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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-3187

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

TEXAS	22-3865106
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-1111
(Address of principal executive offices)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
- 9.15% First Mortgage Bonds due 2021	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM 10-K WITH THE REDUCED DISCLOSURE FORMAT.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

The aggregate market value of the common equity held by non-affiliates as of June 28, 2002: None

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We meet the conditions specified in General Instruction I (1)(a) and (b) to Form 10-K and are thereby permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies specified therein. Accordingly, we have omitted from this report the information called for by Item 4 (Submission of Matters to a Vote of Security Holders), Item 10 (Directors and Executive Officers of the Registrant), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Security Holder Matters) and Item 13 (Certain Relationships and Related Party Transactions) of Form 10-K. In lieu of the information called for by Item 6 (Selected Financial Data) and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of Form 10-K, we have included under Item 7 a Management's Narrative Analysis of Results of Operations to explain material changes in the amount of revenue and expense items between 2000, 2001 and 2002.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

Some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements are described under "Risk Factors" beginning on page 12 of this report.

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

PART I

ITEM 1. BUSINESS

OUR BUSINESS

GENERAL

We are a regulated utility engaged in the transmission and distribution of electric energy in a 5,000-square mile area located along the Texas Gulf Coast, including the City of Houston. We are an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a new holding company whose principal businesses are the regulated former businesses of Reliant Energy, Incorporated (Reliant Energy) and its former subsidiaries. CenterPoint Energy was created in 2002 as part of a corporate restructuring of Reliant Energy that implemented certain requirements of the Texas electric restructuring law, described below. In this report, unless the content indicates otherwise, references to "CenterPoint Houston," "we," "us" or similar terms mean CenterPoint Energy Houston Electric, LLC and its subsidiaries.

Our executive offices are at 1111 Louisiana, Houston, TX 77002 (telephone number 713-207-1111).

THE RESTRUCTURING

Prior to August 31, 2002, our predecessor, Reliant Energy, a Texas corporation incorporated in 1906, was:

- the parent company of a consolidated group of companies providing energy and energy services primarily in North America and Western Europe;

- an operating integrated electric utility, providing generation, transmission and distribution, and retail electric sales functions in a 5,000-square mile area located along the Texas Gulf Coast that includes Houston; and

- a utility holding company, owning all of the common stock of CenterPoint Energy Resources Corp. (CERC), which conducts natural gas distribution and pipeline operations.

Reliant Energy's non-utility wholesale and retail energy operations were conducted principally through its subsidiary, Reliant Resources, Inc. (Reliant Resources).

Effective August 31, 2002, Reliant Energy completed the separation of the generation, transmission and distribution, and retail sales functions of Reliant Energy's Texas electric operations (referred to herein as the Restructuring) in which it, among other things:

- conveyed its Texas electric generation assets to Texas Genco Holdings, Inc. (Texas Genco);

- became an indirect, wholly owned subsidiary of a new utility holding company, CenterPoint Energy;

- was converted into a Texas limited liability company named CenterPoint Energy Houston Electric, LLC; and

- distributed the capital stock of its operating subsidiaries to CenterPoint Energy.

As part of the Restructuring, each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock. Pursuant to the provisions of certain of its existing debt agreements applicable when the properties or assets of Reliant Energy were transferred to another entity substantially as an entirety, CenterPoint Energy expressly assumed certain debt and other obligations of Reliant Energy, and Reliant Energy was released as the primary obligor on such debt. Immediately subsequent to the Restructuring, we had outstanding (a) $614.7 million of first mortgage bonds issued directly to third parties, (b) $546.5 million of first mortgage bonds that collateralized medium-term notes and pollution control bonds of CenterPoint Energy (such amounts are not reflected in our consolidated financial statements because of the contingent nature of the obligations), (c) $300 million of notes issued by a subsidiary, (d) $735.8 million of transition bonds issued by a subsidiary, and (e) a $1.6 billion note issued to CenterPoint Energy. In addition, we had a $400 million credit facility. At December 31, 2002 we had $3.7 billion in outstanding indebtedness

and had issued $1.1 billion of first mortgage bonds and second mortgage bonds as collateral for long-term debt of CenterPoint Energy.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (1935 Act). The 1935 Act directs the Securities and Exchange Commission (SEC) to regulate, among other things, transactions among affiliates, sales or acquisitions of assets, issuances of securities, distributions and permitted lines of business.

For additional information regarding the Restructuring and the Distribution, please read Note 2 to our consolidated financial statements.

THE TEXAS ELECTRIC RESTRUCTURING LAW

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

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

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

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

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

The Texas electric restructuring law permits transmission and distribution utilities to recover regulatory assets and stranded costs through non-bypassable charges authorized by the Texas Utility Commission to the extent that such assets and costs are established in certain regulatory proceedings. The law also authorizes the Texas Utility Commission to permit these utilities to issue securitization bonds based on the securitization of the revenue associated with that charge. The term "non-bypassable" refers to an element of a transmission and distribution utility's rates that must be paid by essentially all customers and that cannot, except in limited circumstances, be avoided by switching to self-generation. For more information, please read "Electric Transmission and Distribution -- Stranded Costs and Regulatory Assets Recovery" below.

For additional information regarding the Texas electric restructuring law, please read "Regulation -- The Texas Electric Restructuring Law."

ERCOT MARKET FRAMEWORK

We are a member of the Electric Reliability Council of Texas, Inc. (ERCOT), an intrastate network of retail customers, investor and municipally owned electric utilities, rural electric co-operatives, river authorities, independent generators, power marketers and retail electric providers, which serves as the regional reliability coordinating council for member electric power systems in Texas. The ERCOT market consists of the State of Texas, other than a portion of the panhandle, a portion of the eastern part of the state bordering on Louisiana and the area in and around El Paso. The ERCOT market represents approximately 85% of the demand for

power in Texas and is one of the nation's largest power markets. The ERCOT market includes an aggregate net generating capacity of approximately 70,000 megawatts (MW), approximately 14,000 MW of which are owned by our affiliate, Texas Genco. There are only limited direct current interconnections between the ERCOT market and other power markets in the United States.

The ERCOT market operates under the reliability standards set by the North American Electric Reliability Council. The Texas Utility Commission has primary jurisdiction over the ERCOT market to ensure the adequacy and reliability of electricity supply across the state's main interconnected power transmission grid. The ERCOT independent system operator (ERCOT ISO) is responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that electricity production and delivery are accurately accounted for among the generation resources and wholesale buyers and sellers. Unlike independent system operators in other regions of the country, the ERCOT market is not a centrally dispatched power pool, and the ERCOT ISO does not procure energy on behalf of its members other than to maintain the reliable operations of the transmission system. Members are responsible for contracting sales and purchases of power bilaterally. The ERCOT ISO also serves as agent for procuring ancillary services for those who elect not to provide their own ancillary services.

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

ELECTRIC TRANSMISSION AND DISTRIBUTION

SERVICE AREA

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

ELECTRIC TRANSMISSION

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

ELECTRIC DISTRIBUTION

We distribute electricity for retail electric providers in our certificated service area by carrying lower-voltage power from the substation to the retail electric customer. Our distribution network consists of primary distribution lines, transformers, secondary distribution lines and service wires. Operations include construction and maintenance of facilities, metering services, outage response services and other call center operations. As part of the Texas electric restructuring law, metering service was to be provided on a competitive basis for commercial and industrial electric customers beginning January 1, 2004 and for residential retail electric customers in each service area on the later of September 1, 2005, or the date when 40% of the residential retail electric customers in that service area are taking service from unaffiliated or not formerly affiliated retail electric providers. However, the Texas Utility Commission has determined that the market is not yet ready for

all metering services to be made competitive and has begun a rulemaking proceeding to decide when and what type of metering services will be opened to competition.

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

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

STRANDED COSTS AND REGULATORY ASSETS RECOVERY

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

The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. For example, during a base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula were required to be applied in a manner to accelerate depreciation of generation-related plant assets for regulatory purposes if the utility was expected to have stranded costs. In addition, depreciation expense for transmission and distribution related assets could be redirected to generation assets for regulatory purposes during that period if the utility was expected to have stranded costs. Reliant Energy undertook both of these remedies provided in the Texas electric restructuring law.

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

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

Mitigation. In October 2001, the Texas Utility Commission ruled that Reliant Energy had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its transition plan and the Texas electric restructuring law. In December 2001, Reliant Energy recorded a regulatory liability of $1.1 billion to reflect the prospective refund of accelerated depreciation, removed its previously recorded embedded regulatory asset of $841 million that had resulted from redirected depreciation and recorded a regulatory asset of $2.0 billion based upon then current projections of the market value of Reliant Energy's Texas generation assets to be recovered by the 2004 true-up proceeding described below. These regulatory assets and liabilities are recorded in our

Consolidated Balance Sheets. Reliant Energy began refunding the excess mitigation credits in January 2002, and we will continue to do so over a seven-year period. If events occur that make the recovery of all or a portion of the regulatory assets no longer probable, we will write off the corresponding balance of these assets as a charge against earnings. CenterPoint Energy appealed the Texas Utility Commission's true-up rule on the basis that there are no negative stranded costs, that CenterPoint Energy should be allowed to collect interest on stranded costs, and that the premium on the partial stock valuation applies to only the equity of Texas Genco, not equity plus debt. The Texas court of appeals issued a decision on February 6, 2003, upholding the rule in part and reversing in part. The court ruled that there are no negative stranded costs and that the premium on the partial stock valuation applies only to equity. The court upheld the Texas Utility Commission's rule that interest on stranded costs begins upon the date of the final true-up order. On February 21, 2003, CenterPoint Energy filed a motion for rehearing on the issue that interest on amounts determined in the true-up proceeding should accrue from an earlier date. We have not accrued interest in our consolidated financial statements, but estimate that interest could be material. If the court of appeals denies CenterPoint Energy's motion, then CenterPoint Energy will have 45 days to appeal to the Texas Supreme Court. CenterPoint Energy has not decided what action, if any, it will take if the motion for rehearing is denied.

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

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

The publicly traded common stock of Texas Genco will be used to determine the market value of the generating assets of Texas Genco pursuant to the partial stock valuation method for determining stranded costs. The market value will be equal to the average daily closing price on The New York Stock Exchange for publicly held shares of Texas Genco common stock for the 30 consecutive trading days chosen by the Texas Utility Commission out of the last 120 trading days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission. The regulatory net book value of generating plant assets is the balance as of December 31, 2001 plus certain costs incurred for reductions in emissions of oxides of nitrogen (NOx) and any above-market purchased power contracts.

ECOM True-Up Component. The Texas Utility Commission used a computer model or projection, called an ECOM model, to estimate stranded costs related to generation plant assets. Accordingly, the Texas Utility Commission estimated the market power prices that would be received in the generation capacity auctions mandated by the Texas electric restructuring law during the period from January 1, 2002 through December 31, 2003. Any difference between the actual market power prices received in those auctions and the Texas Utility Commission's earlier estimates of those market prices will be a component of the 2004 true-up proceeding.

Fuel Over/Under Recovery Component. We filed a joint application along with Texas Genco to reconcile fuel revenues and expenses with the Texas Utility Commission on July 1, 2002. This final fuel reconciliation filing covers reconcilable fuel revenue, fuel expense and interest of approximately $8.5 billion incurred from August 1, 1997 through January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance at July 31, 1997 as approved in our last fuel reconciliation. On January 28,

2003, a settlement agreement was reached under which it was agreed that certain items totaling $24 million were written off during the fourth quarter of 2002 and items totaling $203 million will be carried forward for resolution by the Texas Utility Commission in late 2003 or early 2004.

"Price to Beat" Clawback Component. In connection with the implementation of the Texas electric restructuring law, the Texas Utility Commission has set a "price to beat" that retail electric providers affiliated or formerly affiliated with a former integrated utility must charge residential and small commercial customers within their affiliated electric utility's service area. The true-up provides for a clawback of "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by a non-affiliated retail electric provider by January 1, 2004. Pursuant to the Texas electric restructuring law and the master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources is obligated to pay us for the clawback component of the true-up. The clawback may not exceed $150 times the number of customers served by the affiliated retail electric provider in the transmission and distribution utility's service territory, less the number of customers served by the affiliated retail electric provider outside the transmission and distribution utility's service territory, on January 1, 2004. We expect the clawback, if any, will reduce any stranded cost recovery to which we are entitled or, if no stranded costs are recoverable, will be refunded to retail electric customers.

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

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

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

CUSTOMERS

Our customers consist of municipalities, electric cooperatives, other distribution companies and approximately 31 retail electric providers in our certificated service area. Each retail electric provider is licensed by the Texas Utility Commission and must meet creditworthiness criteria established by the Texas Utility Commission. Two of these retail electric providers are subsidiaries of Reliant Resources. Our receivables balance from retail electric providers on December 31, 2002, was $85 million. Approximately 72% of this amount was owed by subsidiaries of Reliant Resources. Sales to Reliant Resources represented approximately 83% of our transmission and distribution revenues since deregulation began in 2002. We provide services under tariffs approved by the Texas Utility Commission. We do not have long-term contracts with any of our customers. We operate on a continuous billing cycle, with meter readings being conducted and invoices being distributed to retail electric providers each business day.

CREDIT STANDARDS FOR RETAIL ELECTRIC PROVIDERS

The Texas Utility Commission has set forth minimum creditworthiness criteria that all retail electric providers serving retail electric customers must meet. The retail electric provider must satisfy one of the following criteria:

- a long-term, unsecured credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's Rating Services (S&P) and Moody's Investors Services, Inc. (Moody's), respec-

tively, or provide a guarantee, surety bond or letter of credit from an affiliate or another company that meets the requisite ratings;

- assets in excess of liabilities of $50 million, as reflected on its most recent quarterly and annual independently audited financial statements; or

- unused cash resources commensurate with the level of business it has been certified by the Texas Utility Commission to conduct. The level of unused cash resources must be $100,000 for the retail electric provider to conduct business of up to $250,000 in total monthly billings (excluding transition charges described above under "-- Stranded Costs and Regulatory Assets Recovery -- Securitization Financing") by transmission and distribution utilities and an additional $10,000 of unused cash resources for every $25,000 of incremental business above the $250,000 level.

Additional creditworthiness standards are required of the retail electric providers with regard to the billing and collection of the transition charges described above under "-- Stranded Costs and Regulatory Assets Recovery -- Securitization Financing."

REMEDIES UPON DEFAULT BY RETAIL ELECTRIC PROVIDER

If a retail electric provider defaults on its payments to us or on its obligation to maintain the required security described above under "-- Credit Standards for Retail Electric Providers," we may, pursuant to the tariff relating to our services approved by the Texas Utility Commission:

- apply to delinquent balances the retail electric provider's cash deposit, if any, and any accrued interest, or seek recourse against any letter of credit or surety bond for the amount of delinquent charges due to us, including any penalties or interest;

- avail ourselves of any legal remedies that may be appropriate to recover unpaid amounts and associated penalties or interest;

- implement other mutually suitable and agreeable arrangements with the retail electric provider, as long as such arrangements are available to all retail electric providers on a nondiscriminatory basis;

- notify the Texas Utility Commission that the retail electric provider is in default and request suspension or revocation of the retail electric provider's certification; and

- require the retail electric provider to do one of the following:

(1) transfer the billing and collection responsibility for all charges to the provider of last resort. Amounts collected by the provider of last resort are applied first to amounts due to us, including any late fees and penalties, and the remaining amount is released to the retail electric provider;

(2) immediately arrange for all future remittances from the retail electric provider's customers to be paid into a lockbox controlled by us. Amounts collected in the lockbox are applied first to amounts due to us, including any late fees and penalties, and the remaining amount is released to the retail electric provider. The retail electric provider bears all the costs of the lockbox mechanism; or

(3) immediately arrange for the retail electric provider's customers to be served by another qualified retail electric provider or the provider of last resort.

The defaulting retail electric provider must choose which of these three options it will implement, but if it fails to implement immediately one of these three options, we will immediately implement the first option.

Additional remedies are available to us upon a retail electric provider's default in the remittance to us, as the servicer, of billed transition charges described above under "-- Stranded Costs and Regulatory Assets Recovery -- Securitization Financing."

COMPETITION

There are no other transmission and distribution utilities in our service area. In order for another provider of transmission and distribution services to provide such services in our territory, it would be required to obtain

a certificate of convenience and necessity in proceedings before the Texas Utility Commission and, depending on the location of the facilities, may also be required to obtain franchises from one or more municipalities. We know of no other party intending to enter this business in our service area at this time.

REGULATION

We are subject to regulation by various federal, state and local governmental agencies, including the regulations described below. We are not a "public utility" under the Federal Power Act and therefore are not generally regulated by the Federal Energy Regulatory Commission, except in limited circumstances.

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

As a subsidiary of a registered public utility holding company, we are subject to a comprehensive regulatory scheme imposed by the SEC in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, we are generally required to obtain approval from the SEC under the 1935 Act.

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

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

In 2002 CERC obtained authority from each state in which such authority was required to restructure CERC in a manner that would allow CenterPoint Energy to claim an exemption from registration under the 1935 Act. CenterPoint Energy has concluded that restructuring CERC would not be beneficial and has elected to remain a registered holding company under the 1935 Act.

THE TEXAS ELECTRIC RESTRUCTURING LAW

In June 1999, the Texas legislature adopted the Texas electric restructuring law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow and encourage retail competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in August 2001, and retail electric competition for all other customers began in January 2002.

We conduct our operations pursuant to a certificate of convenience and necessity issued by the Texas Utility Commission that covers our present service area and facilities. In addition, we hold non-exclusive franchises from the incorporated municipalities in our service territory. These franchises give us the right to operate our transmission and distribution system within the streets and public ways of these municipalities for the purpose of delivering electric service to the municipality, its residents and businesses. None of these franchises expires before 2007.

Historically, Reliant Energy paid the incorporated municipalities in its service territory a franchise fee based on a formula that was usually a percentage of gross receipts received from electricity sales for consumption within each municipality. We have become responsible for Reliant Energy's obligations under these franchise arrangements although the method for calculating such fees was changed by the Texas electric restructuring law effective January 1, 2002. We expect the franchise fees payable by us to remain consistent with the historical fees paid by Reliant Energy.

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

STATE AND LOCAL REGULATION

All retail electric providers in our service area pay the same rates and other charges for transmission and distribution services.

Our distribution rates charged to retail electric providers are generally based on amounts of energy delivered. Our transmission rates charged to other distribution companies are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted. All distribution companies in ERCOT pay us the same rates and other charges for transmission services. Our current transmission and distribution rates have been in effect since January 1, 2002, when electric competition began. This regulated delivery charge includes the transmission and distribution rate (which includes costs for nuclear decommissioning and municipal franchise fees), a system benefit fund fee imposed by the Texas electric restructuring law, a transition charge associated with securitization of regulatory assets and an excess mitigation credit imposed by the Texas Utility Commission.

ENVIRONMENTAL MATTERS

We are subject to numerous federal, state and local requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements relate to a broad range of our activities, including: the discharge of pollutants into air, water, and soil; the proper handling of solid, hazardous, and toxic materials; and waste, noise, and safety and health standards applicable to the workplace.

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

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

- the costs of responding to that release or threatened release; and

- the restoration of natural resources damaged by any such release.

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

EMPLOYEES

As of December 31, 2002, we had approximately 3,286 full-time employees, including approximately 1,549 employees covered by collective bargaining agreements, which will expire in May 2003.

RISK FACTORS ASSOCIATED WITH FINANCIAL CONDITION AND OTHER RISKS

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

As a result of events occurring in 2001 and 2002, including the September 11, 2001 terrorist attacks, the bankruptcy of Enron Corp., the downgrading of our credit ratings and the credit ratings of several energy companies, the general downturn in the utility industry and the unusual volatility in the U.S. financial markets, the availability and cost of capital for our business have been adversely affected. If we are unable to obtain external financing to meet our future capital requirements on terms that are acceptable to us, our financial condition and future results of operations could be materially adversely affected. As of December 31, 2002, we had $3.7 billion of outstanding indebtedness, including a $1.3 billion collateralized term loan that will expire in 2005. In addition, the capital constraints currently impacting our business may require our future indebtedness to include terms that are more restrictive or burdensome than those of our current indebtedness. These terms may negatively impact our ability to operate our business. The success of our future financing efforts may depend, at least in part, on:

- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings by us and by CenterPoint Energy;
- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to Reliant Resources as our customer and in connection with its indemnification obligations arising in connection with its separation from CenterPoint Energy;
- provisions of relevant tax and securities laws; and
- our ability to obtain approval of specific financing transactions under the 1935 Act.

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

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

THE FINANCIAL CONDITION AND LIQUIDITY OF OUR PARENT COMPANY COULD AFFECT OUR ACCESS TO CAPITAL, OUR CREDIT STANDING AND OUR FINANCIAL CONDITION.

Our ratings and credit may be impacted by CenterPoint Energy's credit standing. CenterPoint Energy and its subsidiaries other than us have approximately $1.0 billion of debt that must be refinanced in 2003. We cannot assure you that CenterPoint Energy and its other subsidiaries will be able to pay or refinance these

amounts. If CenterPoint Energy were to experience a deterioration in its credit standing or liquidity difficulties, our access to credit and our ratings could be adversely affected and the repayment of $815 million demand notes receivable from CenterPoint Energy could be adversely affected.

WE ARE A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY. CENTERPOINT ENERGY CAN EXERCISE SUBSTANTIAL CONTROL OVER OUR DIVIDEND POLICY AND BUSINESS AND OPERATIONS AND COULD DO SO IN A MANNER THAT IS ADVERSE TO OUR INTERESTS.

We are managed by officers and employees of CenterPoint Energy. Our management will make determinations with respect to the following:

- our payment of dividends;

- decisions on our financings and our capital raising activities;

- mergers or other business combinations; and

- our acquisition or disposition of assets.

There are no contractual restrictions on our ability to pay dividends to CenterPoint Energy. Our management could decide to increase our dividends to CenterPoint Energy to support its cash needs. This could adversely affect our liquidity. Under the 1935 Act, our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. In addition, the order restricts our ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for those dividends. Under these restrictions, we are permitted to pay dividends in excess of the respective current or retained earnings in an amount up to $200 million.

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

As of December 31, 2002, we had $1.3 billion of outstanding floating-rate debt. Because of capital constraints impacting our business at the time this floating-rate debt was entered into, the interest rates are substantially above our historical borrowing rates. In addition, any floating-rate debt issued by us in the future could be at interest rates substantially above our historical borrowing rates. While we may seek to use interest rate swaps in order to hedge portions of our floating-rate debt, we may not be successful in obtaining hedges on acceptable terms. Any increase in short-term interest rates would result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

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

Reliant Resources has reported that it is facing large maturities of its debt over the next year. If Reliant Resources is unable to meet its obligations, it would need to consider, among various options, restructuring under the bankruptcy laws, in which event Reliant Resources might not honor its indemnification obligations and claims by Reliant Resources' creditors might be made against us as its former owner.

As described in Note 10(b) to our consolidated financial statements, Reliant Energy and Reliant Resources are named as defendants in a number of lawsuits arising out of power sales in California and other West Coast markets and financial reporting matters. Although these matters relate to the business and operations of Reliant Resources, claims against Reliant Energy have been made on grounds that include the effect of Reliant Resources' financial results on Reliant Energy's historical financial statements and liability of Reliant Energy as a controlling shareholder of Reliant Resources. As Reliant Energy's successor, we could incur liability if claims in one or more of these lawsuits were successfully asserted against us and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed to us with respect to those claims.

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

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

We have limited experience operating as a transmission and distribution utility in a deregulated electricity market in which we are subject to rate regulation, Although our transmission and distribution business had a significant operating history at the time of the Restructuring of Reliant Energy, this business was operated until January 1, 2002 as part of a vertically integrated utility company. Out historical costs and expenses reflect charges from Reliant Energy for centralized corporate services and infrastructure costs.

These

allocations have been determined based on what we and Reliant Energy considered to be reasonable reflections of the utilization of services provided to us or for the benefits received by us. We may experience significant changes in our cost structure, funding and operations as a result of the restructuring of Reliant Energy, including increased costs associated with reduced economies of scale. In addition, since January 1, 2002, we have transmitted and distributed electricity at rates regulated by the Texas Utility Commission. Therefore, the historical financial information presented in or incorporated by reference into this report prior to January 1, 2002 is not indicative of our future performance and does not reflect what our results of operations, financial position, and cash flows would have been had we operated as a separate stand-alone, rate-regulated transmission and distribution utility in a deregulated market during the periods presented.

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

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

RISK FACTORS ASSOCIATED WITH OUR BUSINESS

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

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

- the amount of stranded costs;
- differences in the prices achieved in the auctions of Texas Genco's generation capacity mandated by the Texas electric restructuring law and Texas Utility Commission estimates (ECOM true-up);
- fuel over- or under-recovery;
- the "price to beat" clawback; and
- other regulatory assets associated with CenterPoint Energy's former generation business that were not previously recovered through the issuance of securitization bonds by a subsidiary.

