reliant Resources acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's newest franchise. In addition, the naming rights cover the entertainment and convention facilities included in the stadium complex. The agreement extends for 32 years. In addition to naming rights, the agreement provides Reliant Resources with significant sponsorship rights.

The aggregate cost of the naming rights will be approximately $300 million. During the fourth quarter of 2000, Reliant Resources incurred an obligation to pay $12 million in order to secure the long-term commitment and for the initial advertising of which $10 million was expensed in the Statement of Consolidated Income in 2000. Starting in 2002, when the new stadium is operational, Reliant Resources will pay $10 million each year through 2032 for annual advertising under this agreement.

(e) TRANSPORTATION AGREEMENT

A subsidiary of RERC Corp. had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated that this subsidiary would transfer to ANR an interest in some of RERC Corp.'s pipeline and related assets. As of December 31, 2000 and 2001, the Company had recorded $41 million in other long-term liabilities in the Company's Consolidated Balance Sheets to reflect the Company's obligation to ANR for the use of 130 million cubic feet (Mmcf)/day of capacity in some of the Company's transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to ANR. The ANR Agreement will terminate in 2005 with a refund of $36 million.

(f) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Legal Matters

Reliant Energy HL&P 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 HL&P's 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 HL&P expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, the Company regards all of plaintiffs' allegations as spurious and is 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 (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. The Company believes 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, the Company believes 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 HL&P 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. The Company estimates the range of possible outcomes for the plaintiffs to be between zero and $18 million inclusive of interest and attorneys' fees.

California Wholesale Market. Reliant Energy, Reliant Energy Services, REPG and several other subsidiaries of Reliant Resources, as well as three officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(c)), Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at its own expense. 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. 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. On July 30, 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. On March 4, 2002, Judge Sammartino adopted a schedule proposed by the parties that would result in a trial beginning on March 1, 2004. On March 8, 2002, the plaintiffs filed a single, consolidated complaint naming numerous defendants, including Reliant Energy Services and other Reliant Resources' subsidiaries, that restated the allegations described above and alleged that damages against all defendants could be as much as $1 billion.

Plaintiffs have voluntarily dismissed Reliant Energy from two of the three class actions in which it was named as a defendant. The ultimate outcome of the lawsuits cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

On March 11, 2002, the California Attorney General filed a civil lawsuit in San Francisco Superior Court naming Reliant Energy, Reliant Resources, Reliant Energy Services, REPG, and several other subsidiaries of Reliant Resources as defendants. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(c)), Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at its own expense. 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 (Cal ISO). In addition to injunctive relief, the Attorney General seeks restitution and disgorgement of alleged unlawful profits for sales of electricity, and civil penalties. The ultimate outcome of this lawsuit cannot be predicted with any degree of certainty at this time.

On March 19, 2002, the California Attorney General filed a complaint with the FERC naming Reliant Energy Services and "all other public utility sellers" in California as defendants. The complaint alleges that sellers with market-based rates have violated their tariffs by not filing with the FERC transaction-specific information about all of their sales and purchases at market-based rates. The California Attorney General argues that, as a result, all past sales should be subject to refund if found to be above just and reasonable levels. The ultimate outcome of this complaint proceeding cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in the complaint, the underlying facts, and the relevant statutory and regulatory provisions, that resolution of this lawsuit will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claim Act against RERC and certain of its subsidiaries alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case was consolidated, together with the other similar False Claim Act cases filed and transferred to the District of Wyoming. Motions to dismiss were denied. The defendants intend to vigorously contest this case.

In addition, RERC, REGT, REFS and MRT have been named as defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants, including certain Reliant Energy entities, for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Plaintiffs initially sued Reliant Energy Services, but that company was dismissed without prejudice on June 8, 2001. Other Reliant Energy entities that were misnamed or duplicative have also been dismissed. MRT and REFS have filed motions to dismiss for lack of personal jurisdiction and are currently responding to discovery on personal jurisdiction. All four Reliant Energy defendants have joined in a motion to dismiss.