We will be required to establish and support the amounts of these costs in order to recover them. We expect these costs to be substantial. We cannot assure you that we will be able to successfully establish and support our estimates of the amount of these costs. For more information about the true-up proceeding, please read "-- Electric Transmission and Distribution -- Stranded Costs and Regulatory Assets Recovery" above and Note 4 to our consolidated financial statements.

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

OUR RECEIVABLES ARE CONCENTRATED IN A SMALL NUMBER OF RETAIL ELECTRIC PROVIDERS.

Our receivables from the distribution of electricity are collected from retail electric providers that supply the electricity we distribute to their customers. Currently, we do business with approximately 31 retail electric providers. Adverse economic conditions, structural problems in the new ERCOT market or financial

difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for our services or could cause them to delay such payments. We depend on these retail electric providers to remit payments timely to us. Any delay or default in payment could adversely affect our cash flows, financial condition and results of operations. Our receivables balance from retail electric providers at December 31, 2002 was $85 million. Approximately 72% of our receivables from retail electric providers at December 31, 2002, was owed by subsidiaries of Reliant Resources. Our financial condition may be adversely affected if Reliant Resources is unable to meet its obligations to us.

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

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

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

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

The competitive electric market in Texas became fully operational in January 2002. Neither we nor any of the Texas Utility Commission, ERCOT or other market participants has any significant operating history under the market framework created by the Texas electric restructuring law. Some operational difficulties were encountered in the pilot program conducted in 2001 and continue to be experienced now. These difficulties include delays in the switching of some customers from one retail electric provider to another. These difficulties create uncertainty as to the amount of transmission and distribution charges owed by each retail electric provider, which may cause payment of those amounts to be delayed. While to date these difficulties have not been material, these operating difficulties could become material or structural changes adopted to address these difficulties could materially adversely affect our results of operations, financial condition and cash flows.

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

We depend on power generation facilities owned by third parties to provide retail electric providers with electric power which we transmit and distribute to their customers. We do not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, our services may be interrupted, and our results of operations, financial condition and cash flows may be adversely affected.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

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

WE DO NOT MAINTAIN INSURANCE COVERAGE ON OUR TRANSMISSION AND DISTRIBUTION SYSTEM.

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

TECHNOLOGICAL CHANGE MAY MAKE ALTERNATIVE ENERGY SOURCES MORE ATTRACTIVE AND MAY ADVERSELY AFFECT OUR REVENUES AND RESULTS OF OPERATIONS.

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

ITEM 2. PROPERTIES

CHARACTER OF OWNERSHIP

All of our properties are located in the State of Texas. Our transmission system carries electricity from power plants to substations and from one substation to another. These substations serve to connect power plants, the high voltage transmission lines and the lower voltage distribution lines. Unlike the transmission system, which carries high voltage electricity over long distances, distribution lines carry lower voltage power from the substation to the retail electric customers. The distribution system consists primarily of distribution lines, transformers, secondary distribution lines and service wires. Most of our transmission and distribution lines have been constructed over lands of others pursuant to easements or along public highways and streets as permitted by law.

All of our real and tangible properties, subject to certain exclusions, are currently subject to:

- the lien of a Mortgage and Deed of Trust (Mortgage) dated November 1, 1944, as supplemented, between our predecessor in interest, Houston Lighting & Power Company, and JPMorgan Chase Bank (successor to South Texas Commercial National Bank of Houston), as trustee; and

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

We have issued approximately $1.2 billion aggregate principal amount of first mortgage bonds under the Mortgage, including approximately $547 million to secure certain medium-term notes and pollution control bonds for which CenterPoint Energy is obligated. Additionally, under the General Mortgage, we have issued approximately $527 million aggregate principal amount of general mortgage bonds to secure certain additional pollution control bonds for which CenterPoint Energy is obligated and approximately $1.3 billion aggregate principal amount of general mortgage bonds to secure our borrowings under a collateralized term loan due in 2005. For more information on the Mortgage and the General Mortgage, please read "Management's Narrative Analysis of the Results of Operations -- Liquidity -- Long-Term Debt" in Item 7 of this report.

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

Electric Lines -- Underground. As of December 31, 2002, we owned 13,364 circuit miles of underground distribution lines and 16.6 circuit miles of underground transmission lines, including 4.5 circuit miles operated at 69,000 volts and 12.1 circuit miles operated at 138,000 volts.

Substations. As of December 31, 2002, we owned 224 major substation sites having total installed rated transformer capacity of 44,163 megavolt amperes.

Service Centers. We operate 20 regional service centers located on a total of 405 acres of land. These service centers consist of office buildings, warehouses and repair facilities that are used in the business of transmitting and distributing electricity.

Franchises. We have franchise contracts with 89 of the 90 cities in our service area. The remaining city has enacted an ordinance that governs the placement of utility facilities in its streets. These franchises and this ordinance give us the right to construct, operate and maintain our electrical transmission and distribution systems within city streets, alleys and rights-of-ways in exchange for payment of a fee.

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

ITEM 3. LEGAL PROCEEDINGS

For a brief description of certain legal and regulatory proceedings affecting us, see Note 10(b) to our consolidated financial statements, which note is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information called for by Item 4 is omitted pursuant to Instruction I(2) to Form 10-K (Omission of Information by Certain Wholly-Owned Subsidiaries).

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

All of our 1,000 outstanding common shares are held by Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy, Inc.

Our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. In addition, the order restricts our ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for those dividends. Under these restrictions, we are permitted to pay dividends in excess of the respective current or retained earnings in an amount up to $200 million.

ITEM 6. SELECTED FINANCIAL DATA

The information called for by Item 6 is omitted pursuant to Instruction I(2) to Form 10-K (Omission of Information by Certain Wholly-Owned Subsidiaries).

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

The following narrative analysis should be read in combination with our consolidated financial statements and notes contained in Item 8 of this report.

Effective August 31, 2002, Reliant Energy, Incorporated (Reliant Energy) consummated a restructuring transaction (the Restructuring) in which it, among other things, (1) conveyed its Texas electric generation assets to Texas Genco Holdings, Inc. (Texas Genco), (2) became an indirect, wholly owned subsidiary of a new utility holding company, CenterPoint Energy, Inc. (CenterPoint Energy), (3) was converted into a Texas

limited liability company named CenterPoint Energy Houston Electric, LLC (CenterPoint Houston or the Company), and (4) distributed the capital stock of its operating subsidiaries to CenterPoint Energy. As part of the Restructuring, each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock. Pursuant to the provisions of certain of its existing debt agreements applicable when the properties or assets of Reliant Energy were transferred to another entity substantially as an entirety, CenterPoint Energy assumed certain debt and other obligations of Reliant Energy, and Reliant Energy was released as the primary obligor on such debt. Immediately subsequent to the Restructuring, we had outstanding (a) $614.7 million of first mortgage bonds issued directly to third parties, (b) $546.5 million of first mortgage bonds that collateralized medium-term notes and pollution control bonds of CenterPoint Energy (such amounts are not reflected in our consolidated financial statements because of the contingent nature of the obligations), (c) $300 million of notes issued by a subsidiary, (d) $735.8 million of transition bonds issued by a subsidiary, and (e) a $1.6 billion note issued to CenterPoint Energy. In addition, we had a $400 million credit facility. At December 31, 2002 we had $3.7 billion in outstanding indebtedness and had issued $1.1 billion of first mortgage bonds and second mortgage bonds as collateral for long-term debt of CenterPoint Energy.

We operate Reliant Energy's former electric transmission and distribution business, which continues to be subject to cost-of-service rate regulation and is responsible for the delivery of electricity sold to retail customers by retail electric providers in the 5,000 square mile service area of Houston, Texas and surrounding metropolitan areas as well as the transmission of bulk power into and out of the Houston area.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered holding company system under the Public Utility Holding Company Act of 1935 (1935 Act). The 1935 Act directs the Securities and Exchange Commission (SEC) to regulate, among other things, transactions among affiliates, sales or acquisitions of assets, issuances of securities, distributions and permitted lines of business.

CONSOLIDATED RESULTS OF OPERATIONS

The consolidated financial statements present the former subsidiaries of Reliant Energy that were distributed to CenterPoint Energy in the Restructuring as discontinued operations, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). Accordingly, our consolidated financial statements reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2002. Additionally, the conveyance of Reliant Energy's electric generation assets to Texas Genco has been reflected as discontinued operations in accordance with SFAS No. 144 for each of the three years in the period ended December 31, 2002.

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

The following table sets forth selected financial and operating data for the years ended December 31, 2000, 2001 and 2002, followed by a discussion of significant variances in period-to-period results:

YEAR ENDED DECEMBER 31,	2000	2001	2002
(IN MILLIONS)			
Operating Revenues:			
Electric revenues	$2,161	$2,100	$1,525
ECOM true-up	--	--	697
Total Operating Revenues	2,161	2,100	2,222
Operating Expenses:			
Purchased power	--	--	66
Operation and maintenance	586	650	575
Depreciation and amortization	356	299	271
Taxes other than income taxes	284	288	213
Total Operating Expenses	1,226	1,237	1,125
Operating Income	935	863	1,097
Other Income, net	20	44	21
EBIT	955	907	1,118
Interest Expense and Distribution on Trust Preferred Securities	(231)	(233)	(260)
Income From Continuing Operations Before Income Taxes, Extraordinary Item and Preferred Dividends	724	674	858
Income Tax Expense	(233)	(228)	(295)
Income From Continuing Operations Before Extraordinary Item and Preferred Dividends	491	446	563
Income (Loss) from Discontinued Operations	(44)	535	132
Extraordinary Item, net of tax	--	--	(16)
Preferred Dividends	--	(1)	--
Net Income	$ 447	$ 980	$ 679

2002 Compared to 2001. Prior to January 1, 2002, CenterPoint Energy's electric operations 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. This business is now conducted by Reliant Resources. The previously regulated generation operations in Texas are now a part of Texas Genco. We report results from two sources:

- the regulated electric transmission and distribution operations; and

- the generation-related stranded costs recoverable by us as a regulated utility.

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

Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of Reliant Energy through the date of their first meter reading in 2002. Operations during this transition period are reflected in our business. Operations during this transition period also included power purchased from Texas Genco of approximately $48 million.

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

Under the Texas electric restructuring law, each power generator that is unbundled from an integrated electric utility in Texas has an obligation to conduct state mandated capacity auctions of 15% of its capacity. In addition, under a master separation agreement between CenterPoint Energy and Reliant Resources, Texas Genco is contractually obligated to auction all capacity in excess of the state mandated capacity auctions. The auctions conducted periodically between September 2001 and January 2003 were consummated at prices below those used in the ECOM model by the Public Utility Commission of Texas (Texas Utility Commission). Under the Texas electric restructuring law, we, as 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 $697 million of EBIT in 2002.

Our throughput declined 2% during 2002 as compared to 2001. The decrease was primarily due to reduced energy delivery in the industrial sector resulting from self-generation by several major customers, partially offset by increased residential usage primarily due to non-weather related factors. Additionally, despite a slowing economy, total metered customers continued to grow at an approximate annual growth rate of 2% during 2002.

Operation and maintenance expenses decreased by $75 million in 2002, compared to 2001. The decrease was primarily due to:

- a $77 million decrease in factoring expense as a result of the termination of an agreement under which we sold our customer accounts receivable;

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

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

These decreases were partially offset by a $25 million increase in benefits expense, including severance costs of $11 million in connection with a reduction in work force in 2002.

In June 1998, the Texas Utility Commission issued an order approving a transition to competition plan (Transition Plan) filed by Reliant Energy in December 1997. In order to reduce Reliant Energy's exposure to potential stranded costs related to generation assets, the Transition Plan permitted the redirection of depreciation expense to generation assets that we otherwise would apply to transmission, distribution and general plant assets. In addition, the Transition Plan provided that all earnings above a stated overall annual rate of return on invested capital be used to recover our investment in generation assets. Reliant Energy implemented the Transition Plan effective January 1, 1998. For further discussion of the Transition Plan, please read Note 4(a) to our consolidated financial statements.

Depreciation and amortization decreased $28 million in 2002 compared to 2001. The decrease was primarily due to a decrease in amortization of the book impairment regulatory asset ($281 million) recorded in June 1999, which was fully amortized in December 2001, offset by depreciation expense recorded in 2002 as a result of the discontinuance of redirection of depreciation expense related to electric transmission and distribution assets ($217 million) and increased amortization related to transition property associated with the

transition bonds issued in November 2001 ($35 million). For further discussion related to the impairment recorded in June 1999, please read Note 4(a) to our consolidated financial statements.

Taxes other than income taxes decreased $75 million compared to 2001. The decrease was primarily due to lower gross receipts taxes ($64 million), which became the responsibility of the retail electric providers upon deregulation, and lower franchise taxes ($27 million) partially offset by increased property taxes ($10 million).

Other income, net decreased $23 million in 2002 compared to 2001. The decrease was primarily due to a $37 million decrease in interest income from under-recovery of fuel in 2002 compared to 2001, partially offset by a $19 million increase in interest income from affiliated parties.

Our effective tax rates for 2002 and 2001 were 34.3% and 33.8%, respectively.

See Note 2 to our consolidated financial statements for a discussion of discontinued operations and Note 6 for a discussion of the extraordinary item.

2001 Compared to 2000. Our EBIT for 2001 decreased $48 million compared to 2000. The decrease was primarily due to milder weather, decreased customer demand, increased contract services and benefit expenses and a charge recorded in the fourth quarter of 2001 resulting from the early termination of an accounts receivable factoring agreement. The decrease was also due to the implementation of the pilot program for Texas deregulation in August 2001, reduced rates for certain governmental agencies and increased administrative expenses related to the separation of our regulated and unregulated businesses. These decreases were partially offset by decreased amortization expense and customer growth.

Operating revenues decreased $61 million in 2001 primarily due to decreased customer demand as a result of the effect of milder weather compared to 2000 and decreased customer usage on a weather normalized basis.

Operation and maintenance expenses increased $64 million in 2001 compared to 2000 primarily due to the following items:

- a $27 million increase in benefits expense primarily driven by medical and pension costs;
- an $11 million increase in administrative expenses related to the separation of our regulated and unregulated businesses;
- a $20 million charge recorded in the fourth quarter of 2001 resulting from the early termination of an accounts receivable factoring agreement; and
- a $7 million increase due to an overall increase in bad debt expense.

Depreciation and amortization expense decreased $57 million primarily due to a decrease in amortization of the book impairment regulatory asset recorded in June 1999 and decreased amortization expense due to regulatory assets related to cancelled projects being fully amortized in June 2000, partially offset by accelerated amortization of certain regulatory assets related to energy conservation management as required by the Texas Utility Commission.

Other income, net increased $24 million in 2001 compared to 2000. The increase was primarily due to an increase in interest income from under-recovery of fuel in 2001 compared to 2000.

Our effective tax rates for 2001 and 2000 were 33.8% and 32.2%, respectively.

CERTAIN FACTORS AFFECTING 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 and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, constraints placed on our activities or

business by the 1935 Act, changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:

  - approval of stranded costs;

  - allowed rates of return;

  - rate structures;

  - recovery of investments; and

  - operation and construction of facilities;

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

- the successful and timely completion of our capital projects;

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

- changes in business strategy or development plans;

- changes in interest rates or rates of inflation;

- unanticipated changes in operating expenses and capital expenditures;

- weather variations and other natural phenomena, which can affect the demand for power over our transmission and distribution system;

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

- actions by rating agencies;

- legal and administrative proceedings and settlements;

- changes in tax laws;

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

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

- changes in technology;

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

- significant changes in critical accounting policies;

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

- the availability and price of insurance;

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

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

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

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

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

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

LIQUIDITY

Long-Term Debt. The following table shows future maturity dates of long-term debt issued by us to third parties and affiliates and expected future maturity dates of transition bonds issued by our subsidiary CenterPoint Energy Transition Bond Company, LLC, as of December 31, 2002. Amounts are expressed in thousands.

	CENTERPOINT HOUSTON				
		TRANSITION BONDS	YEAR THIRD-PARTY	AFFILIATE	SUB-TOTAL
2003		$ 166,600	$ 166,600	$ 18,722	$ 185,322
2004			41,189	41,189	
2005		$1,310,000	1,310,000	46,806	1,356,806
2006			54,295	54,295	
2007			59,912	59,912	
2008			65,529	65,529	
2009			73,018	73,018	
2010			80,506	80,506	
2011			87,995	87,995	
2012			45,570	45,570	99,229
					144,799
2013			108,590	108,590	
2015			150,850	150,850	150,850
2017			127,385	127,385	127,385
2021			102,442	102,442	102,442
2022			62,275	62,275	62,275
2023			450,000	450,000	450,000
2027			56,095	56,095	56,095
2028			536,500	536,500	536,500
Total		$1,924,717	$1,083,000	$3,007,717	$735,791
		$3,743,508			

Third-party debt of $1.3 billion maturing in 2005 is senior and secured by our general mortgage bonds. First mortgage bonds in an aggregate principal amount of $615 million have been issued directly to third parties. The affiliate debt is senior and unsecured.

As of October 10, 2002, we increased the size of our credit facility to $850 million in connection with the amendment and extension of our bank facility and CenterPoint Energy's bank facility. Proceeds from the loan were used to (1)

repay maturing loans under a $400 million credit facility and (2) repay $450 million of the notes payable to CenterPoint Energy. The $850 million facility was secured by $850 million aggregate principal amount of our general mortgage bonds issued under our General Mortgage Indenture dated as of October 10, 2002. The lien of the general mortgage indenture is junior to that of our Mortgage and Deed of Trust dated as of November 1, 1944. The $850 million of general mortgage bonds was released by the banks upon the November 2002 repayment and termination of the facility using proceeds from our $1.3 billion collateralized term loan as discussed below.

On November 12, 2002, we entered into a $1.3 billion collateralized term loan maturing November 2005. The interest rate on the loan is the London inter-bank offered rate (LIBOR) plus 9.75%, subject to a minimum rate of 12.75%. The loan is secured by our general mortgage bonds. Proceeds from the loan were used to (1) repay our $850 million term loan as discussed above, (2) repay $100 million of intercompany notes maturing in 2028, (3) repay $300 million of debt that matured on November 15, 2002 and (4) pay

transaction costs. The loan agreement contains various business and financial covenants including a covenant restricting our debt, excluding transition bonds, as a percent of its total capitalization to 68%. The loan agreement also limits incremental secured debt that may be issued by us to $300 million. At December 31, 2002 we were in compliance with this covenant.

We have outstanding approximately $1.1 billion aggregate principal amount of affiliate notes which represent borrowings from our parent.

On February 28, 2003, CenterPoint Energy amended its existing $3.85 billion bank facility. The amendment provides that proceeds from capital stock or indebtedness issued or incurred by us must be applied (subject to a $200 million basket for CERC and its subsidiaries and another $250 million basket for borrowings by us and CenterPoint Energy's other subsidiaries and other limited exceptions) to repay bank loans and reduce the bank facility. Cash proceeds from issuances of indebtedness to refinance indebtedness existing on October 10, 2002 are not subject to this limitation.

We have issued approximately $1.2 billion aggregate principal amount of first mortgage bonds and approximately $1.8 billion aggregate principal amount of general mortgage bonds, of which approximately $1.1 billion combined aggregate principal amount of first mortgage bonds and general mortgage bonds collateralizes debt of CenterPoint Energy.

The following table shows the future maturity dates of the $1.1 billion of first mortgage bonds and general mortgage bonds that we have issued as collateral for $150 million of CenterPoint Energy's medium term notes and $924 million of pollution control bonds for which CenterPoint Energy is obligated. These bonds are not reflected in our consolidated financial statements because of the contingent nature of the obligations. Amounts are expressed in thousands.

YEAR	FIRST MORTGAGE BONDS	GENERAL MORTGAGE BONDS	TOTAL
2003	$166,600	$	$ 166,600
2011	$ 19,200		19,200
2012	45,570		45,570
2015	150,850		150,850
2017	127,385		127,385
2018	50,000		50,000
2019	200,000		200,000
2020	90,000		90,000
2026	100,000		100,000
2027	56,095		56,095
2028	68,000	68,000	--------
Total	$546,500	$527,200	$1,073,700

The aggregate amount of additional general mortgage bonds and first mortgage bonds that could be issued is approximately $900 million based on estimates of the value of property encumbered by the General Mortgage, the cost of such property and the 70% bonding ratio contained in the General Mortgage. As of December 31, 2002, the outstanding principal amount of first mortgage bonds and general mortgage bonds aggregated approximately $3.0 billion. The agreement relating to the $1.3 billion collateralized term loan debt maturing in 2005 limits incremental secured debt to $300 million of general mortgage bonds.

Our subsidiary, CenterPoint Energy Transition Bond Company, LLC, has $736 million aggregate principal amount of outstanding transition bonds that were issued in 2001 in accordance with the Texas electric restructuring law. Classes of the transition bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015 and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. The transition bonds

are secured by "transition property," as defined in the Texas electric restructuring law, which includes the irrevocable right to recover, through non-bypassable

transition charges payable by retail electric customers, qualified costs provided in the Texas electric restructuring law. The transition bonds are reported as our long-term debt, although the holders of the transition bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the transition bond company. We have no payment obligations with respect to the transition bonds except to remit collections of transition charges as set forth in a servicing agreement between us and the transition bond company and in an intercreditor agreement among us, our indirect transition bond subsidiary and other parties.

Bank Facilities. As of December 31, 2002, we had no bank facilities available to meet our short-term liquidity needs.

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

Money Pool. We participate in a "money pool" through which we and certain of our affiliates 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 by borrowings of CenterPoint Energy. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act. At December 31, 2002, we had borrowings of $48 million from the money pool. The money pool may not provide sufficient funds to meet our cash needs.

Temporary Investments. On December 31, 2002, we had approximately $44 million of investments in a money market fund.

Capital Requirements. We anticipate capital expenditures of up to $1.5 billion in the years 2003 through 2007. We anticipate capital expenditures to be approximately $258 million and $300 million in 2003 and 2004, respectively.

Contractual Obligations. Excluding long-term debt discussed above, our contractual obligations to make future payments consist of operating leases of $5 million each in the years 2003 through 2005 and $6 million each in the years 2006 and 2007. For a discussion of operating leases, please read Note 10(a) to our consolidated financial statements.

Refunds to Our Customers. An order issued by the Texas Utility Commission on October 3, 2001 established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that we had overmitigated our 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, we are 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, we recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. We began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven-year period. The annual refund of excess earnings is approximately $237 million. Under the Texas electric restructuring law, a final settlement of these stranded costs will occur in 2004.

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

- approximately $258 million of capital expenditures;
- an estimated $237 million which we are obligated to return to customers as a result of the Texas Utility Commission's finding of over-mitigation of stranded costs; and
- $167 million of maturing long-term debt to affiliate.

We expect to fund cash requirements with cash from operations, liquidations of short-term investments, short-term borrowings and proceeds from debt offerings. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from possible debt issuances will be sufficient to meet our cash needs. However, disruptions in our ability to access the capital markets on a timely basis could adversely affect our liquidity. Limits on our ability to issue secured debt, as described in this report, may adversely affect our ability to issue debt securities. In addition, the cost of our recent secured debt issuances has been very high. A similar cost with regard to additional issuances could significantly impact our debt service. Please read "Risk Factors -- Risk Factors Associated with Financial Condition and Other Risks -- If we are unable to arrange future financings on acceptable terms, our ability to fund future capital expenditures and refinance existing indebtedness could be limited" in Item 1 of this report.

Prior to the Restructuring, Reliant Energy obtained an order from the SEC that granted us certain authority with respect to financing, dividends and other matters. The financing authority granted by that order will expire on June 30, 2003, and CenterPoint Energy must obtain a further order from the SEC under the 1935 Act in order for it and its subsidiaries, including us, to engage in financing activities subsequent to that date.

The amount of any debt issuance, 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 issuance of debt are expected to be used to refinance maturing debt, to finance capital expenditures and to permit the payment of dividends.

Principal Factors Affecting Cash Requirements in 2004 and 2005. 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 to be issued by the Texas Utility Commission. As with the debt of our existing transition bond company, payments on these new securitization bonds would also be made 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 our $1.3 billion collateralized term loan are expected to be utilized to retire affiliate debt and pay a dividend to our parent.

Impact on Liquidity of a Downgrade in Credit Ratings. As of March 4, 2003, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior secured debt:

	MOODY'S	S&P	FITCH
- SECURITY RATING			
OUTLOOK(1)			
RATING OUTLOOK(2)			
RATING OUTLOOK(3)			
First Mortgage Bonds.....	Baa2	BBB	BBB
	Stable	Stable	BBB+
	Negative		
Debt secured by General Mortgage Bonds.....	Baa2	BBB	BBB
	Stable	BBB	
	Negative		

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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" outlook from Fitch encompasses a one- to two-year horizon as to the likely rating direction.

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

ability to obtain short- and long-term financing, the cost of such financings and the execution of our commercial strategies. A decline in credit ratings would 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 $75 million bank facility executed in February 2003 contains a "material adverse change" clause that could impact our ability to make new borrowings under the facility. The "material adverse change" clause relates to an event, development or circumstance that has had or would reasonably expected to have a material adverse affect on our business, financial condition or operations, the legality, validity or enforceability of the loan documents, or the perfection or priority of the lien of the general mortgage.

Cross Defaults. The terms of our debt instruments generally provide that a default on obligations by CenterPoint Energy does not cause a default under our debt instruments. A payment default by us exceeding $50 million will cause a default under our $1.3 billion loan maturing in 2005. Acceleration of the maturity of CenterPoint Energy's $150 million of collateralized medium-term notes due in April 2003 would force us to redeem our related $150 million of first mortgage bonds.

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

- various regulatory actions; and

- the ability of Reliant Resources and its subsidiaries to satisfy their obligations to us as a principal customer and in respect of its indemnity obligation to us.

Capitalization. Factors affecting our capitalization include:

- covenants in our borrowing agreements; and

- limitations imposed on us because our parent company is a registered public utility holding company.

In connection with our parent company's registration as a public utility holding company under the 1935 Act, the SEC has limited the aggregate amount of our external borrowings to $3.55 billion. Our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. In addition, the order restricts our ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for those dividends. Under these restrictions, we are permitted to pay dividends in excess of the respective current or retained earnings in an amount up to $200 million.

Relationship to CenterPoint Energy. We are a wholly owned subsidiary of CenterPoint Energy. As a result of this relationship, the financial condition and liquidity of our parent company could affect our access to capital, our credit standing and our financial condition.

Asset Sales. Factors affecting our ability to sell assets (including assets of our subsidiaries) or to satisfy our cash requirements include the following:

- the 1935 Act may require us to obtain prior approval of certain assets sales; and

- obligations under existing credit facilities to use certain cash received from asset sales and securities offerings to pay down debt.

Pension Plan. As discussed in Note 8(a) to the consolidated financial statements, we participate in CenterPoint Energy's qualified non-contributory pension plan covering substantially all employees. Pension expense for 2003 is estimated to be $26 million based on an expected return on plan assets of 9.0% and a discount rate of 6.75% as of December 31, 2002. Pension expense for the year ended December 31, 2002 was $7 million. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We believe the following accounting policies involve the application of critical accounting estimates.

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. We apply SFAS No. 71, which results in our accounting for the regulatory effects of recovery of "stranded costs" and other "regulatory assets" resulting from the unbundling of the transmission and distribution business from our electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Regulatory assets reflected in our Consolidated Balance Sheets aggregated $3.2 billion and $4.0 billion as of December 31, 2001 and 2002, respectively. Significant accounting estimates embedded within the application of SFAS No. 71 relate to $2.0 billion of recoverable electric generation plant mitigation assets (stranded costs) and $697 million of ECOM true-up. The stranded costs are comprised of $1.0 billion of previously recorded accelerated depreciation and $841 million of previously redirected depreciation. These stranded costs are recoverable under the provisions of the Texas electric restructuring law. The ultimate amount of stranded cost recovery is subject to a final determination, which will occur in 2004 and is contingent upon the market value of Texas Genco. Any significant changes in our accounting estimate of stranded costs as a result of current market conditions or changes in the regulatory recovery mechanism currently in place could result in a material write-down of all or a portion of these regulatory assets. Regulatory assets related to ECOM true-up represent the regulatory assets associated with costs incurred as a result of mandated capacity auctions conducted beginning in 2002 by Texas Genco being consummated at market-based prices that have been substantially below the estimate of those prices made by the Texas Utility Commission in the spring of 2001. Any significant changes in our estimate of our regulatory asset associated with ECOM true-up could have a significant effect on our financial condition and results of operations. Additionally, any significant changes in our estimated stranded costs or ECOM true-up recovery could significantly affect our liquidity subsequent to the final true-up proceedings conducted by the Texas Utility Commission which are expected to conclude in late 2004.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets recorded in our Consolidated Balance Sheets primarily consist of property, plant and equipment (PP&E). Net PP&E comprises $3.8 billion or 42% of our total assets as of December 31, 2002. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. We evaluate our PP&E for impairment

whenever indicators of impairment exist. During 2002, no such indicators of impairment existed. Accounting standards require that if the sum of the undiscounted expected future cash flows from a company's asset is less than the carrying value of the asset, an asset impairment must be recognized in the financial statements. The amount of impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset.

UNBILLED REVENUES

Revenues related to the sale and/or delivery of electricity are generally recorded when electricity is delivered to customers. However, the determination of deliveries to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity 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. Accrued unbilled revenues recorded in the Consolidated Balance Sheets as of December 31, 2001 and 2002 were $33 million and $70 million, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be recognized as a liability is incurred and capitalized as part of the cost of the related tangible long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. We adopted SFAS No. 143 on January 1, 2003. We have not identified any asset retirement obligations in connection with the adoption of SFAS No. 143.

We have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2002, these previously recognized removal costs of $240 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities.

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 was effective for fiscal years beginning after December 15, 2001, with early adoption encouraged. SFAS No. 144 did not materially change the methods we use to measure impairment losses on long-lived assets, but may result in 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. We have applied this guidance prospectively as it relates to lease accounting and will apply the accounting provisions to debt extinguishments to 2003. The requirements of SFAS No. 145 were not applicable to the extraordinary item related to the loss on early extinguishment of debt recorded in 2002. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods will be reclassified.

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.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have long-term debt, which subjects us to the risk of loss associated with movements in market interest rates.

At December 31, 2001 and 2002, we had outstanding fixed-rate debt aggregating $3.7 billion and $2.4 billion in principal amount and having a fair value of $3.6 billion and $2.5 billion, respectively. This fixed-rate debt does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of this debt would increase by approximately $89 million if interest rates were to decline by 10% from their levels at December 31, 2002. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of this debt in the open market prior to its maturity.

Our floating-rate obligations aggregated $164 million and $1.3 billion at December 31, 2001 and 2002, respectively. These floating-rate obligations expose us to the risk of increased interest expense in the event of increases in short-term interest rates. If the floating interest rates were to increase by 10% from December 31, 2002 rates, our combined interest expense would increase by a total of $1.4 million each month in which such increase continued. For more information regarding our floating rate obligations, please read Note 6 to our consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF THE COMPANY

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

STATEMENTS OF CONSOLIDATED INCOME

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
	(IN THOUSANDS)		
REVENUES	$2,160,641	$2,099,872	$2,221,618
EXPENSES:			
Purchased power	--	--	66,348
Operation and maintenance	585,767	649,995	575,241
Depreciation and amortization	356,523	299,204	270,799
Taxes other than income taxes	283,802	287,318	212,988
Total	1,226,092	1,236,517	1,125,376
OPERATING INCOME	934,549	863,355	1,096,242
OTHER INCOME (EXPENSE):			
Interest expense and distribution on trust preferred securities	(230,385)	(233,344)	(260,121)
Other, net	20,190	43,755	21,988
Total	(210,195)	(189,589)	(238,133)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND PREFERRED DIVIDENDS	724,354	673,766	858,109
Income Tax Expense	233,367	227,811	294,554
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM AND PREFERRED DIVIDENDS	490,987	445,955	563,555
Income (Loss) from Discontinued Operations, net of tax	(43,487)	534,604	131,949
Extraordinary item, net of tax of $8,672	--	--	(16,105)
INCOME BEFORE PREFERRED DIVIDENDS	447,500	980,559	679,399
PREFERRED DIVIDENDS	389	858	--
NET INCOME	$ 447,111	$ 979,701	$ 679,399

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31,			
2000	2001	2002	(IN THOUSANDS)
Net income	$447,111	$979,701	$679,399
Other comprehensive income (loss), net of tax:			
Additional minimum non-qualified pension liability adjustment (net of tax of $1,361 in 2000, $346 in 2001 and $1,015 in 2002)	(2,527)	642	1,885
Comprehensive income (loss) from discontinued operations, (net of tax of $39,383 in 2000, $97,709 in 2001 and $108,844 in 2002)	73,139	(181,459)	202,138
Other comprehensive income (loss)	70,612	(180,817)	204,023
Comprehensive income	$517,723	$798,884	$883,422

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, ---------- 2001 2002 ---------
-- ---------- (IN THOUSANDS) ASSETS CURRENT ASSETS: Cash
and cash equivalents..... $
3,428 $ 70,866 Accounts and notes receivable,
net..... 12,463 99,304 Unbilled
revenue..... 33,404
70,385 Materials and
supplies..... 80,919
59,941 Current assets of discontinued
operations..... 6,366,569 --
Other.....
4,071 11,839 ---------- ---------- Total current
assets..... 6,500,854
312,335 ---------- ---------- PROPERTY, PLANT AND
EQUIPMENT, NET..... 4,065,140
3,837,232 ---------- ---------- OTHER ASSETS: Other
intangibles, net.....
38,171 39,912 Regulatory
assets..... 3,247,888
3,970,007 Notes receivable -- affiliated
companies..... -- 814,513 Non-current assets
of discontinued operations..... 16,910,295 --
Other.....
181,589 66,049 ---------- ---------- Total other
assets..... 20,377,943
4,890,481 ---------- ---------- TOTAL
ASSETS.....
$30,943,937 $9,040,048 ========== ==========
LIABILITIES, STOCKHOLDER'S AND MEMBER'S EQUITY CURRENT
LIABILITIES: Short-term
borrowings..... $ 163,731
$ -- Current portion of long-term
debt..... 414,038 18,758 Accounts
payable..... 40,089
32,362 Accounts payable -- affiliated companies,
net..... 40,192 43,662 Notes payable --
affiliated companies, net..... 225,998 214,976
Taxes
accrued.....
113,694 44,208 Interest
accrued..... 49,718
78,355 Regulatory
liabilities..... 154,783
168,173 Current liabilities of discontinued
operations..... 8,789,005 --
Other.....
124,458 57,513 ---------- ---------- Total current
liabilities..... 10,115,706
658,007 ---------- ---------- OTHER LIABILITIES:
Accumulated deferred income taxes,
net..... 1,055,966 1,419,301 Unamortized
investment tax credits..... 58,270
53,581 Benefit
obligations..... 81,555
61,671 Regulatory
liabilities..... 1,150,824
940,615 Notes payable -- affiliated
companies..... 10,825 916,400 Non-current
liabilities of discontinued operations..... 8,407,310
--
Other.....
36,365 25,206 ---------- ---------- Total other
liabilities..... 10,801,115
3,416,774 ---------- ---------- LONG-TERM
DEBT.....
2,947,193 2,641,281 ---------- ---------- COMMITMENTS
AND CONTINGENCIES (NOTE 10) COMPANY OBLIGATED MANDATORILY
REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY
TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF
THE COMPANY..... 342,000 -- ---------- --
-------- STOCKHOLDER'S AND MEMBER'S
EQUITY..... 6,737,923 2,323,986 ---
-------- ---------- TOTAL LIABILITIES, STOCKHOLDER'S AND

MEMBER'S EQUITY... $30,943,937 $9,040,048 ==========
==========

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

STATEMENTS OF CONSOLIDATED CASH FLOWS

YEAR ENDED DECEMBER 31,	2000	2001	2002
(IN THOUSANDS) CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 447,111	$ 979,701	$ 679,399
Less: Income (loss) from discontinued operations	(43,487)	534,604	131,949
Income from continuing operations, less extraordinary item and preferred dividends	490,598	445,097	547,450
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	356,523	299,204	270,799
Deferred income taxes	68,113	(127,442)	352,421
Investment tax credit	(4,712)	(4,712)	(4,689)
Extraordinary item	--	--	16,105
Changes in other assets and liabilities:			
Accounts and notes receivable, net	51,964	779	(275,089)
Accounts receivable/payable, affiliates	(9,374)	56,215	3,469
Inventory	(46,552)	22,982	20,978
Accounts payable	(52,681)	52,570	(7,727)
Fuel cost recovery	(515,278)	357,139	216,368
Interest and taxes accrued	(50,034)	104,310	(32,177)
Net regulatory assets and liabilities	(73,399)	4,967	(1,022,145)
Other current assets	1,882	724	(7,767)
Other current liabilities	63,390	(70,224)	(66,946)
Other assets	1,289	(81,850)	79,742
Other liabilities	36,515	35,873	(18,244)
Other, net	4,706	--	--
Net cash provided by operating activities	322,950	1,095,632	72,548
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net	(383,706)	(525,729)	(344,750)
Net cash used in investing activities	(383,706)	(525,729)	(344,750)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in cash related to securitization financing	--	--	3,715
Proceeds from issuance of long-term debt	--	748,572	1,310,000
Increase (decrease) in short-term borrowings, net	266,334	(105,665)	(163,731)
Increase (decrease) in short-term notes with affiliates, net	25,314	215,220	(223,310)
Payments of long-term debt	(150,008)	(226,547)	(313,414)
Decrease in long-term notes payable with affiliates	--	--	(550,000)
Debt issuance costs	--	(10,375)	(59,574)
Payment of common stock dividends	(426,859)	(433,918)	(222,538)
Redemption of preferred stock	--	(10,227)	--
Other, net	(504)	114,479	--
Net cash provided by (used in) financing activities	(285,723)	291,539	(218,852)

------- NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS.....
336,739 (859,095) 558,492 --------- ---------- ------ ----- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.... (9,740) 2,347 67,438 CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR..... 10,821
1,081 3,428 --------- ---------- ---------- CASH AND CASH EQUIVALENTS AT END OF THE YEAR..... $
1,081 $ 3,428 $ 70,866 ========= ========== ========== SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash Payments:
Interest..... $
227,771 $ 218,887 $ 194,948 Income taxes..... 303,171
375,297 48,398

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

STATEMENTS OF CONSOLIDATED STOCKHOLDER'S AND MEMBER'S EQUITY

2000 2001 2002 ------------------ -- ------------------- --------- ------------ SHARES AMOUNT SHARES AMOUNT SHARES AMOUNT ----- -- ---------- ------- ---------- -------- ----------- (THOUSANDS OF DOLLARS AND SHARES) PREFERENCE STOCK, NONE OUTSTANDING..... -- $ -- -- $ -- -- $ -- CUMULATIVE PREFERRED STOCK, $0.01 PAR VALUE; AUTHORIZED 20,000,000 SHARES Balance, beginning of year..... 97 9,740 97 9,740 -- -- Redemption of preferred stock..... -- -- (97) (9,740) -- -- ------- ---------- ------- --- ------- -------- ----------- Balance, end of year..... 97 9,740 -- -- -- -- ------- ---------- ------- ---------- -------- ----------- COMMON STOCK, $0.01 PAR VALUE; AUTHORIZED 1,000,000,000 SHARES Balance, beginning of year..... 297,612 2,976 299,914 2,999 302,944 3,029 Issuances related to benefit and investment plans..... 2,302 23 3,030 30 -- -- Restructuring..... -- -- -- -- (302,943) (3,028) --- ---- ---------- ------- --------- - -------- ----------- Balance, end of year..... 299,914 2,999 302,944 3,029 1 1 ------- - --------- ------- ---------- ---- ---- ----------- ADDITIONAL PAID-IN-CAPITAL Balance, beginning of year..... -- 3,179,775 -- 3,254,191 -- 3,894,272 Issuances related to benefit and investment plans..... -- 74,424 - - 130,630 -- -- Unrealized gain on sale of subsidiaries' stock..... -- -- -- 509,499 -- -- Other..... -- (8) -- (48) -- -- Restructuring..... -- -- -- -- -- (1,689,233) ------ - ---------- ------- ---------- - ------- ----------- Balance, end of year..... -- 3,254,191 -- 3,894,272 -- 2,205,039 ------- ---------- ---- --- ---------- -------- --------- -- TREASURY STOCK Balance, beginning of year..... (3,625) (93,296) (4,811) (120,856) -- -- Shares acquired..... (1,184) (27,306) -- -- -- -- Contribution to pension plan..... -- -- 4,512 113,336 -- -- Other..... (2) (254) 299 7,520 -- -- ------- ---------- ------- ---------- --- ----- ----------- Balance, end of year..... (4,811) (120,856) -- -- -- -- ------- --- ------- ------- ---------- ------

-- ----------- UNEARNED ESOP STOCK Balance, beginning of year..... (10,679) (199,226) (8,639) (161,158) (7,070) (131,888) Issuances related to benefit plan..... 2,040 38,068 1,569 29,270 -- -- Restructuring..... -- -- -- -- 7,070 131,888 ------- ---------- ------- ---------- --- ----- ----------- Balance, end of year..... (8,639) (161,158) (7,070) (131,888) -- -- ------- ---------- ------- ------ ---- -------- ----------- RETAINED EARNINGS Balance, beginning of year..... 2,500,181 2,520,350 3,176,533 Net income..... 447,111 979,701 679,399 Common stock dividends -- $1.50 per share in 2000, $1.125 per Share in 2001 and $0.91 per share in 2002..... (426,942) (323,518) (271,292) Restructuring..... -- -- (3,465,694) ---------- ---- ------ ----------- Balance, end of year..... 2,520,350 3,176,533 118,946 ---------- ---- ------ ----------- ACCUMULATED OTHER COMPREHENSIVE LOSS Balance, beginning of year..... (93,818) (23,206) (204,023) ----- ----- ---------- ----------- Other comprehensive income, net of tax: Additional minimum pension liability adjustment..... (2,527) 642 1,885 Other comprehensive income (loss) from discontinued operations..... 73,139 (181,459) 202,138 -------- -- ---------- ----------- Other comprehensive income (loss)..... 70,612 (180,817) 204,023 -------- -- ---------- ----------- Balance, end of year..... (23,206) (204,023) -- ---------- --------- - ----------- Total Stockholder's and Member's Equity..... $5,482,060 $6,737,923 $ 2,323,986 ========== ========== ==========

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

ORGANIZATIONAL STRUCTURE AND RESTRUCTURING

CenterPoint Energy Houston Electric, LLC (CenterPoint Houston or the Company) is a regulated utility engaged in the transmission and distribution of electric energy in a 5,000 square mile area located along the Texas Gulf Coast, including the City of Houston. CenterPoint Houston is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a new public utility holding company.

The Company's business includes:

- Distribution. The Company's electric distribution business distributes electricity for retail electric providers in its certificated service area by carrying power from the substation to the retail electric customer.

- Transmission. The Company's transmission business transports electricity from power plants to substations and from one substation to another in locations in the control area managed by the Electric Reliability Council of Texas, Inc. (ERCOT).

The Company's business also includes the stranded costs and regulatory asset recovery associated with the Company's historical generating operations. The Company operates its business as a single segment. In addition to the electric transmission and distribution business, the consolidated financial statements include the operations of one financing subsidiary.

The Company's business does not include:

- the generation or sale of electricity;

- the procurement, supply or delivery of fuel for the generation of electricity; or

- the marketing to or billing of retail electric customers.

Effective August 31, 2002, Reliant Energy, Incorporated (Reliant Energy) consummated a restructuring transaction (Restructuring) in which it, among other things, (1) conveyed its Texas electric generation assets to Texas Genco Holdings, Inc. (Texas Genco), (2) became an indirect, wholly owned subsidiary of a new utility holding company, CenterPoint Energy, (3) was converted into a Texas limited liability company named CenterPoint Energy Houston Electric, LLC and (4) distributed the capital stock of its operating subsidiaries, including Texas Genco, to CenterPoint Energy. As part of the Restructuring, each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock. The Company's operating subsidiaries which were distributed in connection with the Restructuring and presented as discontinued operations included $2.1 billion of indebtedness. An additional $1.9 billion of indebtedness was assumed by CenterPoint Energy at the time of the Restructuring, consisting of $1.6 billion of debt and $0.3 billion of trust preferred securities that were reflected in continuing operations in the Company's Consolidated Balance Sheet as of December 31, 2001. Additionally, at Restructuring the Company issued a $1.6 billion note payable to CenterPoint Energy. CenterPoint Energy assumed a $2.5 billion Senior A Credit Agreement, dated as of July 13, 2001 among Houston Industries FinanceCo LP (a subsidiary of Reliant Energy), Reliant Energy and the lender parties thereto, and a $1.8 billion Senior B Credit Agreement, dated as of July 13, 2001 among Houston Industries FinanceCo LP, Reliant Energy and the lender parties thereto.

In a July 2002 order, the SEC limited the aggregate amount of our external borrowings to $3.55 billion. Our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. In addition, the order restricts our ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for

those dividends. Under these restrictions, we are permitted to pay dividends in excess of our current or retained earnings in an amount up to $200 million.

(2) DISCONTINUED OPERATIONS

The consolidated financial statements have been prepared to reflect the effect of the Restructuring as described above as it relates to the Company, and have been prepared based upon Reliant Energy's historical consolidated financial statements.

The consolidated financial statements present operations of Reliant Energy that were distributed to CenterPoint Energy in the Restructuring 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). Included in discontinued operations of CenterPoint Energy Houston are the Wholesale Energy, European Energy, Retail Energy, Natural Gas Distribution, Pipelines and Gathering and Electric Generation business segments. Accordingly, the consolidated financial statements of CenterPoint Houston reflect these operations as discontinued operations for each of the two years in the period ended December 31, 2001 and for the eight months ended August 31, 2002.

Total revenues included in discontinued operations were $26.2 billion, $38.8 billion and $29.8 billion in 2000, 2001 and 2002, respectively. Income from discontinued operations for each of the two years in the period ended December 31, 2001 is reported net of income tax expense of $120 million and $297 million 2000 and 2001, respectively. Income from discontinued operations for the eight months ended August 31, 2002 is reported net of income tax expense of $254 million. Total revenues included in discontinued operations have been presented prior to 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."

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

DECEMBER 31, 2001 ------------- (IN MILLIONS) CURRENT ASSETS: Accounts and notes receivable, principally customer..... $ 2,340,838 Trading and marketing assets..... 1,611,393 Other current assets.....
2,414,338 ----------- Total current assets..... 6,366,569 -----
------ PROPERTY, PLANT AND EQUIPMENT, NET..... 11,698,901 -----------
OTHER ASSETS:
Goodwill.....
2,631,570 Other noncurrent assets..... 2,579,824 -----
------ Total other assets..... 5,211,394 ---
-------- TOTAL ASSETS.....
$23,276,864 -----------

DECEMBER 31, 2001	(IN MILLIONS)
CURRENT LIABILITIES: Accounts payable, principally trade	$ 1,387,618
Trading and marketing liabilities	1,478,336
Other current liabilities	5,923,051
Total current liabilities	8,789,005
OTHER LONG-TERM LIABILITIES	5,618,884
LONG-TERM DEBT	2,788,426
TOTAL LIABILITIES	17,196,315
NET ASSETS OF DISCONTINUED OPERATIONS	$ 6,080,549

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) RECLASSIFICATIONS AND USE OF ESTIMATES

In addition to the items discussed in Note 2, some amounts from the previous years have been reclassified to conform to the 2002 presentation of financial statements. These reclassifications do not affect net income.

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

(b) PRINCIPLES OF CONSOLIDATION

The accounts of the Company and its wholly owned subsidiary are included in the Company's consolidated financial statements. All significant intercompany transactions and balances are eliminated in consolidation.

(c) REVENUES

The Company records revenue for electricity under the accrual method and these revenues are generally recognized upon delivery. However, the determination of the deliveries to individual customers is based on the reading of their meters which is performed on a systematic basis throughout the month. As a result of the implementation of the Texas Electric Choice Plan (Texas electric restructuring law), the Company's regulated transmission and distribution business recovers the cost of its service through an energy delivery charge, and not as a component of the prior bundled rate, which included energy and delivery charges. The design of the new energy delivery rate differs from the prior bundled rate. The winter/summer rate differential for residential customers has been eliminated and the energy component of the rate structure has been removed, which will tend to lessen some of the pronounced seasonal variation in revenues which has been experienced in prior periods. At the end of each month, amounts of electricity delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated.

(d) LONG-LIVED ASSETS AND INTANGIBLES

The Company records property, plant and equipment at historical cost. The Company expenses all repair and maintenance costs as incurred. The cost of utility plant and equipment retirements is charged to accumulated depreciation. Property, plant and equipment includes the following:

DECEMBER 31,	ESTIMATED USEFUL LIVES (YEARS)	2001	2002
		(IN MILLIONS)	
Transmission	28-75	$ 1,160	$ 1,251
Distribution	18-55	3,895	4,012
Other	5-50	1,156	697
Total		6,211	5,960
Accumulated depreciation		(2,146)	(2,123)
Property, plant and equipment, net		$ 4,065	$ 3,837

The Company periodically evaluates long-lived assets, including property, plant and equipment 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. To date, no impairment has been indicated. The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142) on January 1, 2002. The Company had specific intangibles related to land rights at December 31, 2001 and 2002 of $38 million (net of $8 million accumulated amortization) and $40 million (net of $8 million accumulated amortization), respectively. The Company amortizes these acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range between 50 and 75 years.

(e) REGULATORY ASSETS AND LIABILITIES

The Company applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71).

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

DECEMBER 31,	2001	2002
(IN MILLIONS)		
Excess cost over market (ECOM) true-up	$ --	$ 697
Recoverable electric generation related regulatory assets, net	160	100
Securitized regulatory asset	740	706
Regulatory tax asset, net	111	178
Unamortized loss on reacquired debt	62	58
Recoverable electric generation plant mitigation	1,967	2,051
Excess mitigation liability	(1,126)	(969)
Other long-term assets/liabilities	28	40
Total	$ 1,942	$2,861

If events were to occur that would make the recovery of these assets and liabilities no longer probable, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment of the carrying costs of plant and inventory assets.