The defendants plan to raise significant affirmative defenses based on the terms of the applicable contracts, as well as on the broad waivers and releases in take or pay settlements that were granted by the producer-sellers of natural gas who are putative class members.

Environmental Matters

Clean Air Standards. The Company has participated in a lawsuit against the Texas Natural Resource Conservation Commission (TNRCC) regarding the limitation of the emission of oxides of nitrogen (NOx) in the Houston area. A settlement of the lawsuit was reached with the TNRCC in the second quarter of 2001 and revised emissions limitations were adopted by the TNRCC in the third quarter of 2001. The revised limitations provide for an increase in allowable NOx emissions, compared to the original TNRCC requirements, through 2004. Further emission reduction requirements may or may not be required through 2007, depending upon the outcome of further investigations of regional air quality issues. To achieve the TNRCC NOx reduction requirements, the Company anticipates investing up to $721 million in capital and other special project expenditures by 2004, including costs incurred through December 31, 2001, and potentially up to an additional $88 million between 2004 and 2007. The Texas Electric Restructuring Law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company, Inc., Reliant Energy Pipeline Services, Inc., RERC, Reliant Energy Services, Inc., other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of March 11, 2002, there were 628 plaintiffs, a majority of whom are Louisiana residents who live near the Wilcox Aquifer. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts.

The suit alleges that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer which lies beneath property owned or leased by the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of Reliant Energy Gas Transmission Company in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or dimunition of value of their property, and in addition seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of December 31, 2001, the Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in this matter.

Manufactured Gas Plant Sites. RERC and its predecessors operated a manufactured gas plant (MGP) until 1960 adjacent to the Mississippi River in Minnesota, formerly known as Minneapolis Gas Works (MGW). RERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. RERC is negotiating clean-up of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, RERC believes that two were neither owned nor operated by RERC. RERC believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 2000 and 2001, RERC had accrued $18 million and $23 million, respectively, for remediation of the Minnesota sites. At December 31, 2001, the estimated range of possible remediation costs was $11 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. The Company has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Other Minnesota Matters. At December 31, 2000 and 2001, RERC had recorded accruals of $4 million and $5 million, respectively for other environmental matters in Minnesota for which remediation may be required. At December 31, 2001 the estimated range of possible remediation costs was $4 million to $8 million.

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

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire REMA (see Note 3(a)), the Company became responsible for liabilities associated with ash disposal site closures and site contamination at the acquired facilities in Pennsylvania and New Jersey prior to a plant closing, except for the first $6 million of remediation costs at the Seward Generating Station. A prior owner retained liabilities associated with the disposal of hazardous substances to off-site locations prior to November 24, 1999. As of December 31, 2000 and 2001, REMA has liabilities associated with six future ash disposal site closures and six current site investigations and environmental remediations. The Company has recorded its estimate of these environmental liabilities in the amount of $36 million as of December 31, 2000 and 2001. The Company expects approximately $16 million will be paid over the next five years.

REPGB Asbestos Abatement and Soil Remediation. Prior to the Company's acquisition of REPGB (see Note 3(b)), REPGB had a $25 million obligation primarily related to asbestos abatement, as required by Dutch law, and soil remediation at six sites. During 2000, the Company initiated a review of potential environmental matters associated with REPGB's properties. REPGB began remediation in 2000 of the properties identified to have exposed asbestos and soil contamination, as required by Dutch law and the terms of some leasehold agreements with municipalities in which the contaminated properties are located. All remediation efforts are to be fully completed by 2005. As of December 31, 2000 and 2001, the recorded estimated undiscounted liability for this asbestos abatement and soil remediation was $24 million and $18 million, respectively.

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

Other Matters

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

(g) CALIFORNIA WHOLESALE MARKET UNCERTAINTY.

Receivables. During portions of 2000 and 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreased net electric imports and limitations on supply as a result of maintenance and other outages. The resulting supply and demand imbalance disproportionately impacted California utilities that relied too heavily on short-term power markets to meet their load requirements. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen at 10% below 1996 levels for two of California's public utilities, Pacific Gas and Electric (PG&E) and Southern California Edison Company (SCE), until rates were raised by the California Public Utilities Commission (CPUC) early in 2001.