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

In 2001, the Company monetized $738 million of regulatory assets in a securitization financing authorized by the Texas Utility Commission pursuant to the Texas electric restructuring law. The securitized regulatory assets are being amortized ratably as transition charges are collected over the life of the outstanding transition bonds. For additional information regarding the securitization financing, see Note 6.

(f) DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation is computed using the straight-line method based on economic lives or a regulatory mandated method. Other amortization expense includes amortization of regulatory assets and other intangibles. See Notes 3(d) and 3(e) for additional discussion of these items.

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

YEAR ENDED DECEMBER 31, ----------
-- 2000 2001 2002 ------ ------ ------ (IN
MILLIONS) Depreciation
expense.....
$ -- $ -- $217 Amortization
expense.....
357 299 54 ---- ---- ---- Total depreciation
and amortization..... $357
$299 $271 ==== ==== ====

(g) ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

Allowance for funds used during construction (AFUDC) represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both utility plant and earnings, it is realized in cash through depreciation provisions included in rates. AFUDC is capitalized as a component of projects under construction and will be amortized over the assets' estimated useful lives. During 2000, 2001 and 2002, the Company capitalized AFUDC related to debt of $4.0 million, $4.6 million and $3.7 million, respectively.

(h) INCOME TAXES

The Company is included in the consolidated income tax returns of CenterPoint Energy. The Company calculates its income tax provision on a separate return basis under a tax sharing agreement with CenterPoint Energy. The Company uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. Investment tax credits were deferred and are being amortized over the estimated lives of the related property. Current federal and certain state income taxes are payable to or receivable from CenterPoint Energy. For additional information regarding income taxes, see Note 9.

(i) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts and notes receivable, net, are net of an allowance for doubtful accounts of $13 million and $5 million at December 31, 2001 and 2002, respectively. The provisions for doubtful accounts in the Company's Statements of Consolidated Income for 2000, 2001 and 2002 were $5 million, $13 million and $10 million, respectively.

(j) INVENTORY

Inventory consists principally of materials and supplies and is valued at average cost.

(k) STATEMENTS OF CONSOLIDATED CASH FLOWS

For purposes of reporting cash flows, the Company considers cash equivalents to be short-term, highly liquid investments with maturities of three months or less from the date of purchase. In connection with the issuance of transition bonds in October 2001, the Company was required to establish restricted cash accounts to collateralize the bonds that were issued in this financing transaction. These restricted cash accounts are classified as long-term as they are not available for withdrawal until the maturity of the bonds. Cash and cash equivalents does not include restricted cash. For additional information regarding the securitization financing, see Note 4(a).

(l) CHANGES IN ACCOUNTING PRINCIPLES AND NEW ACCOUNTING PRONOUNCEMENTS

See Note 3(d) for a discussion of the Company's adoption of SFAS No. 142 on January 1, 2002.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be recognized in the period in which it is incurred and capitalized as part of the cost of the related tangible 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. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged.

As of January 1, 2003, the Company has not identified any asset retirement obligations; however, the Company has previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2002, these previously recognized removal costs of $240 million do not represent SFAS No. 143 asset retirement obligations, but rather imbedded regulatory liabilities.

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.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. The Company has applied this guidance prospectively as it relates to lease accounting and will apply the accounting provisions to debt extinguishment in 2003. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item shall be reclassified.

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

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

(4) REGULATORY MATTERS

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

In June 1999, the Texas legislature adopted the Texas electric restructuring law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in the third quarter of 2001, and retail electric competition for all other customers began in January 2002. In preparation for competition, CenterPoint Energy made significant changes in the electric

utility operations it conducts through the Company. In addition, the Texas Utility Commission issued a number of new rules and determinations in implementing the Texas electric restructuring law.

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

Unbundling. As of January 1, 2002, electric utilities in Texas such as the Company 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, CenterPoint Energy submitted a plan in January 2000 that was later amended and updated to accomplish the required separation (the business separation plan). The Company continues to be subject to cost-of-service rate regulation and is responsible for the transmission and distribution of electricity to retail customers. The Company transferred its Texas generation facilities that were formerly part of Reliant Energy HL&P (Texas generation business) to Texas Genco in connection with the Restructuring.

Transmission and Distribution Rates. All retail electric providers in the Company's service area pay the same rates and other charges for transmission and distribution services.

The Company's distribution rates charged to retail electric providers are generally based on amounts of energy delivered. The Company's transmission rates charged to other distribution companies are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted. All distribution companies in ERCOT pay the Company the same rates and other charges for transmission services. The transmission and distribution rates for the Company have been in effect since January 1, 2002, when electric competition began. This regulated delivery charge includes the transmission and distribution rate (which includes costs for nuclear decommissioning and municipal franchise fees), a system benefit fund fee imposed by the Texas electric restructuring law, a transition charge associated with securitization of regulatory assets and an excess mitigation credit imposed by the Texas Utility Commission.

Stranded Costs. The Company will be entitled to recover its stranded costs (the excess of net regulatory book value of historical 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 CenterPoint Energy's investment in generation assets (Accelerated Depreciation). In addition, during the Transition Period, the redirection of depreciation expense to generation assets that the Company would otherwise apply to transmission, distribution and general plant assets was permitted for regulatory purposes (Redirected Depreciation). Please read the discussion of the accounting treatment for depreciation for financial reporting purposes below under "-- Accounting." The Company cannot predict the amount, if any, of these costs that may not be recovered.

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

On October 24, 2001, CenterPoint Energy Transition Bond Company, LLC (Bond Company), a Delaware limited liability company and wholly owned subsidiary of the Company, issued $749 million aggregate principal amount of its Series 2001-1 Transition Bonds (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 the Company $738 million for the transition property. Proceeds were used for general corporate purposes, including the repayment of indebtedness.

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

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

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

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

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

In 1999, CenterPoint Energy evaluated the effects that the Texas electric restructuring law would have on the recovery of its generation related regulatory assets and liabilities. CenterPoint Energy determined that a pre-tax accounting loss of $282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Texas electric restructuring law) will be recoverable. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. Pursuant to EITF Issue No. 97-4 "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements No. 71 and No. 101" (EITF No. 97-4), the remaining recoverable regulatory assets are now associated with the Company. For details regarding the Company's regulatory assets, see Note 3(e).

At June 30, 1999, CenterPoint Energy 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, CenterPoint Energy determined the fair value for each generating plant by estimating the net present value of future cash flows over the estimated life of each plant. CenterPoint Energy determined that $797 million of electric generation assets was impaired in 1999. 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 for an amount equal to Texas Genco's impairment loss and was included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of $221 million during the six months ended December 31, 1999, $329 million in 2000 and $247 million in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, the Company 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, the Company recognized Redirected Depreciation of $195 million and $99 million 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. This redirection was in accordance with the Company's Transition Plan. Subsequent to June 30, 1999, Redirected Depreciation expense could no longer be recorded by CenterPoint Energy's electric generation business for financial reporting purposes as these operations are no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $99 million, $218 million and $230 million in depreciation expense, respectively, was redirected from transmission and distribution for regulatory and financial reporting purposes and was established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 2001, the cumulative amount of Redirected Depreciation for regulatory purposes was $841 million, prior to the effects of the October 3, 2001 order discussed below.

Additionally, as allowed by the Texas Utility Commission, in an effort to further reduce potential exposure to stranded costs related to generation assets, the Company 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 CenterPoint Energy's electric generation business for financial reporting purposes, as these operations are no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $179 million, $385 million and $264 million, respectively, of Accelerated Depreciation was recorded for regulatory reporting purposes, reducing the regulatory book value of the Company's stranded costs recovery.

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution utility rates that became effective in January 2002. In this Order, the Texas Utility Commission found that the Company 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, the Company 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. The Company was required to record a regulatory liability of $1.1 billion related to Accelerated Depreciation. The October 3, 2001 Order requires this amount to be refunded through excess mitigation credits to certain retail electric customers during a seven-year period which began in January 2002.

As of December 31, 2002, in contemplation of the 2004 true-up proceeding, the Company has recorded a regulatory asset of $2.0 billion representing the estimated future recovery of previously incurred stranded costs, which includes $1.1 billion of previously recorded Accelerated Depreciation plus Redirected Depreciation, both reversed in 2001. Offsetting this regulatory asset is a $969 million regulatory liability to refund the excess mitigation to ratepayers. This estimated recovery is based upon current projections of the market value of CenterPoint Energy'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. The Company 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.

(b) AGREEMENTS RELATED TO TEXAS GENERATING ASSETS

Texas Genco is the beneficiary of the decommissioning trust that has been established to provide funding for decontamination and decommissioning of the South Texas Project in which Texas Genco owns a 30.8% interest. The Company collects through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and pays the amounts to Texas Genco. Texas Genco in turn deposits these amounts into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust are inadequate, the Company or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to the ratepayers of the Company or its successor.

(c) CENTERPOINT HOUSTON REGULATORY FILINGS

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

(5) RELATED PARTY TRANSACTIONS

From time to time, the Company has advanced money to, or borrowed money from, CenterPoint Energy or its subsidiaries. As of December 31, 2001, the Company had net accounts payable of $40 million included in accounts payable-affiliated companies. As of December 31, 2002, the Company had net short-term borrowings of $226 million included in notes payable-affiliated companies. As of December 31, 2002, the Company had net accounts payable of $44 million included in accounts payable-affiliated companies. As of December 31, 2002, the Company had net short-term notes payables of $48 million and $167 million current portion of long-term note payable to affiliate included in notes payable-affiliated companies. As of December 31, 2001, the Company had net long-term borrowings, included in notes payable-affiliated companies, totaling $11 million. As of December 31, 2002, the Company had a $815 million long-term note receivable from affiliate, as further discussed below, and a $1.1 billion long-term note payable to affiliate as further discussed in Note 5. Net interest expense on these borrowings was $27 million, $30 million and $72 million in 2000, 2001 and 2002, respectively.

Prior to August 31, 2002, the Company had $737 million invested in a money fund through which the Company and certain of its affiliates could borrow and/or invest on a short-term basis. At the time of the Restructuring, the Company converted a money fund investment into a $750 million note receivable from CenterPoint Energy payable on demand and bearing interest at the prime rate, leaving $13 million borrowed from the money fund. Since August 31, 2002, the Company has been a participant in the CenterPoint Energy money pool. The $750 million note receivable is included in long-term notes receivable from affiliate in the Consolidated Balance Sheets because the Company does not plan to demand repayment of the note within the next twelve months.

In 2002, revenues derived from energy delivery charges provided by the Company to a subsidiary of Reliant Resources, Inc. (Reliant Resources), a former affiliate, totaled $273 million.

Although the former retail sales business is no longer conducted by the Company, retail customers remained regulated customers of the Company through the date of their first meter reading in January 2002. During this transition period, the Company purchased $48 million of power from Texas Genco.

In 2000 and 2001, a subsidiary of Reliant Resources, a former affiliate, provided certain support services to the Company totaling $22 million and $53 million, respectively.

CenterPoint Energy provides some corporate services to the Company. The costs of services have been directly charged to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had the Company not been an affiliate. Amounts charged to the Company for these services were $116 million for 2002 and are included primarily in operation and maintenance expenses.

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

DECEMBER 31, 2001		DECEMBER 31, 2002	
CURRENT(1)	LONG-TERM	CURRENT(1)	LONG-TERM
(IN MILLIONS)			
Short-term borrowings:			
Commercial paper	$ --	$164	$ --
Total short-term borrowings	--	164	--
Long-term debt:			
Medium-term notes and pollution control bonds 4.90% to 6.70% due 2003 to 2027 (2)(3)	547	--	--
Pollution control bonds 4.70% to 5.95% due 2011 to 2030	1,046	100	--
First mortgage bonds 7.50% to 9.15% due 2021 to 2023(3)	615	--	615
Term loan, LIBOR plus 9.75%, due 2005(4)	--	--	1,310
Series 2001-1 Transition Bonds 3.84% to 5.63% due 2002 to 2013(5)	736	13	717
Debentures 7.40% due 2002	--	300	--
Other	3	1 (1)	--
Long-term debt to third parties	2,947	414	2,641
Note payable to affiliate 4.90% to 6.70%(6)	11	--	916
Total borrowings	$2,958	$578	$3,557

$186			

- ---

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

(2) These series of debt are secured by the Company's first mortgage bonds.

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

(4) LIBOR has a minimum rate of 3%. This collateralized term loan is secured by the Company's general mortgage bonds.

(5) The Series 2001-1 Transition Bonds were issued by one of the Company's subsidiaries, and are non-recourse to the Company. For further discussion of the securitization financing, see Note 4(a).

(6) Of the total $1.1 billion notes payable to affiliate at December 31, 2002, $547 million has the same principal amounts and interest rates as the medium-term notes and pollution control bonds of CenterPoint Energy that are secured by first mortgage bonds of CenterPoint Houston.

During 2002, the Company recorded a $16 million after-tax extraordinary item related to a loss on the early extinguishment of debt related to the Company's $850 million term loan and the repurchase of $175 million of the Company's pollution control bonds.

Assumption and Release of Certain Debt

In connection with the Restructuring, Reliant Energy transferred assets and subsidiaries to CenterPoint Energy or its subsidiaries and became a subsidiary of CenterPoint Energy. As part of the Restructuring, each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock. The Company's operating subsidiaries which were distributed in connection with the Restructuring and

presented as discontinued operations included $2.1 billion of indebtedness. An additional $1.9 billion of indebtedness was assumed by CenterPoint Energy at the time of the Restructuring, consisting of $1.6 billion of debt and $0.3 billion of trust preferred securities that were reflected in continuing operations in the Company's Consolidated Balance Sheet as of December 31, 2001. Additionally, at Restructuring the Company issued a $1.6 billion note payable to CenterPoint Energy. CenterPoint Energy also assumed a $2.5 billion Senior A Credit Agreement, dated as of July 13, 2001 among Houston Industries FinanceCo LP (a subsidiary of Reliant Energy), Reliant Energy and the lender parties thereto, and a $1.8 billion Senior B Credit Agreement, dated as of July 13, 2001 among Houston Industries FinanceCo LP, Reliant Energy and the lender parties thereto.

Bank Loans

As of December 31, 2002, the Company had no bank loans or revolving credit facilities. At December 31, 2002, the Company had short-term loans from affiliates of $48 million. The weighted average interest rate on the Company's short-term borrowings at December 31, 2001 and 2002 was 3.36% and 6.2%, respectively. At December 31, 2001, the Company had a $400 million credit facility, which was replaced on October 10, 2002 by an $850 million secured credit facility which was subsequently repaid on November 12, 2002 as discussed below.

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

Money Pool Borrowings

On December 31, 2002, the Company had borrowed $48 million from its affiliates. The Company participates in a "money pool" through which it 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 short-term borrowings of CenterPoint Energy. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act.

Long-term Debt

The following table shows future maturity dates of long-term debt issued by CenterPoint Houston and expected future maturity dates of the Transition Bonds issued by the Bond Company as of December 31, 2002. Amounts are expressed in thousands.

	CENTERPOINT HOUSTON			
	TRANSITION BONDS	YEAR THIRD-PARTY	AFFILIATE	SUB-TOTAL
2003	$ 166,600	$ 166,600	$ 18,722	$ 185,322
2004	41,189	41,189		
2005	$1,310,000	1,310,000	46,806	1,356,806
2006	54,295	54,295		
2007	59,912	59,912		
2008	65,529	65,529		
2009	73,018	73,018		
2010	80,506	80,506		
2011	87,995	87,995		
2012	45,570	45,570	99,229	144,799
2013	108,590	108,590		
2015	150,850	150,850	150,850	
2017	127,385	127,385	127,385	
2021	102,442	102,442	102,442	
2022	62,275	62,275	62,275	
2023	450,000	450,000	450,000	
2027	56,095	56,095	56,095	
2028	536,500	536,500	536,500	-
Total	$1,924,717	$1,083,000	$3,007,717	$735,791
	$3,743,508			

First mortgage bonds in an aggregate principal amount of $615 million have been issued directly to third parties. External debt of $1.3 billion maturing in 2005 is senior and secured by general mortgage bonds. The affiliate debt is senior and unsecured.

As of October 10, 2002, CenterPoint Houston increased the size of its credit facility to $850 million in connection with the amendment and extension of its bank facility and the bank facilities of its parent. Proceeds from the loan were used to (1) repay maturing loans under a $400 million credit facility and (2) repay $450 million of the note payable to CenterPoint Energy. The $850

million facility was secured by $850 million aggregate principal amount of CenterPoint Houston's general mortgage bonds issued under CenterPoint Houston's General Mortgage dated as of October 10, 2002. The lien of the General Mortgage is junior to that of CenterPoint Houston's Mortgage and Deed of Trust dated as of November 1, 1944. The $850 million of general mortgage bonds was released by the banks upon the November 2002 repayment and termination of the facility using proceeds from CenterPoint Houston's $1.3 billion collateralized term loan as discussed below.

On November 12, 2002, CenterPoint Houston entered into a $1.3 billion collateralized term loan maturing November 2005. The interest rate on the loan is the London inter-bank offered rate (LIBOR) plus 9.75%, subject to a minimum rate of 12.75%. The loan is secured by CenterPoint Houston's general mortgage bonds. Proceeds from the loan were used to (1) repay CenterPoint Houston's $850 million term loan as

discussed above, (2) repay $100 million of intercompany notes maturing in 2028, (3) repay $300 million of debt that matured on November 15, 2002 and (4) pay transaction costs. The loan agreement contains various business and financial covenants including a covenant restricting CenterPoint Houston's debt, excluding transition bonds, as a percent of its total capitalization to 68%. The loan agreement also limits incremental secured debt that may be issued by CenterPoint Houston to $300 million.

Other than the affiliate notes due 2028, the amounts, maturities and interest rates of the intercompany debt payable to CenterPoint Energy of $547 million effectively match the amounts, maturities and interest rates of medium-term notes and certain pollution control bond obligations of CenterPoint Energy that are secured by the Company's first mortgage bonds in the same amounts in the table below.

The following table shows the maturity dates of the $1.1 billion of first mortgage bonds and general mortgage bonds that the Company has issued as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected on the financial statements of CenterPoint Houston because of the contingent nature of the obligations. Amounts are expressed in thousands.

YEAR	FIRST MORTGAGE BONDS	GENERAL MORTGAGE BONDS	TOTAL
2003	$166,600	$	166,600
2011	$ 19,200		19,200
2012	45,570		45,570
2015	150,850		150,850
2017	127,385		127,385
2018	50,000		50,000
2019	200,000		200,000
2020	90,000		90,000
2026	100,000		100,000
2027	56,095		56,095
2028	68,000	68,000	136,000
Total	$546,500	$527,200	$1,073,700

The aggregate amount of additional general mortgage bonds and first mortgage bonds that could be issued is approximately $900 million based on estimates of the value of property encumbered by the general mortgage, the cost of such property and the 70% bonding ratio contained in the general mortgage. The issuance of additional first mortgage and general mortgage bonds is currently contractually limited to an additional $300 million in general mortgage bonds. As of December 31, 2002, outstanding first mortgage bonds and general mortgage bonds aggregated approximately $3.0 billion.

The Bond Company has $736 million aggregate principal amount of outstanding Transition Bonds. 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 CenterPoint Houston's long-term debt, although the holders of the Transition Bonds have no recourse to any of CenterPoint Houston's assets or revenues, and CenterPoint Houston's creditors have no recourse to any assets or

revenues (including, without limitation, the transition charges) of the Bond Company. CenterPoint Houston has no payment obligations with respect to the Transition Bonds except to remit collections of transition charges as set forth in

a servicing agreement between CenterPoint Houston and the Bond Company and in an intercreditor agreement among CenterPoint Houston, our indirect transition bond subsidiary and other parties.

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

(7) TRUST PREFERRED SECURITIES

As part of the Restructuring on August 31, 2002, CenterPoint Energy assumed the junior subordinated debt obligations related to trust preferred securities from the Company. For additional information on the Restructuring, see Note 1.

(8) EMPLOYEE BENEFIT PLANS

(a) PENSION PLANS

Substantially all of the Company's employees participate in CenterPoint Energy's qualified non-contributory pension plan. Under the cash balance formula, participants accumulate a retirement benefit based upon 4% of eligible earnings and accrued interest. Prior to 1999, the pension plan accrued benefits based on years of service, final average pay and covered compensation. As a result, certain employees participating in the plan as of December 31, 1998 are eligible to receive the greater of the accrued benefit calculated under the prior plan through 2008 or the cash balance formula.

CenterPoint Energy's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. Pension expense is allocated to the Company based on covered employees. This calculation is intended to allocate pension costs in the same manner as a separate employer plan. Assets of the plan are not segregated or restricted by CenterPoint Energy's participating subsidiaries. Pension benefit was $10 million and $6 million for the years ended December 31, 2000 and 2001, respectively. The Company recognized pension expense of $7 million for the year ended December 31, 2002.

In addition to the Plan, the Company participates in CenterPoint Energy's non-qualified pension plan, which allows participants to retain the benefits to which they would have been entitled under the qualified pension plan except for federally mandated limits on these benefits or on the level of salary on which these benefits may be calculated. The expense associated with the non-qualified pension plan was $3 million in 2000 and less than $1 million in 2001 and 2002.

As of December 31, 2001, CenterPoint Energy allocated $83 million of pension assets, $7 million of non-qualified pension liabilities and $2 million of minimum pension liabilities to the Company. As of December 31, 2002, CenterPoint Energy has not allocated such pension assets or liabilities to the Company. This change in method of allocation had no impact on pension expense recorded for the year ended December 31, 2002.

(b) SAVINGS PLAN

The Company participates in CenterPoint Energy's qualified savings plan, which includes a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended. Under the plan, participating employees may contribute a portion of their compensation, on a pre-tax or after-tax basis, generally up to a maximum of 16% of compensation. The Company matches 75% of the first 6% of each employee's compensation contributed. The Company may contribute an additional discretionary match of up to 50% of the first 6% of each employee's compensation contributed. These matching contributions are fully vested at all times. A substantial portion of the matching contribution is initially invested in CenterPoint Energy common stock. CenterPoint Energy allocates to the Company the savings plan benefit expense related to the Company's employees.

Savings plan benefit expense was $14 million, $10 million and $14 million for the years ended December 31, 2000, 2001 and 2002, respectively.

(c) POSTRETIREMENT BENEFITS

The Company's employees participate in CenterPoint Energy's plans which provide certain healthcare and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective in early 1999, health care benefits for future retirees were changed to limit employer contributions for medical coverage. Such benefit costs are accrued over the active service period of employees.

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

The net postretirement benefit cost includes the following components:

YEAR ENDED DECEMBER 31,	2000	2001	2002
	(IN MILLIONS)		
Service cost -- benefits earned during the period	$ 1	$ 1	$ 1
Interest cost on projected benefit obligation	10	11	13
Expected return on plan assets	(6)	(6)	(7)
Net amortization	7	7	6
Net postretirement benefit cost	$12	$13	$13

Following are the Company's reconciliations of beginning and ending balances of its postretirement benefit plans benefit obligation, plan assets and funded status for 2001 and 2002.

YEAR ENDED DECEMBER 31,	2001	2002
(IN MILLIONS) CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	$ 153	$ 173
Service cost	1	1
Interest cost	11	13
Participant contributions	2	2
Benefits paid	(3)	(4)
Actuarial loss (gain)	9	(9)
Benefit obligation, end of year	$ 173	$ 176
CHANGE IN PLAN ASSETS		
Plan assets, beginning of year	$ 63	$ 72
Employer contributions	13	10
Participant contributions	2	2
Benefits paid	(3)	(4)
Actual investment return	(3)	(6)
Plan assets, end of year	$ 72	$ 74
RECONCILIATION OF FUNDED STATUS		
Funded status	$ (101)	$ (102)
Unrecognized transition obligation	52	48
Unrecognized prior service cost	24	22
Unrecognized actuarial loss	--	4
Net amount recognized at end of year	$ (25)	$ (28)
ACTUARIAL ASSUMPTIONS		
Discount rate	7.25%	6.75%
Expected long-term rate of return on assets	9.5%	9.0%

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

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 2002 would increase by approximately 4.4%. The annual effect of the 1% increase on the total of the service and interest costs would be an increase of approximately 3.7%. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2002 would decrease by approximately 4.4%. The annual effect of the 1% decrease on the total of the service and interest costs would be a decrease of 3.7%.

The Company's postretirement obligation is presented as a liability in the Consolidated Balance Sheet under the caption Benefit Obligations.

(d) POSTEMPLOYMENT BENEFITS

The Company provides postemployment benefits through CenterPoint Energy's plans for former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan). Postemployment benefits costs were $3 million and $6 million for the years ended December 31, 2001 and 2002, respectively. The Company recognized postemployment benefit income of $1 million for the year ended December 31, 2000.

(e) OTHER NON-QUALIFIED PLANS

The Company participates in CenterPoint Energy's deferred compensation plans which permit eligible participants to elect each year to defer a percentage of that year's salary and up to 100% of that year's annual bonus. In general, employees who attain the age of 60 during employment and participate in CenterPoint Energy's deferred compensation plans may elect to have their deferred compensation amounts repaid in (a) fifteen equal annual installments commencing at the later of age 65 or termination of employment or (b) a lump-sum distribution following termination of employment. Interest generally accrues on deferrals at a rate equal to the average Moody's Long-Term Corporate Bond Index plus 2%, determined annually until termination when the rate is fixed at the rate in effect for the plan year immediately prior to that in which a participant attains age 65. The Company recorded interest expense related to its deferred compensation obligation of $3 million, $2 million and $2 million for the years ended December 31, 2000, 2001 and 2002, respectively. The discounted deferred compensation obligation recorded by the Company was $41 million and $19 million as of December 31, 2001 and 2002, respectively.

(f) OTHER EMPLOYEE MATTERS

As of December 31, 2002, the Company employed approximately 3,286 people. Of these employees, approximately 47% are covered by collective bargaining agreements which will expire in May 2003.

(9) INCOME TAXES

The Company's current and deferred components of income tax expense are as follows:

YEAR ENDED DECEMBER 31,					
2000	2001	2002			(IN MILLIONS)
			Federal		Total
current					
	$170	$ 360	$(53)		Total
deferred					
63	(132)	348			Income tax
expense					
	$233	$ 228	$295		

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

YEAR ENDED DECEMBER 31, ---------- 2000 2001 2002 ------ ------ ------ (IN MILLIONS) Income from continuing operations before income taxes..... $724 $674 $858 Federal statutory rate..... 35% 35% 35% --- ---- ---- Income tax expense at statutory rate..... 253 236 300 ---- ---- --- - Increase (decrease) in tax resulting from: Amortization of investment tax credit..... (5) (5) (5) Excess deferred taxes..... -- -- (2) AFUDC Equity..... (2) (2) -- Other, net..... (13) (1) 2 ---- ---- ---- Total..... (20) (8) (5) ---- ---- ---- Income tax expense..... $233 $228 $295 ==== ==== ==== Effective Rate..... 32.2% 33.8% 34.3%

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

DECEMBER 31, ---------- 2001 2002 ------ ------ (IN MILLIONS) Deferred tax assets: Non-current: Employee benefits..... $ 11 $ 49 Other..... -- 2 ------ ------ Total non-current deferred tax assets..... 11 51 ------ ------ Deferred tax liabilities: Non-current: Depreciation..... 651 832 Regulatory assets, net..... 406 621 Other..... 10 17 ------ ------ Total deferred tax liabilities..... 1,067 1,470 ------ --- --- Accumulated deferred income taxes, net..... $1,056 $1,419 ====== ======

The Company is included in the consolidated income tax returns of CenterPoint Energy. CenterPoint Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. The 1997, 1998 and 1999 consolidated federal income tax returns are currently under audit. No audit adjustments that would impact the Company have been proposed for the current audit cycle.

(10) COMMITMENTS AND CONTINGENCIES

(a) LEASE COMMITMENTS

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

2003	$ 5
2004	5
2005	5
2006	6
2007	6
Total	$27

Total lease expense for all operating leases was $3 million during 2000 and $5 million during 2001 and 2002, respectively.

(b) LEGAL MATTERS

The Company's predecessor, Reliant Energy, and certain of its former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and Reliant Resources, CenterPoint Energy and its subsidiaries, including the Company, are entitled to be indemnified by Reliant Resources for any losses arising out of the lawsuits described under "California Class Actions and Attorney General Cases," "Long-Term Contract Class Action," "Washington and Oregon Class Actions," "Bustamante Price Reporting Class Action" and "Trading and Marketing Activities," including attorneys' fees and other costs. Pursuant to the indemnification obligation, Reliant Resources is defending CenterPoint Energy and its subsidiaries, including the Company, to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

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

In March and April 2002, the California Attorney General filed three complaints, two in state court in San Francisco and one in the federal district court in San Francisco, against Reliant Energy, Reliant

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

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

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

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

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

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

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

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

Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy have been consolidated in federal district court in Houston. Reliant Resources and certain of its executive officers are named as defendants. Reliant Energy is also named as a defendant in seven of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the May 2001 initial public offering of approximately 20% of the common stock of Reliant Resources (Reliant Resources Offering). One lawsuit names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The consolidated amended complaint seeks monetary relief purportedly on behalf of three classes: (1) purchasers of Reliant Energy common stock from February 3, 2000 to May 13, 2002; (2) purchasers of Reliant Resources common stock on the open market from May 1, 2001 to May 13, 2002; and (3) purchasers of Reliant Resources common stock in the Reliant Resources Offering or purchasers of shares that are traceable to the Reliant Resources Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former and current officers of Reliant Resources for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to inflate artificially trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law. The defendants expect to file a motion to transfer this lawsuit to the federal district court in Houston and to consolidate this lawsuit with the consolidated lawsuits described above.

The Company believes that none of these lawsuits has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to any of the plaintiffs.

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

monetary damages for losses suffered by a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution.

In October 2002, a derivative action was filed in the federal district court in Houston, against the directors and officers of CenterPoint Energy. The complaint sets forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleges that the defendants caused CenterPoint Energy to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleges breach of fiduciary duty in connection with the spin-off and the Reliant Resources Offering. The complaint seeks monetary damages on behalf of CenterPoint Energy as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. The defendants have filed a motion to dismiss this case on the ground that the plaintiff did not make an adequate demand on CenterPoint Energy before filing suit.

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

Reliant Energy Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. A jury trial of the original claimant cities (but not the class of cities) in the 269th Judicial District Court for Harris County, Texas, ended in April 2000 (the Three Cities case). Although the jury found for Reliant Energy on many issues, it found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began. The trial court in the Three Cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to $1.7 million, including interest, plus an award of $13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, the state court of appeals in Houston rendered an opinion reversing the judgment against CenterPoint Energy and rendering judgment that the Three Cities take nothing by their claims. The court of appeals found that the jury's finding of laches barred all of the Three Cities' claims and that the Three Cities were not entitled to recovery of any attorneys' fees. The judgment of the court of appeals is subject to motions for rehearing and an appeal to the Texas Supreme Court.

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

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.

(11) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents and short-term borrowings are estimated to be equivalent to carrying amounts and have been excluded from the table below.

DECEMBER 31, 2001	CARRYING AMOUNT	FAIR VALUE
(IN MILLIONS)		
Financial liabilities:		
Long-term debt (excluding capital leases)	$3,361	$3,354
Trust preferred securities	342	271

DECEMBER 31, 2002	CARRYING AMOUNT	FAIR VALUE
(IN MILLIONS)		
Financial liabilities:		
Long-term debt (excluding capital leases)	$3,742	$3,828

(12) UNAUDITED QUARTERLY INFORMATION

Summarized quarterly financial data is as follows:

YEAR ENDED DECEMBER 31, 2001	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(IN MILLIONS)				
Operating revenues	$414	$565	$710	$411
Operating income	158	260	334	111
Income from continuing operations	78	137	187	44
Income from discontinued operations, net of tax	184	179	168	4
Net income	262	316	355	47

YEAR ENDED DECEMBER 31, 2002	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
		(IN MILLIONS)		
Operating revenues	$ 568	$528	$660	$466
Operating income	254	275	399	168
Income from continuing operations	132	139	228	65
Extraordinary item, net of tax	--	--	--	(16)
Income (loss) from discontinued operations, net of tax	(100)	97	135	--
Net income	32	236	363	48

INDEPENDENT AUDITORS' REPORT

To the Member of CenterPoint Energy Houston Electric, LLC and subsidiaries:

We have audited the accompanying consolidated balance sheets of CenterPoint Energy Houston Electric, LLC (formerly Reliant Energy, Incorporated) and its subsidiaries (CenterPoint Houston) as of December 31, 2001 and 2002, and the related statements of consolidated income, consolidated comprehensive income, consolidated stockholder's and member's equity and consolidated cash flows for each of the three years in the period ended December 31, 2002. Our audits also included CenterPoint Houston's financial statement schedule listed in Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of CenterPoint Houston's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CenterPoint Houston at December 31, 2001 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, CenterPoint Houston distributed its ownership interest in subsidiaries on August 31, 2002. The results of operations of these subsidiaries for periods prior to the distribution are included in discontinued operations in the accompanying consolidated financial statements.

DELOITTE & TOUCHE LLP

Houston, Texas
February 28, 2003

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information called for by Item 10 is omitted pursuant to Instruction I(2) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is omitted pursuant to Instruction I(2) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SECURITY HOLDER MATTERS

The information called for by Item 12 is omitted pursuant to Instruction I(2) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is omitted pursuant to Instruction I(2) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

PART IV

ITEM 14. CONTROLS AND PROCEDURES

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

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

(a)(1) Financial Statements

Statements of Consolidated Income for the Three Years Ended December 31, 2002	32
Statements of Consolidated Comprehensive Income for the Three Years Ended December 31, 2002	33
Consolidated Balance Sheets at December 31, 2001 and 2002	34
Statements of Consolidated Cash Flows for the Three Years Ended December 31, 2002	35
Statements of Consolidated Stockholder's and Member's Equity for the Three Years Ended December 31, 2002	36
Notes to Consolidated Financial Statements	37
Independent Auditors' Report	64

(a)(2) Financial Statement Schedules for the Three Years Ended December 31, 2002

Schedule II -- Reserves..... 67

The following schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements:

I, III, IV and V.

(a)(3) Exhibits

See Index of Exhibits on page 71.

(b) Reports on Form 8-K

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

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

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 2002

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO INCOME	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS DESCRIPTION OF RESERVES(1)	BALANCE AT END OF PERIOD
	(THOUSANDS OF DOLLARS)				
Year Ended December 31, 2002:					
Accumulated provisions:					
Uncollectible accounts receivable	$13,000	$10,492	$ --	$18,766	$ 4,726
Reserves for severance	11,403	(68)	943	11,547	1,155
Year Ended December 31, 2001:					
Accumulated provisions:					
Uncollectible accounts receivable	$ 5,146	$13,000	--	$ 5,146	$13,000
Reserves for severance	1,634	1,226	--	1,705	1,155
Year Ended December 31, 2000:					
Accumulated provisions:					
Uncollectible accounts receivable	$ 742	$ 5,147	--	$ 743	$ 5,146
Reserves for severance	80	1,645	--	91	1,634

- ---

(1) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, the State of Texas, on the 11th day of March, 2003.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
(Registrant)

By: /s/ DAVID M. MCCLANAHAN
David M. McClanahan
Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 11, 2003.

SIGNATURE	TITLE
/s/ DAVID M. MCCLANAHAN	Chairman and Manager (Principal Executive Officer) (David M. McClanahan) and Sole Manager)
/s/ GARY L. WHITLOCK	Executive Vice President and Chief Financial Officer (Gary L. Whitlock) (Principal Financial Officer)
/s/ JAMES S. BRIAN	Senior Vice President and Chief Accounting Officer (James S. Brian)

(Principal Accounting Officer)

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this annual report on Form 10-K of CenterPoint Energy Houston Electric, LLC;

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2003

By /s/ DAVID M. MCCLANAHAN

David M. McClanahan
Chairman and Principal Executive Officer

CERTIFICATIONS

I, Gary L. Whitlock, certify that:

1. I have reviewed this annual report on Form 10-K of CenterPoint Energy Houston Electric, LLC;

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2003

By /s/ GARY L. WHITLOCK

Gary L. Whitlock
Executive Vice President and Chief Financial Officer

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

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

INDEX OF EXHIBITS

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

EXHIBIT NUMBER	DESCRIPTION	SEC FILE OR REGISTRATION STATEMENT NUMBER	REPORT OR REGISTRATION EXHIBIT REFERENCE
2(a)	Agreement and Plan of Joint Proxy Statement/ Prospectus of REI contained in Energy, Incorporated Registration Statement on Form ("REI"), CenterPoint S-4 Energy, Inc. ("CNP") and Reliant Energy MergerCo, Inc. dated as of October 19, 2001	333-69502	Annex A
3(a)	Articles of Conversion of CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston")	1-3187	3(a) REI filed with the SEC on September 3, 2002
3(b)	Articles of Organization of CenterPoint Houston	1-3187	3(b) of CenterPoint Energy filed with the SEC on September 3, 2002
3(c)	Limited		

	Liability Company Form 8-K dated August 31, 2002	1-3187		
	3(c)	Regulations of CenterPoint filed with the SEC on September	Houston	3, 2002
	4(a)	Fifth Supplemental Form 8-K12B of CNP dated August	1-31447	
	4(d)	Indenture dated as of 31, 2002 filed with the SEC on August 31, 2002, among September 6, 2002 CNP, REI and JPMorgan Chase Bank (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 Indenture No. Form 8-K12B of CNP dated August	1-31447	
	4(e) 2	dated as of August 31, 31, 2002 filed with the SEC on 2002, among CNP, REI and September 6, 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)		

SEC FILE OR REGISTRATION NUMBER	EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT NUMBER	EXHIBIT REFERENCE
1-31447	4(c)	Supplemental Indenture No. 2 dated as of August 31, 2002 among CNP, REI and The Bank of New York (supplementing the Junior Subordinated Indenture dated as of February 15, 1999 under which REI's Junior Subordinated Debentures were issued)	Form 8-K12B of CNP filed with the SEC on September 6, 2002	4(f)
1-31447	4(d)	Supplemental Indenture No. 3 dated as of August 31, 2002 among CNP, REI and The Bank of New York (supplementing the Junior Subordinated Indenture dated as of February 1, 1997 under which REI's Junior Subordinated	Form 8-K12B of CNP filed with the SEC on August 31, 2002	4(g)

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 of CNP dated August 1- 31447 4(h) Indenture dated as of 31, 2002 filed with the SEC on August 31, 2002 among CNP, September 6, 2002 REI, Reliant Energy Resources Corp. ("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 of CNP dated August 1- 31447 4(i) Indenture dated as of 31, 2002 filed with the SEC on August 31, 2002 among CNP, September 6, 2002 REI, RERC and JPMorgan Chase Bank (supplementing the Indenture dated as of March 1, 1987 under which RERC's 6% Convertible Subordinated Debentures due 2012 were issued)

EXHIBIT NUMBER	DESCRIPTION	SEC FILE OR REGISTRATION NUMBER REFERENCE - REPORT OR REGISTRATION STATEMENT	EXHIBIT NUMBER
4(g)	Assignment and Assumption Form 8-K12B of CNP dated August 1-	31447	4(j)
Agreement for the 31, 2002 filed with the SEC on	Guarantee Agreements dated September 6, 2002 as of August 31, 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 Assumption Form 8-K12B of CNP dated August 1-
			31447 4(k)	Agreement for the 31, 2002 filed with the SEC on
			Guarantee Agreement	dated September 6, 2002 as of August 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)

SEC FILE OR REGISTRATION NUMBER	EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT NUMBER	REFERENCE
4(i)	Assignment and Assumption Agreement for the Expense Liability Agreements and the Trust Agreements 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	Form 8-K12B of CNP dated August 1-31447	4(l)	dated August 31, 2002 between CNP and REI

Amended and Restated Trust Agreement dated February 4, 1997) 4(j)(1) Mortgage and Deed of HL&P's Form S-7 filed on August 2-59748 2(b) Trust, dated November 1, 25, 1977 1944 between Houston Lighting and Power Company ("HL&P") and Chase Bank of Texas, National Association (formerly, South Texas Commercial National Bank of Houston), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto 4(j)2) Twenty-First through HL&P's Form 10-K for the year 1-3187 4(a)(2) Fiftieth Supplemental ended December 31, 1989 Indentures to Exhibit 4(j)(1) 4(j)(3) Fifty-First Supplemental HL&P's Form 10-Q for the quarter 1-3187 4(a) Indenture to Exhibit ended June 30, 1991 4(j)(1) dated as of March 25, 1991 4(j)(4) Fifty-Second through HL&P's Form 10-Q for

		the quarter 1-3187	4
		Fifty-Fifth Supplemental ended March 31, 1992	
		Indentures to Exhibit 4(j)(1) each dated as of March 1, 1992	4(j)(5)
		Fifty-Sixth and HL&P's Form 10-Q for the quarter 1-3187	4
		Fifty-Seventh Supplemental ended September 30, 1992	
		Indentures to Exhibit 4(j)(1) each dated as of October 1, 1992	4(j)(6)
		Fifty-Eighth and HL&P's Form 10-Q for the quarter 1-3187	4
		Fifty-Ninth Supplemental ended March 31, 1993	
		Indentures to Exhibit 4(j)(1) each dated as of March 1, 1993	

SEC FILE OR REGISTRATION EXHIBIT NUMBER REFERENCE	EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT NUMBER
4(j)(7)	Sixtieth	Supplemental	HL&P's Form 10-Q for the quarter
1-3187 4	Indenture to Exhibit	ended June 30, 1993	
4(j)(1)	dated as of	July 1, 1993 4(j)	
(8) Sixty-	First through	Sixty-	HL&P's Form 10-K for the year 1-
3187 4(a)	(8) Third	Supplemental	ended December 31, 1993
Indentures to Exhibit	4(j)(1)	each dated as of	December 1, 1993 4(j)
(9) Sixty-	Fourth and	HL&P's Form 10-K for the year 1-	
3187 4(a)	(9) Sixty-	Fifth	Supplemental ended December 31, 1995
Indentures to Exhibit	4(j)(1)	each dated as of July 1, 1995	
4(k)(1)	General	Mortgage	Quarterly Report on Form 10-Q
1-3187 4(j)			

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

Report on Form 10-Q 1-3187 4(j) (5) Indenture to Exhibit for the quarterly period ended 4(k) (1), dated as of September 30, 2002 October 10, 2002 4(k) (6) Fifth Supplemental Quarterly Report on Form 10-Q 1-3187 4(j) (6) Indenture to Exhibit for the quarterly period ended 4(k) (1), dated as of September 30, 2002 October 10, 2002 4(k) (7) Sixth Supplemental Quarterly Report on Form 10-Q 1-3187 4(j) (7) Indenture to Exhibit for the quarterly period ended 4(k) (1), dated as of September 30, 2002 October 10, 2002 4(k) (8) Seventh Supplemental Quarterly Report on Form 10-Q 1-3187 4(j) (8) Indenture to Exhibit for the quarterly period ended 4(k) (1), dated as of September 30, 2002 October 10, 2002 4(k) (9) Eighth Supplemental Quarterly Report on Form 10-Q 1-3187 4(j) (9) Indenture

to Exhibit		
for the quarterly period ended	4(k)(1), dated as of	September 30, 2002
October 10, 2002		

EXHIBIT NUMBER	DESCRIPTION	SEC FILE OR REGISTRATION STATEMENT NUMBER REFERENCE
+4(k)	(10) Ninth Supplemental Indenture to Exhibit 4(k)(1), dated as of November 12, 2002	
+4(l)(1)	$1,310,000,000 Credit Agreement, dated as of November 12, 2002, among CenterPoint Houston and the banks named therein	
+4(l)(2)	Pledge Agreement, dated as of November 12, 2002 executed in connection with Exhibit 4(l)(1)	
+12	Computation of Ratio of Earnings to Fixed Charges	

EXHIBIT 4(k)(10)

CenterPoint Energy Houston Electric, LLC
1111 Louisiana
Houston, TX 77002

==========

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

TO

JPMORGAN CHASE BANK
Trustee

NINTH SUPPLEMENTAL INDENTURE

Dated as of November 12, 2002

Supplementing the General Mortgage Indenture
Dated as of October 10, 2002

THIS INSTRUMENT GRANTS A SECURITY INTEREST BY A PUBLIC UTILITY

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS

This instrument is being filed pursuant to Chapter 35 of the Texas Business and Commerce Code

==========

NINTH SUPPLEMENTAL INDENTURE, dated as of November 12, 2002, between CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a limited liability company organized and existing under the laws of the State of Texas (herein called the "Company"), having its principal office at 1111 Louisiana, Houston, Texas 77002, and JPMORGAN CHASE BANK, a banking corporation duly organized and existing under the laws of the State of New York, as Trustee (herein called the "Trustee"), the office of the Trustee at which on the date hereof its corporate trust business is administered being 600 Travis Street, Suite 1150, Houston, Texas 77002.

RECITALS OF THE COMPANY

WHEREAS, the Company has heretofore executed and delivered to the Trustee a General Mortgage Indenture dated as of October 10, 2002 (the "Indenture") providing for the issuance by the Company from time to time of its bonds, notes or other evidence of indebtedness to be issued in one or more series (in the Indenture and herein called the "Securities") and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities; and

WHEREAS, the Company, in the exercise of the power and authority conferred upon and reserved to it under the provisions of the Indenture and pursuant to appropriate resolutions of the Manager, has duly determined to make, execute and deliver to the Trustee this Ninth Supplemental Indenture to the Indenture as permitted by Sections 201, 301 and 1401 of the Indenture in order to establish the form or terms of, and to provide for the creation and issuance of, the Securities specified in clause (9) of the definition of the "Initial Series" under the Indenture in an initial aggregate principal amount of $1,310,000,000 (such series being hereinafter and in the Indenture referred to as the "Initial Series (9)") and to correct certain defective provisions in the Indenture; and

WHEREAS, all things necessary to make the Securities of the Initial Series (9), when executed by the Company and authenticated and delivered by the Trustee or any Authenticating Agent and issued upon the terms and subject to the conditions hereinafter and in the Indenture set forth against payment therefor the valid, binding and legal obligations of the Company and to make this Ninth Supplemental Indenture a valid, binding and legal agreement of the Company, have been done;

NOW, THEREFORE, THIS NINTH SUPPLEMENTAL INDENTURE WITNESSETH that, in order to establish the terms of a series of Securities, and for and in consideration of the premises and of the covenants contained in the Indenture and in this Ninth Supplemental Indenture and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, it is mutually covenanted and agreed as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Definitions. Each capitalized term that is used herein and is defined in the Indenture shall have the meaning specified in the Indenture unless such term is otherwise defined herein.

ARTICLE TWO

TITLE, FORM AND TERMS OF THE BONDS

Section 201. Title of the Bonds. This Ninth Supplemental Indenture hereby creates a series of Securities designated as the "General Mortgage Bonds, Series I, due November 12, 2005" of the Company (collectively referred to herein as the "Bonds"). For purposes of the Indenture, the Bonds shall constitute a single series of Securities and may be issued in an unlimited principal aggregate amount, although the initial issuance of the Bonds shall be in the principal amount of $1,310,000,000.

Section 202. Form and Terms of the Bonds. The form and terms of the Bonds will be set forth in an Officer's Certificate delivered by the Company to the Trustee pursuant to the authority granted by this Ninth Supplemental Indenture in accordance with Sections 201 and 301 of the Indenture.

Section 203. Treatment of Proceeds of Title Insurance Policy. Any moneys received by the Trustee as proceeds of any title insurance policy on Mortgaged Property of the Company shall be subject to and treated in accordance with the provisions of Section 607(2) of the Indenture (other than the last paragraph thereof).

ARTICLE THREE

AMENDMENTS TO GENERAL MORTGAGE INDENTURE DATED OCTOBER 10, 2002

The Indenture is hereby amended, as permitted under Section 1401(8) of the Indenture as follows:

Section 301. Amendment to Granting Clauses.

(a) Clause (a) of Granting Clause First is hereby amended by deleting the words "in real property wherever situated," and inserting the following words in their place: "in real property located in the State of Texas or wherever else situated".

(b) Clause (6) of Excepted Property is hereby amended by inserting a comma between the words "gathering" and "transmission".

(c) Clause (x) of the paragraph beginning "provided, however," is hereby amended by deleting the reference to clause (6) and inserting a reference to clause (7) in its place.

(d) Clause (c) of the paragraph beginning "SUBJECT HOWEVER" is hereby amended by deleting the reference to Section 6.06 and inserting a reference to Section 606 in its place.

Section 302. Amendment to General Definitions.

(a) The definition of "Authenticating Agent" is hereby amended by deleting the reference to "Section 1114" and inserting a reference to "Section 1115" in its place.

(b) The definition of "Expert" is hereby amended by deleting the words "whether or not then engaged in the engineering profession".

(c) The definition of "Manager" is hereby amended by inserting immediately following the word "Company" the following words ", within the meaning of the Texas Limited Liability Company Act".

(d) Clause (2) of the definition of Permitted Liens is hereby amended by adding the words "which is not delinquent" immediately following the words "compensation earned".

(e) The definition of Permitted Liens is hereby amended by deleting clause (22) of such definition in its entirety, by deleting "; and" at the end of clause (21) of such definition and inserting a period in its place and by inserting the word "and" at the end (following the semi-colon) of clause (20) of such definition.

(f) The definition of Retired Securities is hereby amended by adding the following words at the end of such definition: "and provided further that no such First Mortgage Bond may be used as the basis for the authentication and delivery of both additional Securities and additional First Mortgage Bonds."