Due to the disparity between wholesale and retail rates, the credit ratings of PG&E and SCE fell below investment grade. Additionally, PG&E filed for protection under the bankruptcy laws on April 6, 2001. As a result, PG&E and SCE are no longer considered creditworthy and since January 17, 2001 have not directly purchased power from third-party suppliers through the Cal ISO to serve their net short load. Pursuant to emergency legislation enacted by the California Legislature, the California Department of Water Resources (CDWR) has negotiated and purchased power through short and long-term contracts on behalf of PG&E and SCE to meet their net short loads. In December 2001, the CDWR began making payments to the Cal ISO for real-time transactions. The CDWR has now made payment through the Cal ISO for most real-time energy deliveries subsequent to January 17, 2001.

In addition, certain contracts intended to serve as collateral for sales to the California Power Exchange (Cal PX) were seized by California Governor Gray Davis in February 2001. The Ninth Circuit Court of Appeals subsequently ruled that Governor Davis' seizure of these contracts was wrongful. The Company has filed a lawsuit, currently pending in California, to require the state of California to compensate it for the seizure of these contracts. Although SCE made a payment on March 1, 2002 to the Cal PX that included amounts it owed to the Company under these contracts, the Company is still seeking to recover the market value of the contracts at the time they were seized by Governor Davis, which was significantly higher than the contract value, and to collect amounts owed as a result of payment defaults by PG&E under the contracts. The timing and ultimate resolution of these claims is uncertain at this time.

On September 20, 2001, PG&E filed a Plan of Reorganization and an accompanying disclosure statement with the bankruptcy court. Under this plan, PG&E would pay all allowed creditor claims in full, through a combination of cash and long-term notes. Components of the plan will require the approval of the FERC, the SEC and the Nuclear Energy Regulatory Commission, in addition to the bankruptcy court. PG&E has stated it seeks to have this plan confirmed by December 31, 2002. A number of parties are contesting PG&E's reorganization plan, including a number of California parties and agencies. The bankruptcy judge in the PG&E case has ordered that the CPUC may file a competing plan. The details of the CPUC's proposal are unknown at this time. The ability of PG&E to have its reorganization plan confirmed, including the provision providing for the payment in full of unsecured creditors, is uncertain at this time.

On October 5, 2001, a federal district court in California entered a stipulated judgment approving a settlement between SCE and the CPUC in an action brought by SCE regarding the recovery of its wholesale power costs under the filed rate doctrine. Under the stipulated judgment, a rate increase approved earlier in 2001 will remain in place until the earlier of SCE recovering $3.3 billion or December 31, 2002. After that date, the CPUC will review the sufficiency of retail rates through December 31, 2005. A consumer organization has appealed the judgment to the Ninth Circuit Court of Appeals, and no hearing has been held to date. Under the stipulated judgment, any settlement with SCE's creditors that is entered into after March 1, 2002 must be approved by the CPUC. The Company has appealed this provision of the judgment. On March 1, 2002, SCE made a payment to the Cal PX that included amounts it owed the Company. The Company has made a filing with FERC seeking an order providing for the disbursement of the funds owed to the suppliers. The FERC and the bankruptcy court governing the Cal PX bankruptcy proceedings are considering how to dispense this money and it remains uncertain when those funds will be paid over to the Company.

As of December 31, 2000, the Company was owed a total of $282 million by the Cal PX and the Cal ISO. As of December 31, 2001, the Company was owed a total of $302 million by the Cal ISO, the Cal PX, the CDWR, and California Energy Resources Scheduling for energy sales in the California wholesale market during the fourth quarter of 2000 through December 31, 2001. From January 1, 2002 through March 26, 2002, the Company has collected $45 million of these receivable balances. As of December 31, 2001, the Company had a pre-tax provision of $68 million against receivable balances related to energy sales in the California market, including $39 million recorded in 2000 and $29 million recorded in 2001. Management will continue to assess the collectability of these receivables based on further developments affecting the California electricity market and the market participants described herein.