Section 303. Amendment to Adjusted Net Earnings Definition. Clause (1) of the definition of Adjusted Net Earnings in Section 104 is hereby amended by capitalizing the word "order" in the term "Company order".

Section 304. Amendment to Annual Interest Requirements Definition.

(a) Clause (C) of the definition of Annual Interest Requirements in Section 104 is hereby amended by deleting the words "except any First Mortgage Collateral Bonds and".

(b) Clause (D) of the definition of Annual Interest Requirements in Section 104 is hereby amended by inserting a closed-parenthesis immediately following the words "by a

Prepaid Loan prior to the Lien of this Indenture upon property subject to the Lien of this Indenture" and deleting the closed-parenthesis that follows the words "and secured by a Lien on a parity with or prior to the Lien of this Indenture upon property subject to the Lien of this Indenture".

Section 305. Amendment to Content and Form of Documents Delivered to Trustee. Clause (3) of Section 106 is hereby amended by inserting the word "material" immediately preceding the word "clerical", and by deleting the word `may" immediately preceding the words "be substituted" and inserting the word "shall" in its place.

Section 306. Amendment to Issuance of Securities-General. Section 401(4)(Y) is hereby amended by adding the words `and legally binding" immediately following the word "valid" and by adding the words ", and enforceable against the Company (subject to customary exceptions)." at the end of such clause.

Section 307. Amendment to Issuance on the Basis of Property Additions.

(a) Section 402(2)(B)(xiii) is hereby amended by deleting the words "other than First Mortgage Collateral Bonds".

(b) Section 402(2)(E)(ii) is hereby amended by deleting the words "corporate or" and inserting the word "company" immediately preceding the word "authority".

Section 308. Amendment to Money for Securities Payments to Be Held in Trust. The first paragraph of Section 603 is hereby amended by deleting the words "to the extent required by law".

Section 309. Amendment to Insurance Covenant. Section 607 (2)(B)(iv)(b) is hereby amended by deleting the reference to "clause (b)" and inserting a reference to "clause (B)" in its place.

Section 310. Amendment to Limited Issuance of First Mortgage Securities. Section 611(1) is hereby amended by deleting it in its entirety and inserting the following words in its place:

"(1) First Mortgage Securities in place of, and in substitution for, or to refund, other First Mortgage Securities, if (A) the aggregate principal amount of such new First Mortgage Securities shall not exceed the aggregate principal amount of such other First Mortgage Securities, and (B) the final stated maturity date of such new First Mortgage Securities shall be a date not later than the final stated maturity date of such other First Mortgage Securities;".

Section 311. Amendment to First Mortgage Collateral Bonds. Clause (1) of Section 701 is hereby amended by inserting the words "or other Maturity" immediately following the words "Stated Maturity".

Section 312. Amendment to Discharge of First Mortgage.

(a) Section 707(1)(C)(iv) is hereby amended by deleting the words "to the Company to be deemed to have been made the basis of the authentication and delivery of such Securities, will no longer constitute Funded Property (other than pursuant to clause (6) of the definition of "Funded Property") upon the discharge of the First Mortgage" and inserting in their place the following: "to the Company shall be deemed to have been made the basis of the authentication and delivery of such Securities, upon the discharge of the First Mortgage."

(b) Section 707(1)(F)(ii) is hereby amended by deleting the word "corporate" and inserting the words "limited liability company" in its place.

Section 313. Amendment to Release of Funded Property. Clause (A) of Section 803(3) is hereby amended by deleting the word "generally".

Section 314. Amendment to Satisfaction and Discharge. Section 901(3)(D)(i) is hereby amended by inserting a comma between the words "income" and "gain".

Section 315. Amendment to Acceleration of Maturity. Section 1002(1)(A) is hereby amended by deleting the words "of that series".

ARTICLE FOUR

MISCELLANEOUS PROVISIONS

The Trustee makes no undertaking or representations in respect of, and shall not be responsible in any manner whatsoever for and in respect of, the validity or sufficiency of this Ninth Supplemental Indenture or the proper authorization or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein, all of which recitals and statements are made solely by the Company.

Except as expressly amended and supplemented hereby, the Indenture shall continue in full force and effect in accordance with the provisions thereof and the Indenture is in all respects hereby ratified and confirmed. This Ninth Supplemental Indenture and all of its provisions shall be deemed a part of the Indenture in the manner and to the extent herein and therein provided.

This Ninth Supplemental Indenture shall be governed by, and construed in accordance with, the law of the State of New York.

This Ninth Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Ninth Supplemental Indenture to be duly executed as of the day and year first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Vice President and Treasurer

JPMORGAN CHASE BANK, as Trustee

By: /s/ REBECCA A. NEWMAN

Name: Rebecca A. Newman
Title: Vice President

ACKNOWLEDGMENT

STATE OF TEXAS)
) ss
COUNTY OF HARRIS)

On the 11th day of November 2002, before me personally came Marc Kilbride, to me known, who, being by me duly sworn, did depose and say that he resides in Houston, Texas; that he is the Vice President and Treasurer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, the limited liability company described in and which executed the foregoing instrument; and that he signed his name thereto by authority of the sole manager of said limited liability company.

/s/ CHRISTIE J. NEWSOME

Notary Public

EXHIBIT 4(l)(1)

EXECUTION COPY

==========

$1,310,000,000 CREDIT AGREEMENT

Dated as of November 12, 2002

Among

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,

as Borrower,

THE BANKS PARTIES HERETO

and

CREDIT SUISSE FIRST BOSTON,

as sole and exclusive Administrative Agent

CREDIT SUISSE FIRST BOSTON,

as Sole Lead Arranger and Bookrunner,

and

DEUTSCHE BANK SECURITIES INC.

and

BANC OF AMERICA SECURITIES LLC,

as Co-Arrangers

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CREDIT AGREEMENT

This Credit Agreement, dated as of November 12, 2002 (this "Agreement"), among CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Borrower"), the banks and other lenders from time to time parties hereto (individually, a "Bank" and, collectively, the "Banks"), and Credit Suisse First Boston, as administrative agent (in such capacity, together with any successors thereto in such capacity, the "Administrative Agent").

NOW, THEREFORE, in consideration of the premises of the mutual agreements, representations and warranties herein set forth, and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

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

"ABR" or "Alternate Base Rate" means, for any day, an alternate base rate calculated as a fluctuating rate per annum as shall be in effect from time to time, equal to the greatest of:

(a) the Prime Rate in effect on such day;

(b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%; and

(c) 4.00%.

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

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

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

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

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

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

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

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

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

"Borrowed Money" of any Person means any Indebtedness of such Person for or in respect of money borrowed or raised by whatever means (including acceptances, deposits, lease obligations under Capital Leases, Mandatory Payment Preferred Stock and synthetic leases); provided, however, that Borrowed Money shall not include (a) any guarantees that may be incurred by endorsement of negotiable instruments for deposit or collection in the ordinary course of business or similar transactions, (b) any obligations or guarantees of performance of obligations under a franchise, performance bonds, franchise bonds, obligations to reimburse drawings under letters of credit issued in accordance with the terms of any safe harbor lease or franchise or in lieu of performance or franchise bonds or other obligations incurred in the ordinary course of business that do not represent money borrowed or raised, in each case to the extent that such reimbursement obligations are payable in full within ten (10) Business Days after the date upon which such obligation arises, (c) trade payables, (d) any obligations of such Person under Swap Agreements, (e) customer advance payments and deposits arising in the ordinary course of business or (f) operating leases.

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

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close; provided that when used in connection with a LIBOR Rate Loan, the term "Business Day" shall

also exclude any day on which commercial banks are not open for dealings in Dollar deposits in the London interbank market.

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

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

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

"CenterPoint" means CenterPoint Energy, Inc., a Texas corporation and utility holding company owning, through Subsidiaries, the Borrower and its Subsidiaries.

"CenterPoint Credit Agreement" means the $3,850,000,000 Credit Agreement, dated as of October 10, 2002, among CenterPoint, as borrower, JPMorgan Chase Bank, as administrative agent, and the other financial institutions parties thereto, as amended,

modified, supplemented, refinanced or replaced from time to time (without modifying the mandatory prepayment provisions of Section 5.7 thereof (or any similar sections of any refinancing or replacing facility) to increase the amounts that would be prepaid thereunder from the proceeds of Asset Sales, Capital Stock issuances or debt incurrences, in each case by the Borrower and its Subsidiaries or Securitization Subsidiaries, from the provisions of such Section 5.7 as in effect on the date hereof).

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

"Change in Control" means (i) with respect to CenterPoint, the acquisition by any Person or "group" (within the meaning of Rule 13d-5 of the Exchange Act) of beneficial ownership (determined in accordance with Rule 13d-3 of the Exchange Act) of Capital Stock of CenterPoint, the result of which is that such Person or group beneficially owns 30% or more of the aggregate voting power of all then issued and outstanding Capital Stock of CenterPoint or (ii) CenterPoint shall cease to own and control, of record and beneficially, directly or indirectly, 100% of each class of outstanding Capital Stock of the Borrower free and clear of all Liens. For purposes of the foregoing, the phrase "voting power" means, with respect to an issuer, the power under ordinary circumstances to vote for the election of members of the board of directors of such issuer.

"Closing Date" means the date, on or before November 15, 2002, all the conditions set forth in Section 6.1 are satisfied (or waived) in accordance with the terms hereof.

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

"Collateral" has the meaning assigned to such term in the Pledge Agreement.

"Commitment" means, as to any Bank, the obligation of such Bank to make a Loan to the Borrower in a principal amount not to exceed the amount set forth under the heading "Commitment" opposite such Bank's name on Schedule 1.1. The aggregate amount of the Commitments is $1,310,000,000.

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

"Confidential Information Memorandum" means the Confidential Information Memorandum, dated October 2002 and furnished to certain Banks, as supplemented prior to the date hereof.

"Consolidated Capitalization" means, as of any date of determination, the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and, without duplication, (c) Mandatory Payment Preferred Stock; provided that for the purpose of calculating compliance with Section 8.2(a), Consolidated

Capitalization shall be determined excluding any adjustment, non-cash charge to net income or other non-cash charges or writeoffs resulting thereto from application of SFAS No. 142.

"Consolidated Indebtedness" means, as of any date of determination, the sum of (i) the total Indebtedness as shown on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, determined without duplication of any Guarantee of Indebtedness of the Borrower by any of its Consolidated Subsidiaries or of any Guarantee of Indebtedness of any such Consolidated Subsidiary by the Borrower or any other Consolidated Subsidiary of the Borrower, plus (ii) any Mandatory Payment Preferred Stock.

"Consolidated Shareholders' Equity" means, as of any date of determination, the total assets of the Borrower and its Consolidated Subsidiaries, less all liabilities of the Borrower and its Consolidated Subsidiaries. As used in this definition, "liabilities" means all obligations that, in accordance with GAAP consistently applied, would be classified on a balance sheet as liabilities (including without limitation (to the extent so classified), (a) Indebtedness; (b) deferred liabilities; and (c) Indebtedness of the Borrower or any of its Consolidated Subsidiaries that is expressly subordinated in right and priority of payment to other liabilities of the Borrower or such Consolidated Subsidiary, but in any case excluding as at such date of determination any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary).

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

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

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

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

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

any LIBOR Rate Loan or other amounts payable hereunder, the sum of the interest rate for ABR Loans in effect at such time plus 2%.

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

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

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

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

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

"Excluded Asset Sales" means the following Dispositions of Property or series of related Dispositions of Property: (i) Permitted Asset Swaps; (ii) the sale or Disposition in the ordinary course of business of inventory, accounts receivable (in respect of the collection thereof) and obsolete assets; (iii) leases entered into in the ordinary course of business; (iv) non-exclusive license of patents, trademarks, registrations therefor and other similar intellectual property in the ordinary course of business; (v) intercompany Dispositions among the Borrower and its Subsidiaries in the ordinary course of business; (vi) sale leaseback transactions entered into by the Borrower or any of its Subsidiaries in the ordinary course of business and (vii) Dispositions to or by Securitization Subsidiaries consistent with the definition thereof.

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

(a) Indebtedness in respect of any refinancing, refundings, renewals or extensions (on or prior to the maturity thereof) of (without any increase in the principal amount thereof plus any expenses (including any redemption premium or penalty) or any shortening of the final maturity thereof) Indebtedness outstanding on the Closing Date (excluding Indebtedness in respect of the Reliant Energy FinanceCo II LP 7.40% Senior Notes due November 15, 2002 and the Existing Credit Facilities);

(b) Intercompany Indebtedness;

(c) Indebtedness permitted hereunder to the extent constituting (i) the issuance by the Borrower or any of its Subsidiaries of commercial paper, (ii) any backup credit or liquidity facilities in respect of any such commercial paper issuance, (iii) other short-term instruments in lieu of the issuance of commercial paper, (iv) letters of credit issued for the account of the Borrower or any of its Subsidiaries in respect of any of the foregoing and (v) drawings on letters of

credit, bonds or similar obligations permitted under this Agreement if the proceeds are applied to the underlying obligation secured or supported thereby;

(d) Indebtedness of the Borrower in respect of the Loans and the Pledged Bonds;

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

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

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

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

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

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

(k) Indebtedness incurred by the Borrower or any of its Subsidiaries after the date hereof at any time outstanding in aggregate principal amount not to exceed $300,000,000.

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

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

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

"Federal Funds Effective Rate" means, for any day, a fluctuating rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if

such rate is not so published for any day that is a Business Day, the average of the quotations for such day for such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Borrower.

"FinanceCo" means Reliant Energy FinanceCo II LP.

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

"FinanceCo Permitted Refinancing" means the repayment, at maturity, by FinanceCo of the FinanceCo Permitted Facilities, together with accrued and unpaid interest thereon, with proceeds of the Loans either used by the Borrower to redeem preference shares of the Borrower held by FinanceCo or otherwise advanced to FinanceCo.

"Fitch" means Fitch Ratings and any successor rating agency.

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

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

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

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

amount of such Guarantee shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith (and "guaranteed" and "guarantor" shall be construed accordingly).

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

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

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

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

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

"Interest Period" means, for each LIBOR Rate Loan, the period commencing on the date of such LIBOR Rate Loan or the date of the conversion of any Loan into such LIBOR Rate Loan, as the case may be, and ending on the last day of the period selected by the Borrower pursuant to Section 2.2 or 4.6, as the case may be, and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest

Period and ending on the last day of the period selected by the Borrower pursuant to Section 4.6. The duration of each such Interest Period shall be one, two, three, six or, with the consent of all the Banks, nine or twelve months or periods shorter than one month, as the Borrower may select by notice pursuant to Section 2.2(a) or 4.6 hereof; provided, however, that:

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

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

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

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

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

"Lead Arranger" means Credit Suisse First Boston, in its capacity as sole lead arranger and bookrunner.

"LIBOR Rate" means with respect to any LIBOR Rate Loan for any Interest Period, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m. (London time) on the date that is two Business Days prior to the beginning of the relevant Interest Period by reference to the British Bankers' Association Interest Settlement Rates for deposits in dollars (as set forth by the Bloomberg Information Service or any successor thereto or any other service selected by the Administrative Agent that has been nominated by the British Bankers' Association as an authorized information vendor for the purpose of displaying such rates) for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the "LIBOR Rate" shall be the interest rate per annum determined by the Administrative Agent to be the average of the rates per annum at which deposits in dollars are offered for such relevant Interest Period to major banks in the London interbank market in London, England by the

Administrative Agent at approximately 11:00 a.m. (London time) on the date that is two Business Days prior to the beginning of such Interest Period; provided further that, if the LIBOR Rate determined as provided above with respect to any Loan for any Interest Period would be less than 3.00% per annum, then the "LIBOR Rate" with respect to such Loan for such Interest Period shall be deemed to be 3.00% per annum.

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

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

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

"Loan Documents" means this Agreement, the Pledge Agreement, any Notes, the Second Mortgage Indenture, the Pledged Bonds and any document or instrument executed in connection with the foregoing.

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

"Majority Banks" means, at any time, Banks having in excess of 50% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the aggregate unpaid principal amount of Loans then outstanding at such time; provided that if a single Bank, together with its Bank Affiliates, has in excess of 50%, but less than 100%, of (x) such Commitments then in effect or (y) such aggregate unpaid principal amount of Loans then outstanding, then "Majority Banks" shall mean such Bank plus at least one other Bank that is not a Bank Affiliate of such Bank.

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

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

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

"Maturity Date" means (a) November 11, 2005 or (b) any earlier date on which all unpaid principal amounts of the Loans hereunder have been declared due and payable in accordance with this Agreement.

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

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

"Mortgaged Property" has the meaning assigned to such term in the Second Mortgage Indenture.

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

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

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

"Notice of Borrowing" has the meaning specified in Section 2.2(a).

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

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

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

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

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

"Permitted Liens" means with respect to any Person:

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

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

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

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

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

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

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

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

(i) Liens on cash and short-term investments (i) deposited by the Borrower or any of its Subsidiaries in margin accounts with or on behalf of futures contract brokers or

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

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

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

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

"Pledge Agreement" means the Pledge Agreement to be executed and delivered by the Borrower and the Administrative Agent, substantially in the form of Exhibit 1.1.

"Pledged Bonds" has the meaning assigned to such term in the Pledge Agreement.

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

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

"Pro Rata Percentage" means, as to any Bank at any time, the percentage which such Bank's Commitment then constitutes of the aggregate Commitments (or, at any time after the Closing Date, the percentage which the aggregate principal amount of such

Bank's Loans then outstanding constitutes of the aggregate principal amount of the Loans then outstanding).

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

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

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

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

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

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

"Reinvestment Deferred Amount" means with respect to any Reinvestment Event, the aggregate Net Cash Proceeds received by the Borrower or any of its Subsidiaries in connection therewith that are not applied to prepay the Loans pursuant to Section 5.6(b) as a result of the delivery of a Reinvestment Notice.

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

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

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

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

Borrower's or one of its Subsidiaries' business with all or any portion of the relevant Reinvestment Deferred Amount.

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

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

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

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

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

"Second Mortgage Indenture" means the general mortgage indenture dated October 10, 2002, as supplemented, between the Borrower and the Trustee.

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

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

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

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

"Significant Subsidiary" means (i) for the purposes of determining what constitutes an "Event of Default" under Sections 9.1(g), (h), (i), (j) and (k), a Subsidiary of the Borrower, whose total assets, as determined in accordance with GAAP, represent

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

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

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

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

"Supermajority Banks" means, at any time, Banks having in excess of 66 2/3% of (a) until the Closing Date, the Commitments then in effect and (b) thereafter, the aggregate unpaid principal amount of Loans then outstanding; provided that if a single Bank, together with its Bank Affiliates, has in excess of 66 2/3%, but less than 100%, of (x) such Commitments then in effect or (y) such aggregate unpaid principal amount of Loans then outstanding, then "Supermajority Banks" shall mean such Bank plus at least one other Bank that is not a Bank Affiliate of such Bank.

"Supplemental Indenture" means the Ninth Supplemental Indenture to be executed and delivered by the Borrower and the Trustee, substantially in the form of Exhibit 1.2.

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

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

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

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

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

"Triggering Event" has the meaning specified in Section 5.8(b).

"Trustee" means JPMorgan Chase Bank, as trustee under the Second Mortgage Indenture.

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

"United States" means the United States of America.

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

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

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

accounts, leasehold interests and contract rights, and (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time.

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

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

ARTICLE II

AMOUNTS AND TERMS OF THE LOANS

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

SECTION 2.2. Procedure for Loan Borrowing. The Borrower shall give the Administrative Agent irrevocable notice of borrowing (the "Notice of Borrowing"), substantially in the form of Exhibit 2.2 hereto, on or prior to 1:00 P.M. (New York City time) on the day immediately prior to the proposed day of borrowing, specifying the amount and Type of Loan comprising the borrowing to be made on the Closing Date and with respect to any LIBOR Rate Loan, the Interest Period for such Loan, and the Borrower shall have been deemed to have made the representations and warranties contained in the Notice of Borrowing. Upon receipt of the Notice of Borrowing the Administrative Agent shall promptly notify each Bank thereof. Not later than 1:00 P.M. (New York City time), on the Closing Date, each Bank shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the Loan to be made by such Bank. The Administrative Agent shall credit the account of the Borrower on the books of the Funding Office of the Administrative Agent with the aggregate of the amounts made available to the Administrative Agent by the Banks in immediately available funds.

SECTION 2.3. Repayment of Loans. The Borrower hereby unconditionally promises to pay to each Bank, through the Administrative Agent, on the Maturity Date, the then outstanding principal amount of the Loans of such Bank, together with accrued and unpaid interest thereon as provided herein.

SECTION 2.4. Minimum and Maximum Tranches. All Borrowings, prepayments, conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (a) the aggregate principal amount of the Loans comprising each Tranche of

LIBOR Rate Loans shall be equal to $10,000,000 or an integral multiple of $1,000,000 in excess thereof and (b) not more than three separate Tranches of LIBOR Rate Loans shall be outstanding at any time.

ARTICLE III

[INTENTIONALLY OMITTED]

ARTICLE IV

PROVISIONS RELATING TO ALL LOANS

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

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

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

SECTION 4.2. Fees. The Borrower shall pay to the Administrative Agent, for its own account, the fees in the amounts and on the dates previously agreed to in writing by the Borrower and the Administrative Agent.

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

(a) ABR Loans. Each ABR Loan shall bear interest at a rate per annum equal at all times to the lesser of (i) the ABR plus 8.75% and (ii) the Highest Lawful Rate, payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing on the last Business Day of December 2002, and on the Maturity Date.

(b) LIBOR Rate Loans. Each LIBOR Rate Loan shall bear interest at a rate per annum equal at all times to the lesser of (A) the sum of the LIBOR Rate for the applicable Interest Period for such Loan plus 9.75% and (B) the Highest Lawful Rate, payable on the last day of such Interest Period and, with respect to Interest Periods of six, nine or twelve months, each day during such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, and on the Maturity Date.

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

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

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

SECTION 4.4. Reserve Requirements. (a) The Borrower agrees to pay to each Bank that requests compensation under this Section 4.4 in accordance with the provisions set forth in Section 5.7(b), so long as such Bank shall be required to maintain reserves against "Eurocurrency liabilities" under Regulation D of the Board (or, so long as such Bank shall be required by the Board or by any other Governmental Authority to maintain reserves against any other category of liabilities that includes deposits by reference to which the interest rate on LIBOR Rate Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Bank that includes any LIBOR Rate Loans), an additional amount (determined by such Bank and notified to the Borrower pursuant to the provisions set forth in Section 5.7(b)) representing such Bank's calculation or, if an accurate calculation is impracticable, reasonable estimate (using such method of allocation to such Loans of the Borrower as such Bank shall determine in accordance with Section 5.7(a)) of the actual costs, if any, incurred by such Bank during the relevant Interest Period, as a result of the applicability of the foregoing reserves to such LIBOR Rate Loans, which amount in any event shall not exceed the product of the following for each day of such Interest Period:

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

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

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

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

SECTION 4.5. Interest Rate Determination and Protection. (a) The rate of interest for each LIBOR Rate Loan shall be determined by the Administrative Agent two (2) Business Days before the first day of each Interest Period applicable to such Loan. The Administrative Agent shall give prompt notice to the Borrower and the Banks of the applicable interest rate determined by the Administrative Agent for purposes of Sections 4.3(a) and (b).

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

SECTION 4.6. Voluntary Interest Conversion or Continuation of Loans. (a) The Borrower may on any Business Day, upon the Borrower's irrevocable oral or written notice of interest conversion/continuation given by the Borrower to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed interest conversion or continuation in the case of a LIBOR Rate Loan, (i) convert Loans of one Type into Loans of another Type; (ii) convert LIBOR Rate Loans for a specified Interest Period into LIBOR Rate Loans for a different Interest Period; or (iii) continue LIBOR Rate Loans for a specified Interest Period as LIBOR Rate Loans for the same Interest Period;

provided, however, that (A) any conversion of any LIBOR Rate Loans into LIBOR Rate Loans for a different Interest Period, or into ABR Loans, or any continuation of LIBOR Rate Loans for the same Interest Period shall be made on, and only on, the last day of an Interest Period for such LIBOR Rate Loans; (B) no Loan may be converted into or continued as a LIBOR Rate Loan by the Borrower so long as an Event of Default has occurred and is continuing; (C) no Loan may be converted into or continued as a LIBOR Rate Loan after the date that is one month prior to the Maturity Date, and (D) no Loan may be converted into or continued as a LIBOR Rate Loan if, after giving effect thereto, Section 2.4 would be contravened. With respect to any oral notice of interest conversion/continuation given by the Borrower under this Section 4.6(a), the Borrower shall promptly thereafter confirm such notice in writing. Each written notice of interest conversion/continuation given by the Borrower under this Section 4.6(a) and each confirmation of an oral notice of interest conversion/continuation given by the Borrower under this Section 4.6(a) shall be in substantially the form of Exhibit 4.6 hereto ("Notice of Interest Conversion/Continuation"). Each such Notice of Interest Conversion/Continuation shall specify therein the requested (x) date of such interest conversion or continuation; (y) the Loans to be converted or continued; and (z) if such interest conversion or continuation is into LIBOR Rate Loans, the duration of the Interest Period for each such LIBOR Rate Loan. Upon receipt of any such Notice of Interest Conversion/Continuation, the Administrative Agent shall promptly notify each Bank thereof. Each Notice of Interest Conversion/Continuation shall be irrevocable and binding on the Borrower.

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

SECTION 4.7. Funding Losses Relating to LIBOR Rate Loans. (a) The Borrower agrees, without duplication of any other provision under this Agreement, to indemnify each Bank and to hold each Bank harmless from any loss or expense that such Bank may sustain or incur as a consequence of (i) default by the Borrower in payment when due of the principal amount of or interest on any LIBOR Rate Loan, (ii) default by the Borrower in making a borrowing of, conversion into or continuation of any LIBOR Rate Loan after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (iii) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (iv) the making of a prepayment of LIBOR Rate Loans or the conversion of LIBOR Rate Loans into ABR Loans, on a day that is not the last day of an Interest Period with respect thereto (excluding any prepayment made pursuant to Section 4.8), including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. The calculation of all amounts payable to a Bank under this Section 4.7(a) shall be made pursuant to the method described in Section 5.7(a), but in no event shall such amounts payable with respect to any LIBOR Rate Loan exceed the amounts that would

have been payable assuming such Bank had actually funded its relevant LIBOR Rate Loan through the purchase of a deposit bearing interest at the LIBOR Rate in an amount equal to the amount of such LIBOR Rate Loan and having a maturity comparable to, with respect to any LIBOR Rate Loan, the relevant Interest Period; provided that each Bank may fund each of its LIBOR Rate Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this Section 4.7(a).

(b) The agreements in this Section 4.7 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 4.7 for amounts accruing prior to the date that is 90 days prior to the date upon which such Bank requests in writing such reimbursement or compensation from the Borrower.

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

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

ARTICLE V

INCREASED COSTS, TAXES, PAYMENTS AND PREPAYMENTS

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

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

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

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

and the result of any of the foregoing is to increase the actual cost to such Bank, by an amount that such Bank deems to be material, of making, converting into, continuing or maintaining LIBOR Rate Loans or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Bank, upon its demand in the manner set forth in Section 5.7(b), any additional amounts, computed by such Bank in accordance with Section 5.7(a), necessary to compensate such Bank for such actual increased cost or reduced amount receivable that is attributable to Loans or Commitments (to the extent that such Bank has not already been compensated or reimbursed for such amounts pursuant to any other provision of this Agreement). If any Bank becomes entitled to claim any additional amounts pursuant to this Section 5.1(a) from the Borrower, it shall promptly notify the Borrower, through the Administrative Agent, of the event by reason of which it has become so entitled in the manner set forth in Section 5.7(b).

(b) If any Bank determines in good faith that the introduction of or any change in or in the interpretation or application by any Governmental Authority of any law or regulation regarding capital adequacy after the date of this Agreement or compliance by such Bank or any corporation controlling such Bank with any law or regulation or any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) made or issued after the date of this Agreement does or shall have the effect, as a result of such Bank's obligations under this Agreement, of reducing the rate of return on such Bank's or such corporation's capital to a level below that which such Bank or such corporation could have achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, the Borrower shall pay to the Administrative Agent for the account of such Bank, from time to time as specified by such Bank in the manner set forth in Section 5.7(b), additional amounts, computed by such Bank in accordance with Section 5.7(a), sufficient to compensate such Bank or such corporation in the light of such circumstances, to the extent that such Bank

reasonably determines such reduction in rate of return is allocable to the existence of such Bank's obligations hereunder.

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

SECTION 5.2. Pro Rata Treatment and Payments. (a) Each borrowing by the Borrower from the Banks hereunder shall be made pro rata according to the Pro Rata Percentages of the Banks. Except to the extent expressly provided in Section 5.5 or 5.6, each payment by the Borrower on account of principal of and interest on the Loans shall be made pro rata according to the respective Pro Rata Percentages of the Banks. Amounts prepaid on account of the Loans may not be reborrowed.

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

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

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

which such Bank's Pro Rata Percentage of such payment shall have become immediately available to the Administrative Agent and the denominator of which is 360.

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

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

(c) The Borrower will indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 5.3) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, including, without limitation or duplication,

any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Bank as a result of any failure by the Borrower to pay any Taxes or Other Taxes when due to the appropriate taxing authority or to remit to any Bank the receipts or other evidence of payment of Taxes or Other Taxes.

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

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

(f) The agreements in this Section 5.3 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that (i) in no event shall the Borrower be obligated to reimburse or compensate any Bank for amounts contemplated by this Section 5.3 for any period before the date that is 180 days before the date

upon which such Bank requests in writing such reimbursement or compensation from the Borrower (other than any amounts as to which the ultimate amount of the reimbursement due could not then be determined) and (ii) nothing contained in this Section 5.3 shall require the Borrower to pay any amount to any Bank or the Administrative Agent in addition to that for which it has already reimbursed any Bank or the Administrative Agent under any other provision of this Agreement.

SECTION 5.4. Sharing of Payments, Etc. If any Bank (a "benefitted Bank") shall at any time receive any payment (other than pursuant to Section 4.4, 4.7, 5.1 or 5.3 or as expressly contemplated by Section 5.5 or 5.6) of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by setoff, pursuant to events or proceedings of the nature referred to in Section 9.1(g) or 9.1(h), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Loans, or interest thereon, such benefitted Bank shall purchase for cash from the other Banks a participating interest in such portion of each such other Bank's Loans or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 5.4 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

SECTION 5.5. Voluntary Prepayments. The Borrower may, upon written notice delivered to the Administrative Agent at least 10 days prior to the proposed date of prepayment stating the aggregate principal amount of the Loans to be prepaid and the proposed prepayment price thereof, offer to prepay the outstanding principal amounts of the Loans comprising part of the same borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that no Bank shall be obligated to accept such offer. To the extent one or more Banks accepts any such offer ("Accepting Banks") and one or more Banks rejects such offer ("Rejecting Banks"), the amounts that would have been allocable to the Rejecting Banks may (if accepted by the Accepting Banks) be paid to the Accepting Banks in accordance with their Pro Rata Percentages. Any Bank that shall have failed to respond to an offer described in this Section 5.5 shall be deemed to have rejected such offer. If any Bank shall have rejected (or been deemed to have rejected) any offer to prepay described above and the Borrower shall thereafter vary the offer, the Borrower shall make the modified offer available to the Rejecting Banks for a period of at least three Business Days before making the contemplated prepayment. Except as provided in this Section 5.5, the Borrower shall not have the right to prepay the Loans.

SECTION 5.6. Mandatory Repayments and Prepayments and Commitment Reductions. (a) Subject to paragraph (d) below, if any Capital Stock or Indebtedness shall be issued or incurred by the Borrower or any of its Subsidiaries after the Closing Date (other than Excluded Transactions), an amount equal to 100% of the Net Cash Proceeds thereof shall be applied within

two (2) Business Days after such issuance or incurrence toward the prepayment of the Loans as set forth in Section 5.6(c); provided that, notwithstanding the foregoing, the Net Cash Proceeds from all such issuances and incurrences made in accordance with the terms of this Agreement, other than Excluded Transactions and any issuance or incurrence by a Securitization Subsidiary, shall be used to prepay the loans outstanding under the CenterPoint Credit Facility to the extent subject to the mandatory prepayment requirements of the CenterPoint Credit Agreement. Solely for purposes of this Section 5.6, Securitization Subsidiaries shall be deemed to be "Subsidiaries" of the Borrower, and the sale or contribution of assets to a Securitization Subsidiary, together with the issuance of Securitization Securities, shall be deemed to be an incurrence of Indebtedness (and not an Excluded Asset Sale or otherwise subject to Section 5.6(b)).

(b) Subject to paragraph (d) below, if the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Asset Sale (other than (x) an Excluded Asset Sale and (y) any Asset Sale yielding Net Cash Proceeds of $30,000,000 or less, provided that the aggregate amount of Net Cash Proceeds from all Asset Sales excluded by this clause (y) shall not exceed $100,000,000) or Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, within two (2) Business Days after such Asset Sale or Recovery Event, the Borrower shall, or shall cause the applicable Subsidiary to, apply such Net Cash Proceeds toward the prepayment of the Loans as set forth in Section 5.6(c); provided that, notwithstanding the foregoing, (i) the aggregate Net Cash Proceeds of Asset Sales that may be excluded from the foregoing pursuant to a Reinvestment Notice shall not exceed $120,000,000, (ii) on each Reinvestment Prepayment Date, an amount equal to the Reinvestment Prepayment Amount with respect to the relevant Reinvestment Event shall be applied toward the prepayment of the Loans as set forth in Section 5.6(c) and (iii) such Net Cash Proceeds shall be used to prepay the loans outstanding under the CenterPoint Credit Facility to the extent subject to the mandatory prepayment requirements of the CenterPoint Credit Agreement.

(c) The Borrower shall deliver to the Administrative Agent, at the time of each prepayment required under this Section 5.6, (i) a certificate signed by a Responsible Officer of the Borrower setting forth in reasonable detail the calculation of the amount of such prepayment and (ii) to the extent practicable, at least three days prior written notice of such prepayment. Each notice of prepayment shall specify the prepayment date, the Type of each Loan being prepaid and the principal amount of each Loan (or portion thereof) to be prepaid. All prepayments of borrowings under this Section 5.6 shall be subject to Section 4.7, but shall otherwise be without premium or penalty.

(d) Each Bank may, by notice to the Administrative Agent in writing no later than 3:00 p.m., New York City time, at least one Business Day prior to any prepayment required to be made by the Borrower for the account of such Bank pursuant to this Section 5.6, elect either to accept or to refuse all or a portion of such prepayment (and any Bank that shall have failed so to notify the Administrative Agent shall be deemed to have refused such prepayment). Any amounts so refused by the Banks may be retained by the Borrower.

SECTION 5.7. Mitigation of Losses and Costs. Any Bank claiming reimbursement from the Borrower under any of Sections 4.4, 4.7, 5.1 and 5.3 hereof shall use reasonable efforts (including, without limitation, if requested by the Borrower, reasonable efforts to designate a different lending office of such Bank) to mitigate the amount of such losses, costs, expenses and

liabilities, if such efforts can be made and such mitigation can be accomplished without such Bank suffering (a) any economic disadvantage for which such Bank does not receive full indemnity from the Borrower under this Agreement or (b) any legal or regulatory disadvantage.

SECTION 5.8. Determination and Notice of Additional Costs and Other Amounts. (a) In determining the amount of any claim for reimbursement or compensation under Sections 4.4, 4.7 and 5.1, each Bank may use any reasonable averaging, attribution and allocation methods consistent with such methods customarily employed by such Bank in similar situations.

(b) Each Bank or, with respect to compensation claimed by it pursuant to Section 5.3, the Administrative Agent, as the case may be, will (i) use its best efforts to notify the Borrower through the Administrative Agent (in the case of each Bank) of any event occurring after the date of this Agreement promptly after the occurrence thereof and (ii) notify the Borrower through the Administrative Agent (in the case of each Bank) promptly after such Bank or the Administrative Agent, as the case may be, becomes aware of any event occurring after the date of this Agreement, in either case if such event (for purposes of this Section 5.8(b), a "Triggering Event") will entitle such Bank or the Administrative Agent, as the case may be, to compensation pursuant to Section 4.4, 4.7, 5.1 or 5.3, as the case may be. Each such notification of a Triggering Event shall be accompanied by a certificate of such Bank or the Administrative Agent, as the case may be, setting forth the calculations and justification in reasonable detail such amount or amounts as shall be necessary to compensate such Bank or the Administrative Agent, as the case may be, as specified in Section 4.4, 4.7, 5.1 or 5.3, as the case may be, and certifying that such costs are generally being charged by such Bank to other similarly situated borrowers under similar credit facilities, which certificate shall be conclusive absent manifest error. The Borrower shall pay to the Administrative Agent for the account of such Bank or to the Administrative Agent for its own account, as the case may be, the amount shown as due on any such certificate within ten (10) Business Days after its receipt of the same.

ARTICLE VI

CONDITIONS OF LENDING

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

(a) The Administrative Agent (or its counsel) shall have received (i) this Agreement executed and delivered by the Borrower and each Bank and (ii) the Pledge Agreement executed and delivered by the Borrower.

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

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

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

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

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

(f) (i) The Administrative Agent shall have received the Pledged Bonds in an aggregate principal amount equal to the amount of the Loans made on the Closing Date, registered in the name of the Administrative Agent and duly executed by the Borrower and authenticated by the Trustee; and

(ii) Each document (including any Uniform Commercial Code financing statement) required by the Pledge Agreement or under law or reasonably requested by the Administrative Agent to be delivered, filed, registered or recorded in order to create in favor of the Administrative Agent, for the benefit of the Banks, a perfected Lien on the Collateral described therein, prior and superior in right to any other Person (other than with respect to Liens expressly permitted by Section 8.2), and the Supplemental Indenture, shall be in proper form for filing, registration or recordation.

(g) The Administrative Agent shall have received satisfactory evidence that the Existing Credit Facilities shall have been terminated and all amounts thereunder shall have been paid in full.

(h) All governmental and third-party approvals necessary in connection with the execution, delivery and performance by the Borrower of this Agreement, if any, shall have been obtained and be in full force and effect, and there shall be no litigation, governmental,

administrative or judicial action, actual or threatened, that could reasonably be expected to restrain, prevent or impose burdensome conditions on the transactions contemplated hereby.

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

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

(k) The Administrative Agent shall have received all fees and reimbursement of all expenses required to be paid on or before the Closing Date.

(l) The representations and warranties of the Borrower contained in Section 7.1 of this Agreement shall be true and correct in all material respects, before and after giving effect to the making of the Loans on the Closing Date, and to the application of the proceeds therefrom.

(m) The Facility shall be rated (i) BBB- or better by Fitch and (ii) Baa3 or better by Moody's.

(n) No Default or Event of Default shall have occurred and be continuing or would result from the making of the Loans on the Closing Date.

The Administrative Agent shall notify the Borrower and the Banks of the effectiveness of this agreement, and such notice shall be conclusive and binding.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

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

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

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

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

(d) Authorization; No Conflict, Etc. The borrowings by the Borrower contemplated by this Agreement, the execution and delivery by the Borrower of this Agreement and the other Loan Documents to which it is a party and the performance by the Borrower of its obligations hereunder and thereunder have been duly authorized by all requisite corporate or other requisite action on the part of the Borrower and CenterPoint and do not and will not (i) violate any law, any order to which the Borrower or CenterPoint or any of their respective Subsidiaries is subject of any court or other Governmental Authority, or the articles of incorporation or bylaws or other organizational documents (each as amended from time to time) of CenterPoint, the Borrower or any of their respective Subsidiaries; (ii) violate, conflict with, result in a breach of or constitute (with due notice or lapse of time or both, or any other condition) a default under, any indenture, loan agreement or other agreement to which CenterPoint, the Borrower or any of their respective Subsidiaries is a party or by which CenterPoint, the Borrower or any of their respective Subsidiaries, or any of their respective Property, is bound (except for such violations, conflicts, breaches or defaults that, individually or in the aggregate, do not have or would not have a Material Adverse Effect); or (iii) result in, or require, the creation or imposition of any material Lien upon any of the Properties of the Borrower or any Significant Subsidiary.

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

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

equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(g) Use of Proceeds; Margin Stock. The proceeds of the Loans will be used by the Borrower (a) to repay all amounts due or outstanding under the Existing Credit Agreement, (b) to consummate the FinanceCo Permitted Refinancing, (c) to pay fees and expenses incurred in relation to the Facility and (d) for other general corporate purposes. Neither the Borrower nor any Subsidiary of the Borrower is principally engaged in, or has as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any Margin Stock, and no part of the proceeds of any Loan made to the Borrower will be used for any purpose that would violate the provisions of the margin regulations of the Board.

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

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

(j) Material Adverse Change. Except as otherwise disclosed prior to the date hereof in writing to the Banks or in the Borrower's public filings with the SEC, since December 31, 2001, there has been no event, development or circumstance that has or would reasonably be expected to have a Material Adverse Effect, it being agreed that, on and after the Closing Date, this representation shall apply, with respect to periods prior to the Closing Date, to the portion of the business included in the business of the Borrower and the Consolidated Subsidiaries on the Closing Date.

(k) Litigation. There is no litigation, action, suit or other legal or governmental proceeding pending or, to the best knowledge of the Borrower, threatened, at law or in equity, or before or by any arbitrator or Governmental Authority (i) relating to the transactions under this Agreement or (ii) in which there is a reasonable possibility of an adverse decision that would have a Material Adverse Effect.

(l) ERISA. Neither the Borrower nor any of its Significant Subsidiaries has incurred any material liability or deficiency arising out of or in connection with (i) any Reportable Event or "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) with respect to any Plan that has occurred during the five-year period immediately preceding the date on which this representation is made or deemed made, (ii) any failure of a Plan to comply with the applicable provisions of ERISA and the Code, (iii) any termination of a Single Employer Plan, (iv) any complete or partial withdrawal by the Borrower or any Commonly Controlled Entity from any Multiemployer Plan or (v) any Lien in favor of the PBGC or any Plan that has arisen during the five-year period referred to in clause (i) above. In addition, no Multiemployer Plan is in Reorganization or is Insolvent, where such Reorganization or Insolvency, individually or when aggregated with the events described in the first sentence of this Section 7.1(l), is likely to result in a material liability or deficiency of the Borrower or any of its Significant Subsidiaries. As used in this Section 7.1(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(l) at any one time outstanding, individually and in the aggregate, is less than $25,000,000.

(m) Financial Statements. The pro forma, unaudited, condensed, consolidated financial statements of the Borrower as of and for the six months ended June 30, 2002 filed with the SEC on September 6, 2002 as Exhibit 99.1 to the Borrower's Form 8-K/A dated August 31, 2002, copies of which have been delivered to the Banks, present fairly the pro forma, condensed, consolidated financial condition and results of operations of the Borrower and its Consolidated Subsidiaries as of such date and for the period then ended, in conformity with, as applicable, GAAP and the regulations promulgated under the Securities Act and, except as otherwise stated therein, consistently applied (in the case of such unaudited statements, subject to year-end adjustments and the exclusion of detailed footnotes).

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

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

(p) Subsidiaries. Schedule 1.1(A) attached hereto sets forth each Significant Subsidiary of the Borrower as of the Closing Date.

(q) The Pledge Agreement; Second Mortgage Indenture. The Pledge Agreement is effective to create in favor of the Administrative Agent, for the benefit of the Banks, a legal, valid and enforceable security interest in the Collateral described therein and proceeds thereof. When financing statements and other filings specified on Schedule 7.1(q) in appropriate form are filed in the offices specified on Schedule 7.1(q), the Pledge Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and the proceeds thereof, as security for the Obligations (as defined in the Pledge Agreement), in each case prior and superior in right to any other Person (except Liens permitted by Section 8.2). The Second Mortgage Indenture is effective to create in favor of the Trustee, for the ratable benefit of the bondholders from time to time under the Second Mortgage Indenture, a legal, valid and enforceable Lien on all the Borrower's right, title and interest in and to the Mortgaged Property and the proceeds thereof, and the Second Mortgage Indenture constitutes a fully perfected Lien on, and security interest in, all right, title and interest of the Borrower and in such Mortgaged Property and the proceeds thereof, in each case prior and superior in right to any other Person (except Liens permitted by Section 8.2).

(r) Taxes. The Borrower and each of its Subsidiaries has filed or caused to be filed all Federal, state and other material tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its Property and all other taxes, fees or other charges imposed on it or any of its Property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries), except where the failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; no tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges (other than any Liens or claims that could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect).

(s) Solvency. On and as of the Closing Date, after giving effect to the borrowings of Loans on the Closing Date and the other transactions contemplated hereby and thereby, the Borrower will be Solvent.

ARTICLE VIII

AFFIRMATIVE AND NEGATIVE COVENANTS

SECTION 8.1. Affirmative Covenants of the Borrower. The Borrower covenants that, as long as any amount is owing hereunder or under any other Loan Documents is outstanding or any Bank shall have any Commitment outstanding under this Agreement:

(a) Delivery of Financial Statements, Notices and Certificates. The Borrower shall deliver to the Administrative Agent for distribution to the Banks sufficient copies for each of the Banks of the following:

(i) as soon as practicable and in any event within 120 days after the end of each fiscal year of the Borrower (beginning with fiscal 2002), a consolidated balance sheet of the Borrower and the Consolidated Subsidiaries of the Borrower as of the end of such fiscal year and the related statements of consolidated income, retained earnings and cash flows prepared in conformity with GAAP consistently applied, setting forth in comparative form the figures for the previous fiscal year, together with a report thereon (which shall not contain any "going concern" or similar qualifications) by independent certified public accountants of nationally recognized standing selected by the Borrower (which requirement may be satisfied by delivering the Borrower's Annual Report on Form 10-K with respect to such fiscal year as filed with the SEC);

(ii) as soon as practicable and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower (beginning with the quarter ending September 30, 2002), unaudited consolidated financial statements of the Borrower and the Consolidated Subsidiaries of the Borrower consisting of at least consolidated balance sheets as at the close of such quarter and statements of consolidated income, retained earnings and cash flows for such quarter and for the period from the beginning of such fiscal year to the close of such quarter (which requirement may be satisfied by delivering the Borrower's Quarterly Report on Form 10-Q with respect to such fiscal quarter as filed with the SEC); such financial statements shall be accompanied by a certificate of a Responsible Officer of the Borrower to the effect that such unaudited financial statements present fairly in all material respects the consolidated financial condition and results of operations of the Borrower and the Consolidated Subsidiaries of the Borrower as of such date for the period then ending, and have been prepared in conformity with GAAP in a manner consistent with the financial statements referred to in paragraph (a)(i) above (subject to year-end adjustments and exclusion of detailed footnotes);

(iii) with each set of statements to be delivered above, a certificate in a form reasonably satisfactory to the Administrative Agent, signed by a Responsible Officer of the Borrower confirming compliance with Section 8.2(a) and setting out in reasonable detail the calculations necessary to demonstrate such compliance as at the date of the most recent balance sheet included in such financial statements and stating that no Default or Event of Default has occurred and is continuing or, if there is any Default or Event of Default, describing it and the steps, if any, being taken to cure it; and

(iv) (A) within ten (10) days of the filing thereof, copies of all periodic reports (other than (x) reports on Form 11-K or any successor form, (y) Current Reports on Form 8-K that contain no information other than exhibits filed therewith and (z) reports on Form 10-Q or 10-K or any successor forms) under the Exchange Act (in each case other than exhibits thereto and documents incorporated by reference therein)) filed by the Borrower with the SEC; (B) promptly, and in any event within seven (7) days after a Responsible Officer of the Borrower becomes aware of the occurrence thereof, written notice of (x) any Event of Default or any Default, (y) the institution of any litigation, action, suit or other legal or governmental proceeding involving the Borrower or any Subsidiary of the Borrower as to which there is a reasonable possibility of an adverse decision that would have a Material Adverse Effect on the Borrower or any final adverse

determination in any litigation, action, suit or other legal or governmental proceeding involving the Borrower or any Significant Subsidiary of the Borrower that would have a Material Adverse Effect, or (z) the incurrence by the Borrower or any Subsidiary of a material liability or deficiency, or the existence of a reasonable possibility of incurring a material liability or deficiency, arising out of or in connection with (1) any Reportable Event with respect to any Plan, (2) the failure to make any required contribution to a Plan, (3) the creation of any Lien in favor of the PBGC or a Plan, (4) any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (5) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan; provided that, as used in this clause (z), any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this clause (z) at any one time outstanding, individually and in the aggregate, is less than $25,000,000; (C) with each set of statements delivered pursuant to Section 8.1(a)(i), a certificate signed by a Responsible Officer of the Borrower identifying those Subsidiaries which, determined as of the date of such financial statements, are Significant Subsidiaries; and (D) such other information relating to the Borrower or its business, properties, condition and operations as the Administrative Agent (or any Bank through the Administrative Agent) may reasonably request.

Information required to be delivered pursuant to the foregoing Sections 8.1(a)(i), (ii), and (iv)(A) shall be deemed to have been delivered on the date on which the Borrower provides notice (including notice by e-mail) to the Administrative Agent (which notice the Administrative Agent will convey promptly to the Banks) that such information has been posted on the SEC website on the Internet at sec.gov/edgar/searches.htm or at another website identified in such notice and accessible by the Banks without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 8.1(a)(iii) and (ii) the Borrower shall deliver paper copies of such information to the Administrative Agent, and the Administrative Agent shall deliver paper copies of such information to any Bank that requests such delivery.

(b) Use of Proceeds. The Borrower will use the proceeds of any Loan made by the Banks to it for the purposes set forth in the first sentence of Section 7.1(g), and it will not use the proceeds of any Loan made by the Banks for any purpose that would violate the provisions of the margin regulations of the Board. Without limiting the foregoing, the Borrower shall consummate the FinanceCo Permitted Refinancing on November 15, 2002, and, pending such refinancing, shall maintain the proceeds of the Loans to be used therefor in Cash Equivalents in an account in its own name. The Borrower will not, and will not permit any of its Subsidiaries to engage principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying, within the meaning of Regulation U, any Margin Stock.