FERC Market Mitigation. In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms. Under these orders, and subject to review and adjustment based on the pending refund proceeding described below, the Company may face an as yet undetermined amount of refund liability. See "-- FERC Refunds" below. Under these orders, for the period January 1, 2001 through June 19, 2001, approximately $20 million of the $149 million charged by the Company for sales in California to the Cal ISO and the Cal PX were identified as being subject to possible refunds. During the second quarter of 2001, the Company accrued refunds of $15 million, $3 million of which had been previously expensed during the first quarter of 2001.

On April 26, 2001, the FERC issued an order replacing the previous price review procedures and establishing a market monitoring and mitigation plan, effective May 29, 2001, for the California markets. The plan establishes a cap on prices during periods when power reserves fall below 7% in the Cal ISO (reserve deficiency periods). The Cal ISO is instructed to use data submitted confidentially by gas-fired generators in California and daily indices of natural gas and emissions allowance costs to establish the market-clearing price in real-time based on the marginal cost of the highest-cost generator called to run. The plan also requires generators in California to offer all their available capacity for sale in the real-time market, and conditions sellers' market-based rate authority such that sellers engaging in certain bidding practices will be subject to increased scrutiny by the FERC, potential refunds and even revocation of their market-based rate authority.

On June 19, 2001, the FERC issued an order modifying the market monitoring and mitigation plan adopted in its April 26 order, to apply price controls to all hours, instead of just hours of low operating reserve, and to extend the mitigation measures to other Western states in addition to California, including Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The FERC set July 2, 2001 as the refund effective date for sales subject to the price mitigation plan throughout the West region. This means that transactions after that date may be subject to refund if found to be unjust or unreasonable. The proxy market clearing price calculated by the Cal ISO will apply during periods of reserve deficiency to all sales in the Cal ISO and Western spot markets. In non-reserve deficiency hours in California, the maximum price in California and the other Western states will be capped at 85% of the highest Cal ISO hourly market clearing price established during the most recent reserve deficiency period. Sellers other than marketers will be allowed to bid higher than the maximum prices, but such bids are subject to justification and potential refund. Justification of higher prices is limited to establishing higher actual gas costs than the proxy calculation averages and making a showing that conditions in natural gas markets changed significantly. The modified monitoring and mitigation plan went into effect June 20, 2001, and will terminate on September 30, 2002, covering two summer peak seasons, or approximately 16 months.

On December 19, 2001, the FERC issued a series of orders on price mitigation in California and the West region. These orders largely maintained existing mitigation mechanisms, but did make a temporary modification to the way that mitigated market clearing prices will be set during the winter months, allowing the maximum prices to rise if gas prices rise. The FERC removed the requirement that non-reserve deficiency prices be limited to 85% of the most recent reserve deficiency prices, allowing prices to rise to a mitigated clearing price of $108/MWh (above which price transactions must be justified as described above). In addition, the FERC determined that if gas prices in California rise by 10%, the mitigated price may be revised to take that change into account. The formula will then track subsequent cumulative changes of at least 10%, but may not fall below a maximum price of $108/MWh. This modification is effective December 20, 2001 through April 30, 2002, at which point the previous mitigation formula is reinstated.

Also, the December 19 orders affirm the June 19 order's requirement that generators must offer all available capacity for sale in the real-time market. As a result of this requirement, the Company's opportunity to sell ancillary services in the West region in the future may be reduced. During 2001, the Company recorded $42 million in revenues related to ancillary services in the West region.

In addition to the impact on ancillary services sales, certain aspects of the December 19, 2001 orders may have retroactive application that may affect prices charged in the West region since June 21, 2001. Because the precise application of the December 19, 2001 order is not known at this time, the Company cannot anticipate the resulting impact on earnings.

The Company believes that while the mitigation plan will reduce volatility in the market, the Company will nevertheless be able to profitably operate its facilities in the West. Additionally, as noted above, the mitigation plan allows sellers, such as the Company, to justify prices above the proxy price. However, previous efforts by the Company to justify prices above the proxy price have been rejected by the FERC and there is no certainty that the FERC will allow for the recovery of costs above the proxy price. Finally, any adverse impacts of the mitigation plan on the Company's operations would be mitigated, in part, by the Company's forward hedging activities.

FERC Refunds. The FERC issued an order on July 25, 2001 adopting a refund methodology and initiating a hearing schedule to determine (1) revised mitigated prices for each hour from October 2, 2000 through June 20, 2001; (2) the amount owed in refunds by each supplier according to the methodology (these amounts may be in addition to or in place of the refund amounts previously determined by the FERC); and (3) the amount currently owed to each supplier. The amounts of any refunds will be determined by the FERC after the conclusion of the hearing process. On December 19, 2001, the FERC issued an order modifying the methodology to be used to determine refund amounts. The schedule currently anticipates that the Administrative Law Judge will make his refund amount recommendations to the FERC in October 2002. However, the Company does not know when the FERC will issue its final decision. The Company has not reserved any amounts for potential future refund liability resulting from the FERC refund hearing, nor can it currently predict the amount of these potential refunds, if any, because the methodology used to calculate these refunds is not final and will depend on information that is still subject to review and challenge in the hearing process. Any refunds that are determined in the FERC proceeding will likely be offset against unpaid amounts owed, if any, to the Company for its prior sales.

On November 20, 2001, the FERC instituted an investigation under Section 206 of the Federal Power Act regarding the tariffs of all sellers with market-based rates authority, including the Company. In this proceeding, the FERC conditions the market-based rate authority of all sellers on their not engaging in anti-competitive behavior. Such condition will apply upon a further order from FERC establishing a refund effective date. This condition allows the FERC, if it determines that a seller has engaged in anti-competitive behavior subsequent to the start of the refund effective period, to order refunds back to the date of such behavior. The FERC invited comments regarding this proposal, and the Company has filed comments in opposition to the proposal. On March 11, 2002, the FERC's Staff held a conference with market participants to discuss the comments FERC has received, and possible modification of the proposed conditions to address concerns raised in the comments while protecting consumers against anticompetitive behavior. The timing of further action by FERC is uncertain. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, the Company's future earnings may be affected by the open-ended refund obligation.

On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the Western region for the period January 1, 2000 forward. While this order does not propose any action against the Company, if the investigation results in findings that markets were dysfunctional during this period, those findings may be used in support of existing or future claims by the FERC or others that prices in the Company's long-term contracts entered into after January 1, 2000 for sales in the West region should be altered.

Other Investigations. In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California State Senate and the California Office of the Attorney General have separate ongoing investigations into the high prices and their causes. Although these investigations have not been completed and no findings have been made in connection with either of them, the California Attorney General has filed a civil lawsuit in San Francisco Superior Court alleging that the Company has violated state laws against unfair and unlawful business practices and a complaint with the FERC alleging the Company violated the terms of its tariff with the FERC (see Note 14(f)). Adverse findings or rulings could result in punitive legislation, sanctions, fines or even criminal charges against the Company or its employees. The Company is cooperating with both investigations and has produced a substantial amount of information requested in subpoenas issued by each body. The Washington and Oregon attorneys general have also begun similar investigations.

Legislative Efforts. Since the inception of the California energy crisis, various pieces of legislation, including tax proposals, have been introduced in the U.S. Congress and the California Legislature addressing several issues related to the increase in wholesale power prices in 2000 and 2001. For example, a bill was introduced in the California legislature that would have created a "windfall profits" tax on wholesale electricity sales and would subject exempt wholesale generators, such as the Company's subsidiaries that own generation facilities in California, to regulation by the CPUC as "public utilities." To date, only a few energy-related bills have passed and the Company does not believe that the legislation that has been enacted to date on these issues will have a material adverse effect on the Company. However, it is possible that legislation could be enacted on either the state or federal level that could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

(h) INDEMNIFICATION OF STRANDED COSTS

Background. In January 2001, the Dutch Electricity Production Sector Transitional Arrangements Act (Transition Act) became effective and, among other things, allocated to REPGB and the three other large-scale Dutch generation companies, a share of the assets, liabilities and stranded cost commitments of NEA. Prior to the enactment of the Transition Act, NEA acted as the national electricity pooling and coordinating body for the generation output of REPGB and the three other large-scale national Dutch generation companies. REPGB and the three other large-scale Dutch generation companies are shareholders of NEA.

The Transition Act and related agreements specify that REPGB has a 22.5% share of NEA's assets, liabilities and stranded cost commitments. NEA's stranded cost commitments consisted primarily of various uneconomical or stranded cost investments and commitments, including a gas supply and three power contracts entered into prior to the liberalization of the Dutch wholesale electricity market. REPGB's stranded cost obligations also include uneconomical district heating contracts which were previously administrated by NEA prior to deregulation of the Dutch power market.

The gas supply contract expires in 2016 and provides for gas imports aggregating 2.283 billion cubic meters per year. Prior to December 31, 2001, one of the stranded cost power contracts was settled. The two remaining stranded cost power contracts have the following capacities and terms: (a) 300 MW through 2005, and (b) 600 MW through March 2002 and 750 MW through 2009. Under the Transition Act, REPGB can either assume its 22.5% allocated interest in the contracts or, subject to the terms of the contracts, sell its interests to third parties. The district heating obligations relate to three heating water supply contacts entered into with various municipalities and expire from 2013 through 2015. Under the district heating contracts, the municipal districts are required to take annually a combined minimum of 5,549 terajoules (TJ) increasing annually to 7,955 TJ over the life of the contracts.

The Transition Act also authorized the government to purchase from NEA at least a majority of the shares in the Dutch national transmission grid company which was sold to the Dutch government on October 25, 2001 for approximately NLG 2.6 billion (approximately $1.05 billion based on an exchange rate of 2.48 NLG per U.S. dollar as of December 31, 2001).

Prior to December 31, 2001, the former shareholders agreed pursuant to a share purchase agreement to indemnify REPGB for up to NLG 1.9 billion in stranded cost liabilities (approximately $766 million). The indemnity obligation of the former shareholders and various provincial and municipal entities (including the city of Amsterdam), was secured by a NLG 900 million escrow account (approximately $363 million).

The Transition Act provided that, subject to the approval of the European Commission, the Dutch government will provide financial compensation to the Dutch generation companies, including REPGB, for liabilities associated with (a) long-term district heating contracts and (b) an experimental coal facility. In July 2001, the European Commission ruled that under certain conditions the Dutch government can provide financial compensation to the generation companies for the district heating contracts. To the extent that this compensation is not ultimately provided to the generation companies by the Dutch government, REPGB was to collect its compensation directly from the former shareholders as further discussed below.

In January 2001, the Company recognized an out-of-market, net stranded cost liability for its gas and electric contracts and district heating commitments. At such time, the Company recorded a corresponding asset of equal amount for the indemnification of this obligation from REPGB's former shareholders and the Dutch government, as applicable. Pursuant to SFAS No. 133, the gas and electric contracts are marked-to-market (see Note 5). As of December 31, 2001, the Company has recorded a liability of $369 million for its stranded cost gas and electric commitments in non-trading derivative liabilities and a liability of $206 million for its district heating commitments in current and non-current other liabilities. As of December 31, 2001, the Company has recorded an indemnification receivable from the Dutch government for the district heating stranded cost liability of $206 million. The settlement of the indemnification related to gas and electric contract commitments in December 2001 is discussed below.

Settlement of Stranded Cost Indemnification. In December 2001, REPGB and its former shareholders entered into a settlement agreement immediately resolving the former shareholders of their stranded cost indemnity obligations related to the gas supply and power contracts under the original share purchase agreement, and provides conditional terms for the possible settlement of their stranded cost indemnity obligation related to district heating obligations under certain conditions. The settlement agreement was approved in December 2001 by the Ministry of Economic Affairs of the Netherlands.

Under the settlement agreement, the former shareholders paid to REPGB NLG 500 million ($202 million) in January and February 2002. The payment represents a settlement of the obligations of the former shareholders to indemnify REPGB for all stranded cost liabilities other than those relating to the district heating contracts. The full amount of this payment was placed into an escrow account in the name of REPGB to fund its stranded cost obligations related to the gas and electric import contracts. Any remaining escrow funds as of January 1, 2004 will be distributed to REPGB.

Under the settlement agreement, the former shareholders will continue to indemnify REPGB for the stranded cost liabilities relating to district heating contracts. The terms of the indemnity are as follows:

- The settlement agreement acknowledges that the Netherlands is finalizing regulations for compensation of stranded cost associated with district heating projects. Within 21 days after the date these compensation rules take effect, REPGB can elect to receive one of two forms of indemnification under the settlement agreement.

- If the compensation to be paid by the Netherlands under these rules is at least as much as the compensation to be paid under the original indemnification agreement, REPGB can elect to receive a one-time payment of NLG 60 million ($24 million). In addition, unless the decree implementing the new compensation rules provides for compensation for the lifetime of the district heating projects, REPGB can receive an additional cash payment of NLG 15 million ($6 million).

- If the compensation rules do not provide for compensation at least equal to that provided under the original indemnification agreement, REPGB can claim indemnification for stranded cost losses up to a maximum of NLG 700 million ($282 million) less the amount of compensation provided by the new compensation rules and certain proceeds received from arbitrations.

- If no new compensation rules have taken effect on or prior to December 31, 2003, REPGB is entitled, but not obligated, to elect to receive indemnification under the formula described above.

Under the terms of the original indemnification agreement, the former shareholders were entitled to receive any and all distributions and dividends above NLG 125 million ($51 million) paid by NEA. Under the settlement agreement, the former shareholders waived all rights under the original indemnification agreement to claim distributions of NEA.

Reliant Resources recognized a net gain of $37 million for the difference between the sum of (a) the cash settlement payment of $202 million and the additional rights to claim distributions of Reliant Resources' NEA investment recognized of $248 million and (b) the amount recorded as stranded cost indemnity receivable related to the stranded cost gas and electric commitments of $369 million and claims receivable related to stranded cost incurred in 2001 of $44 million both previously recorded in the Consolidated Balance Sheets.

Investment in NEA. During the second quarter of 2001, Reliant Resources recorded a $51 million pre-tax gain (NLG 125 million) recorded as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in NEA. This gain was based on Reliant Resources' evaluation of NEA's financial position and fair value. The fair value of Reliant Resources' investment in NEA is dependent upon the ultimate resolution of its existing contingencies and proceeds received from liquidating its remaining net assets. Prior to the settlement agreement discussed above, pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a NLG 125 million dividend from NEA with any remainder owing to the former shareholders. As mentioned above, REPGB entered into an agreement with its former shareholders to settle the original indemnification agreement and the former shareholders waived all rights to distributions of NEA. Accordingly, as a component of the net gain recognized from the settlement of the stranded cost indemnity, Reliant Resources recorded a $248 million increase in its investment in NEA. As of December 31, 2001, Reliant Resources has recorded $299 million in equity investments of unconsolidated subsidiaries for its investment in NEA.

(i) OPERATIONS AGREEMENT WITH CITY OF SAN ANTONIO

As part of the 1996 settlement of certain litigation claims asserted by the City of San Antonio with respect to the South Texas Project, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources. In January 2000, the contract term was extended for three years and is expected to terminate in 2009. Under the terms of the joint operations agreement entered into between CPS and Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million up to a total cumulative savings of $150 million over the term of the agreement. The cumulative obligation was met in the first quarter of 2001. In 1999, 2000 and 2001, savings generated for CPS' account were $14 million, $60 million and $65 million, respectively. Through December 31, 2001, cumulative savings generated for CPS' account were $189 million.

(j) NUCLEAR INSURANCE

The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $9.3 billion as of December 31, 2001. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. The Company and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

(k) NUCLEAR DECOMMISSIONING

The Company contributed $14.8 million per year in 1999, 2000 and 2001 to a trust established to fund its share of the decommissioning costs for the South Texas Project. Pursuant to the October 3, 2001 Order, beginning in 2002, the Company will contribute $2.9 million per year to this trust. There are various investment restrictions imposed upon the Company by the Texas Utility Commission and the NRC relating to the Company's nuclear decommissioning trust. Additionally, the Company's board of directors has appointed the Nuclear Decommissioning Trust Investment Committee to establish the investment policy of the trust and oversee the investment of the trusts' assets. The securities held by the trust for decommissioning costs had an estimated fair value of $169 million as of December 31, 2001, of which approximately 46% were fixed-rate debt securities and the remaining 54% were equity securities. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trust, see Note 2(l). In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the current funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas Electric Restructuring Law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission and distribution customers. For information regarding the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

(l) CONSTRUCTION AGENCY AGREEMENT AND EQUIPMENT FINANCING STRUCTURE

In 2001, Reliant Resources, through several of its subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. The special purpose entities are not consolidated by the Company. The special purpose entities have an aggregate financing commitment from equity and debt participants (Investors) of $2.5 billion of which the last $1.1 billion is currently available only if the cash is collateralized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 27, 2004. Reliant Resources, through several of its subsidiaries, acts as construction agent for the special purpose entities and is responsible for completing construction of these projects by December 31, 2004, but Reliant Resources has generally limited its risk during construction to an amount not in excess of 89.9% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, Reliant Resources' subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise its option to lease any project upon its completion, Reliant Resources must purchase the project or remarket the project on behalf of the special purpose entities. Reliant Resources' ability to exercise the lease option is subject to certain conditions. Reliant Resources must guarantee that the Investors will receive an amount at least equal to 89.9% of their investment in the case of a remarketing sale at the end of construction. At the end of an individual project's initial operating lease term (approximately five years from construction completion), Reliant Resources' subsidiary lessees have the option to extend the lease with the approval of Investors, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of an amount not to exceed 85% of the project cost, if the proceeds from remarketing are not sufficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of its subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At any time during the construction period or during the lease, Reliant Resources may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs.

Reliant Resources, through its subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. Under the agreement, the bank has agreed to provide up to a maximum aggregate amount of $650 million. REPG and its subagents must cash collateralize their obligation to administer the contracts. This cash collateral is approximately equivalent to the total payments by the bank for the equipment, interest and other fees. As of December 31, 2001, the bank had assumed contracts for the purchase of eleven turbines, two heat recovery steam generators and one air-cooled condenser with an aggregate cost of $398 million. REPG, or its designee, has the option at any time to purchase, or, at equipment completion, subject to certain conditions, including the agreement of the bank to extend financing, to lease the equipment, or to assist in the remarketing of the equipment under terms specified in the agreement. All costs, including the purchase commitment on the turbines, are the responsibility of the bank. The cash collateral is deposited by REPG or an affiliate into a collateral account with the bank and earns interest at LIBOR less 0.15%. Under certain circumstances, the collateral deposit or a portion of it, will be returned to REPG or its designee. Otherwise, it will be retained by the bank. At December 31, 2001, REPG and its subsidiary had deposited $230 million into the collateral account. The bank's payments for equipment under the contracts totaled $227 million as of December 31, 2001. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million, under which payments and interest during construction totaled $142 million. Accordingly, $142 million of Reliant Resources' collateral deposits were returned to Reliant Resources. As of December 31, 2001, there were equipment contracts with a total contractual obligation of $140 million under which payments during construction totaled $83 million. Currently this equipment is not designated for current planned power generation construction projects. Therefore, the Company anticipates that it will either purchase the equipment, assist in the remarketing of the equipment or negotiate to cancel the related contracts.