(c) Existence; Laws. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary (i) to preserve, renew and keep in full force and effect its legal existence and all rights, licenses, permits and franchises (except to the extent otherwise permitted by Sections 8.2(c) or 8.2(e)) and (ii) to comply with all laws and regulations

applicable to it, except in each case where the failure to do so, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(d) Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including any tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to have a Material Adverse Effect.

(e) Maintenance of Properties. The Borrower will, and will cause each of its Significant Subsidiaries to, preserve and maintain all of its Property that is material to the conduct of its business and keep the same in good repair, working order and condition, and from time to time to make, or cause to be made, such repairs, renewals and replacements thereto as in the good faith judgment of the Borrower or such Subsidiary, as the case may be, are necessary or proper so that the business carried on in connection therewith may be properly conducted at all times, provided, however, that nothing in this Section 8.1(e) shall prevent (a) the Borrower or any of its Subsidiaries from selling, abandoning or otherwise disposing of any Properties (including the Capital Stock of any Subsidiary of the Borrower that is not a Significant Subsidiary of the Borrower), the retention of which in the good faith judgment of the Borrower or such Subsidiary is inadvisable or unnecessary to the business of the Borrower and its Subsidiaries, taken as a whole, as the case may be or (b) any other transaction that is expressly permitted by the terms of any other provision of this Agreement.

(f) Maintenance of Business Line. The Borrower will maintain its fundamental business of providing services and products in the energy market.

(g) Books and Records; Access. The Borrower will, and will cause each Significant Subsidiary to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities as required by GAAP. The Borrower will, and will cause each of its Subsidiaries to, at any reasonable time and from time to time, permit up to six representatives of the Banks designated by the Majority Banks, or representatives of the Administrative Agent, on not less than five (5) Business Days' notice, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and each Significant Subsidiary and to discuss the general business affairs of the Borrower and each of its Subsidiaries with their respective officers and independent certified public accountants; subject, however, in all cases to the imposition of such conditions as the Borrower and each of its Subsidiaries shall deem necessary based on reasonable considerations of safety and security; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to disclose to the Administrative Agent, any Bank or any agents or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. Notwithstanding the foregoing, none of the conditions precedent to the exercise of the right of access described in the preceding sentence that relate to notice requirements or limitations on the

Persons permitted to exercise such right shall apply at any time when a Default or an Event of Default shall have occurred and be continuing.

(h) Insurance. The Borrower will and will cause each of its Subsidiaries to, maintain insurance with responsible and reputable insurance companies or associations, or to the extent that the Borrower or such Subsidiary deems it prudent to do so, through its own program of self-insurance, in such amounts and covering such risks as is usually carried by companies engaged in similar businesses, of comparable size and financial strength and with comparable risks.

(i) Long-Term Debt Rating. The Borrower will deliver to the Administrative Agent notice of any change by a Rating Agency in the Long-Term Debt Rating or in any rating by a Rating Agency for the Facility, promptly upon the effectiveness of any such change.

SECTION 8.2. Negative Covenants of the Borrower. The Borrower covenants that, so long as any amount is owing to the Banks hereunder or under any other Loan Document to which it is a party, the Borrower will not:

(a) Financial Ratio. Permit the ratio of Consolidated Indebtedness for Borrowed Money to Consolidated Capitalization to exceed 0.68:1.00.

(b) Certain Liens. And will not permit any of its Subsidiaries to, pledge, mortgage, hypothecate or grant a Lien upon, or permit any mortgage, pledge, security interest or other Lien upon, any Property of the Borrower or any Subsidiary of the Borrower now or hereafter owned directly or indirectly by the Borrower; provided, however, that this restriction shall neither apply to nor prevent the creation or existence of:

(i) Permitted Liens;

(ii) Liens on preference stock or related rights securing any FinanceCo Permitted Facility;

(iii) any Lien in existence on the date hereof, provided that no such Lien encumbers any additional Property after the Closing Date and that the amount of Indebtedness secured thereby is not increased;

(iv) Liens securing first mortgage bonds pursuant to the Mortgage (or second or subordinated Liens in lieu thereof) issued after the Closing Date so long as the net cash proceeds of such issuances are (A) applied to replace first mortgage bonds issued under the Mortgage and outstanding on the Closing Date or (B) proceeds of Indebtedness for Borrowed Money in an aggregate principal amount at any time outstanding not in excess of (x) $300,000,000 less (y) the amount of outstanding Indebtedness secured by Liens pursuant to Section 8.2(b)(xv);

(v) Liens required to be granted pursuant to "equal and ratable" clauses under Contractual Obligations of the Borrower and its Significant Subsidiaries existing on the Closing Date;

(vi) Liens on fixed or capital assets and related inventory and intangible assets acquired, constructed, improved, altered or repaired by the Borrower or any of its Significant Subsidiaries; provided that (i) such Liens secure Indebtedness otherwise permitted by this Agreement, (ii) such Liens and the Indebtedness secured thereby are incurred prior to or within 365 days after such acquisition or the later of the completion of such construction, improvement, alteration or repair or the date of commercial operation of the assets constructed, improved, altered or repaired, (iii) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing, improving, altering or repairing such fixed or capital assets, as the case may be, and (iv) such Lien shall not apply to any other property or assets of the Borrower or of its Significant Subsidiaries (other than repairs, renewals, replacements, additions, accessions, improvements and betterments thereto);

(vii) Liens on Property and repairs, renewals, replacements, additions, accessions, improvements and betterments thereto existing at the time such Property is acquired by the Borrower or any of its Significant Subsidiaries and not created in contemplation of such acquisition (or on repairs, renewals, replacements, additions, accessions and betterments thereto), and Liens on the Property of any Person at the time such Person becomes a Subsidiary of the Borrower and not created in contemplation of such Person becoming a Subsidiary of the Borrower (or on repairs, renewals, replacements, additions, accessions and betterments thereto);

(viii) rights reserved to or vested in any Governmental Authority by the terms of any right, power, franchise, grant, license or permit, or by any Requirements of Law, to terminate such right, power, franchise, grant, license or permit or to purchase, condemn, expropriate or recapture or to designate a purchaser of any of the Property of the Borrower or any of its Subsidiaries;

(ix) rights reserved to or vested in (or exercised by) any Governmental Authority to control, regulate or use any Property of a Person or its activities, including zoning, planning and environmental laws and ordinances and municipal regulations;

(x) Liens on Property of the Borrower or any of its Subsidiaries securing non-recourse Indebtedness of the Borrower or any such Subsidiary;

(xi) Liens on the stock or assets of Securitization Subsidiaries;

(xii) any extension, renewal or refunding of any Lien permitted by clauses (i) through (xi) above on the same Property previously subject thereto; provided that no extension, renewal or refunding of any such Lien shall increase the principal amount of any Indebtedness secured thereby immediately prior to such extension, renewal or refunding, unless such Indebtedness is permitted by Section 8.2(a);

(xiii) Liens on cash collateral provided in lieu of repayment of pollution control bonds until the remarketing of such bonds;

(xiv) Liens on cash collateral to secure obligations of the Borrower and its Subsidiaries in respect of cash management arrangements with any Bank or Affiliate thereof; and

(xv) Liens not otherwise permitted by this Section 8.2(b) securing Indebtedness of the Borrower and its Significant Subsidiaries so long as the aggregate outstanding principal amount of the obligations secured thereby does not at any time exceed (as to the Borrower and all of its Subsidiaries) $15,000,000 at such time.

(c) Consolidation, Merger or Disposal of Assets. And will not permit any of its Significant Subsidiaries to, (i) consolidate with, or merge into or amalgamate with or into, any other Person; (ii) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or (iii) convey, sell, transfer, lease or otherwise dispose of all or substantially all of its Properties, or the Capital Stock of any Significant Subsidiary of the Borrower, to any Person; provided, however, that nothing contained in this Section 8.2(c) shall prohibit (A) a merger involving a Subsidiary of the Borrower other than the Borrower (including mergers to reincorporate or change the domicile of such Subsidiary) if the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower is the surviving entity thereof; (B) the liquidation, winding up or dissolution of a Significant Subsidiary of the Borrower (other than the Borrower) if all of the Properties of such Significant Subsidiary are conveyed, transferred or distributed to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower or (C) the conveyance, sale, transfer or other disposal of all or substantially all (or any lesser portion) of the Properties of any Significant Subsidiary (other than the Borrower) to the Borrower or a Wholly-Owned Significant Subsidiary of the Borrower or (D) the transfer of assets in connection with the issuance of Securitization Securities; provided that, in each case, immediately before and after giving effect to any such merger, dissolution or liquidation, or conveyance, sale, transfer, lease or other disposition, no Default or Event of Default shall have occurred and be continuing.

(d) Takeover Bids. And will not permit any of its Subsidiaries to, use the proceeds of any Loan made to it to participate in any unsolicited control bid for any other Person.

(e) Sale of Significant Subsidiary Stock. And will not permit any Significant Subsidiary to sell, assign, transfer or otherwise dispose of any of the Capital Stock of any Significant Subsidiary other than to a Wholly-Owned Subsidiary of the Borrower that constitutes a Significant Subsidiary after giving effect to such transaction; provided that immediately before and after giving effect to such sale, assignment, transfer or other disposition, no Event of Default or Default shall have occurred and be continuing. Notwithstanding the foregoing provisions of this Section 8.2(e), any Significant Subsidiary shall have the right to issue, sell, assign, transfer or otherwise dispose of for value its preference or preferred stock in one or more bona fide transactions to any Person.

(f) Agreements Restricting Dividends. And will not permit any of its Significant Subsidiaries to enter into, incur or permit to exist any agreement or other arrangement that explicitly prohibits or restricts the payment by any of its Significant Subsidiaries of dividends or other distributions with respect to any shares of its Capital Stock; provided that the foregoing shall not prohibit financial incurrence, maintenance and similar covenants that indirectly have the practical effect of prohibiting or restricting the ability of a Significant Subsidiary to make

such payments or provisions that require that a certain amount of capital be maintained, or prohibit the return of capital to shareholders above certain dollar limits; provided further, that the foregoing shall not apply to (i) restrictions and conditions imposed by law or by this Agreement, (ii) restrictions and conditions existing on the date hereof, any amendment or modification thereof (other than an amendment or modification expanding the scope of any such restriction or condition and any restrictions or conditions) that (x) replace restrictions or conditions existing on the date hereof and (y) are substantially similar to such existing restriction or condition, (iii) restrictions (including any extension of such restrictions that does not expand the scope of any such restrictions) existing at the time at which any such Subsidiary first becomes a Significant Subsidiary, so long as such restriction was in existence prior to such time in accordance with the other provisions of this Agreement and was not agreed to or incurred in contemplation of such change of status and (iv) any restrictions with respect to a Significant Subsidiary imposed pursuant to an agreement that has been entered into in connection with a disposition of all or substantially all of the Capital Stock or assets of such Subsidiary.

(g) Certain Investments, Loans, Advances, Guarantees and Acquisitions. And will not permit any of its Subsidiaries to, purchase, or acquire (including pursuant to any merger) any Capital Stock, evidences of indebtedness or other securities of or other interest in (including any option, warrant or other right to acquire any of the foregoing), make any loans or advances to, Guarantee any obligations of, or make any investment or other interest in or capital contribution to, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit (any of the foregoing, an "Investment"), in each case after the Closing Date, except that, notwithstanding the foregoing, the Borrower and its Subsidiaries may make Investments (a) in Cash Equivalents; (b) in any Wholly-Owned Subsidiary of the Borrower; (c) in pollution control bonds which are the obligation of the Borrower in connection with and until the remarketing of such bonds, (d) otherwise if, after giving effect thereto, the Borrower would be in compliance with its covenants contained in Section 8.2(a) on a pro forma basis and the aggregate amount of all such Investments (including, without limitation, any Guarantee, loan, advance or any assumed Indebtedness) described in this clause (d) shall not exceed $100,000,000 outstanding at any time.

(h) Maintenance of Corporate Separateness. (i) And will not permit any of its Subsidiaries (as used in this paragraph, the Borrower and its Subsidiaries are referred to collectively as the "Borrower Parties") to commingle any of their respective bank accounts with any bank account of CenterPoint or any of its Subsidiaries (as used in this paragraph, CenterPoint and its Subsidiaries (other than the Borrower Parties) are referred to collectively as the "CenterPoint Parties"); (ii) any financial statements distributed to any creditors of any Borrower Party shall, to the extent permitted under GAAP, clearly establish the corporate separateness of the Borrower Parties from the CenterPoint Parties; and (iii) no Borrower Party shall take any action, or conduct its affairs in a manner, which is reasonably likely to result in the corporate existence of the Borrower Parties (or any of them), on the one hand, and the CenterPoint Parties (or any of them), on the other hand, being ignored, or in the assets and liabilities of the Borrower Parties (or any of them) being substantively consolidated with those of the CenterPoint Parties (or any of them) in a bankruptcy, reorganization or other insolvency proceeding.

(i) Changes in Lines of Business. Enter into any business, either directly or through any of its Subsidiaries, except for those businesses in which the Borrower and its Subsidiaries are engaged on the date of this Agreement or that are directly related thereto.

ARTICLE IX

EVENTS OF DEFAULT

SECTION 9.1. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default":

(a) Non-Payment of Principal and Interest. The Borrower fails to pay, in the manner provided in this Agreement, (i) any principal payable by it hereunder when due or (ii) any interest payment, or the fee payable pursuant to Section 4.2 payable by it hereunder, within five (5) Business Days after its due date; or

(b) Non-Payment of Other Amounts. The Borrower fails to pay, in the manner provided in this Agreement, any other amount (other than the amounts set forth in Section 9.1(a) above) payable by it hereunder within ten (10) Business Days after notice of such payment is received by the Borrower from the Administrative Agent; or

(c) Breach of Representation or Warranty. Any representation or warranty by the Borrower in Section 7.1 or in any certificate, document or instrument delivered under this Agreement shall have been incorrect in any material respect when made or when deemed hereunder to have been made; or

(d) Breach of Certain Covenants. The Borrower fails to perform or comply with any one or more of its obligations under Section 8.1(a)(iv)(B)(x), 8.2 or Section 5 of the Pledge Agreement; or

(e) Breach of Other Obligations. The Borrower does not perform or comply with any one or more of its other obligations under this Agreement (other than those set forth in Section 9.1(a), (b) or (d) above) and such failure to perform or comply shall not have been remedied within 30 days after the earlier of notice thereof to it by the Administrative Agent or the Majority Banks or discovery thereof by a Responsible Officer of the Borrower; or

(f) Other Indebtedness. (i) The Borrower or any of its Significant Subsidiaries fails to pay when due (either at stated maturity or by acceleration or otherwise but subject to applicable grace periods) any principal or interest in respect of any Indebtedness for Borrowed Money, Secured Indebtedness (including Indebtedness under the Mortgage and the Second Mortgage Indenture) or Junior Subordinated Debt (other than Indebtedness of the Borrower under this Agreement) if the aggregate principal amount of all such Indebtedness for which such failure to pay shall have occurred and be continuing exceeds $50,000,000 or (ii) any default, event or condition shall have occurred and be continuing with respect to any Indebtedness for Borrowed Money, Secured Indebtedness (including Indebtedness under the Mortgage and the Second Mortgage Indenture) or Junior Subordinated Debt of the Borrower or any of its Significant Subsidiaries (other than Indebtedness of the Borrower under this Agreement), the

effect of which default, event or condition is to cause, or to permit the holder thereof to cause, (A) such Indebtedness to become due prior to its stated maturity (other than in respect of mandatory prepayments required thereby) or (B) in the case of any Guarantee of Indebtedness for Borrowed Money of any Person or Junior Subordinated Debt by the Borrower or any of its Significant Subsidiaries the primary obligation (as such term is defined in the definition of "Guarantee" in Section 1.1) to which such Guarantee relates to become due prior to its stated maturity, if the aggregate amount of all such Indebtedness or primary obligations (as the case may be) that is or could be caused to be due prior to its stated maturity exceeds $50,000,000; or

(g) Involuntary Bankruptcy, Etc. (i) There shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action (A) seeking a decree or order for relief in respect of the Borrower or any of its Significant Subsidiaries under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, (B) seeking a decree or order adjudging the Borrower or any of its Significant Subsidiaries a bankrupt or insolvent, (C) except as permitted by clause (B) of the proviso to Section 8.2(c), seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief of or in respect of the Borrower or any of its Significant Subsidiaries or their respective debts under any applicable domestic or foreign law or (D) seeking the appointment of a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or other similar official of the Borrower or any of its Significant Subsidiaries or of any substantial part of their respective Properties, or the liquidation of their respective affairs, and such petition is not dismissed within 90 days or (ii) a decree, order or other judgment is entered in respect of any of the remedies, reliefs or other matters for which any petition referred to in (i) above is presented or (iii) there shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged or stayed or bonded pending appeal within 90 days from the entry thereof; or

(h) Voluntary Bankruptcy, Etc. (i) The commencement by the Borrower or any of its Significant Subsidiaries of a voluntary case, proceeding or other action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law (A) seeking to have an order of relief entered with respect to it, (B) seeking to be adjudicated a bankrupt or insolvent, (C) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief with respect to it or its debts under any applicable domestic or foreign law or (D) seeking the appointment of or the taking possession by a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or similar official of the Borrower or any of its Significant Subsidiaries of any substantial part of its Properties; or (ii) the making by the Borrower or any of its Significant Subsidiaries of a general assignment for the benefit of creditors; or (iii) the Borrower or any of its Significant Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in clause (i) or (ii) above or in Section 9.1(g); or (iv) the admission by the Borrower or any of its Significant Subsidiaries in writing of its inability to pay its debts generally as they become due or the failure by the Borrower or any of its Significant Subsidiaries generally to pay its debts as such debts become due; or

(i) Enforcement Proceedings. A final judgment or decree for the payment of money which, together with all other such judgments or decrees against the Borrower or any of its Significant Subsidiaries then outstanding and unsatisfied, exceeds $25,000,000 in aggregate amount shall be rendered against the Borrower or any of its Significant Subsidiaries and the same shall remain undischarged for a period of 60 days, during which the execution thereon shall not effectively be stayed, released, bonded or vacated; or

(j) ERISA Events. (i) The Borrower or any Significant Subsidiary shall incur any liability arising out of (A) any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (B) the occurrence of any "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) by a Plan, whether or not waived, or any Lien in favor of the PBGC or a Plan on the assets of the Borrower or any Commonly Controlled Entity, (C) the occurrence of a Reportable Event with respect to, or the commencement of proceedings under Section 4042 of ERISA to have a trustee appointed, or the appointment of a trustee under Section 4042 of ERISA, to administer or to terminate any Single Employer Plan, which Reportable Event, commencement of proceedings or appointment of a trustee is likely to result in the termination of such Plan for purposes of Title IV of ERISA, (D) the termination of any Single Employer Plan for purposes of Title IV of ERISA, (E) withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (F) the occurrence of any other event or condition with respect to a Plan, and any of such items (A) through (F) above results in or is likely to result in a material liability or deficiency of the Borrower or any Significant Subsidiary; provided, however, that for purposes of this Section 9.1(j), any liability or deficiency of the Borrower or any Significant Subsidiary shall be deemed not to be material so long as the sum of all liabilities or deficiencies referred to in this Section 9.1(j) at any one time outstanding, individually and in the aggregate, is less than $25,000,000, or (ii) the occurrence of any one or more of the events specified in clauses (A) through (F) above if, individually or in the aggregate, such event or events would have a Material Adverse Effect on the Borrower; or

(k) Change in Control of the Borrower. A Change in Control shall have occurred.

SECTION 9.2. Cancellation/Acceleration. If at any time and for any reason (whether within or beyond the control of any party to this Agreement):

(a) either of the Events of Default specified in Section 9.1(g) or 9.1(h) occurs with respect to the Borrower, then automatically, all Loans made hereunder, all unpaid accrued interest or fees and any other sum payable under this Agreement shall become immediately due and payable; or

(b) any other Event of Default specified in Section 9.1 occurs and, while such Event of Default is continuing, the Administrative Agent, having been so instructed by the Majority Banks, by notice to the Borrower, shall so declare that either (i) all Loans made hereunder, all unpaid accrued interest or fees and any other sum payable under this Agreement shall become immediately due and payable or (ii) all Loans made hereunder, all unpaid accrued interest or fees and any other sum payable under this Agreement shall become due and payable at

any time thereafter immediately on demand by the Administrative Agent (acting on the instructions of the Majority Banks).

Except as expressly provided above in this Section 9.2, presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of any kind whatsoever are hereby expressly waived by the Borrower.

ARTICLE X

THE ADMINISTRATIVE AGENT

SECTION 10.1. Appointment. Each Bank hereby irrevocably designates and appoints Credit Suisse First Boston as the Administrative Agent of such Bank under this Agreement and the other Loan Documents, and each such Bank irrevocably authorizes Credit Suisse First Boston, as the Administrative Agent for such Bank, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent and (b) neither the Lead Arranger or any other Person listed as a "Co-Arranger" on the cover page hereof shall have any duties or responsibilities hereunder, or any fiduciary relationship with any bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Lead Arranger or such other Person.

SECTION 10.2. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

SECTION 10.3. Exculpatory Provisions. Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or such Person's own gross negligence or willful misconduct) or (b) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Bank to ascertain or to inquire

as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower.

SECTION 10.4. Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, facsimile, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note or any loan account in the Register as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Majority Banks as it deems appropriate or it shall first be indemnified to its satisfaction by the Banks against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Majority Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the amounts owing hereunder.

SECTION 10.5. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Banks. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Majority Banks; provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

SECTION 10.6. Non-Reliance on Administrative Agent and Other Banks. Each Bank expressly acknowledges that neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Bank. Each Bank represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and

information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower that may come into the possession of the Administrative Agent or any of its officers, directors, employees, Administrative Agents, attorneys-in-fact or Affiliates.

SECTION 10.7. Indemnification. The Banks agree to indemnify the Administrative Agent and Lead Arranger in their respective capacities as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective applicable Pro Rata Percentages in effect on the date on which indemnification is sought under this Section 10.7, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (including, without limitation, at any time following the payment of all amounts owing hereunder) be imposed on, incurred by or asserted against the Administrative Agent or the Lead Arranger, as the case may be, in any way relating to or arising out of this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent or the Lead Arranger, as the case may be, under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements to the extent they are found by a final judgment of a court of competent jurisdiction to have resulted primarily from the Administrative Agent's or the Lead Arranger's, as the case may be, gross negligence or willful misconduct. The agreements in this Section 10.7 shall survive the payment of all amounts payable hereunder.

SECTION 10.8. Administrative Agent in Its Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though the Administrative Agent were not the Administrative Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it, the Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Bank and may exercise the same as though it were not the Administrative Agent, and the terms "Bank" and "Banks" shall include the Administrative Agent in its individual capacity.

SECTION 10.9. Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Banks and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Majority Banks shall appoint from among the Banks a successor agent for the Banks, which successor agent shall be approved by the Borrower, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as

Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of any amounts payable hereunder; provided that if an Event of Default has occurred and is continuing, no consent of the Borrower shall be required. If a successor Administrative Agent shall not have been so appointed within said 30-day period, the Administrative Agent may then appoint a successor Administrative Agent who shall be a financial institution engaged or licensed to conduct banking business under the laws of the United States with an office in New York City and that has total assets in excess of $500,000,000 and who shall serve as Administrative Agent until such time, if any, as an Administrative Agent shall have been appointed as provided above. After any retiring Administrative Agent's resignation or removal as Administrative Agent, the provisions of this Article X shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

SECTION 10.10 Notwithstanding anything to the contrary contained herein, no Bank identified as an "Agent" or "Arranger" other than the Administrative Agent, shall have the right, power, obligation, liability, responsibility or duty under this Agreement or any Loan Document other than those applicable to all Banks as such. Without limiting the foregoing, none of the Banks so identified shall have or be deemed to have any fiduciary relationship with any Bank. Each Bank acknowledges that it has not relied, and will not rely, on any of the Banks so identified in deciding to enter into this Agreement or not taking action hereunder.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. Amendments and Waivers. Neither this Agreement, any Note, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except pursuant to an instrument or instruments in writing executed in accordance with the provisions of this Section 11.1. The Majority Banks may, or, with the written consent of the Majority Banks, the Administrative Agent may, from time to time, (a) enter into with the Borrower written amendments, supplements or modifications hereto and to any Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or any Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or (b) waive, on such terms and conditions as the Majority Banks or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or any Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall:

(i) reduce the amount or extend the scheduled date of maturity of any Note or Loan, or reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or increase the amount or extend the expiration date of any Bank's Commitments, in each case without the consent of each Bank affected thereby;

(ii) amend, modify or waive any provision of this Section or of Section 5.2 in a manner that would alter the pro rata sharing of payments required thereby or in a

manner that would eliminate or limit a Bank's right to reject prepayments under Section 5.5 or 5.6 or reduce the percentage specified in the definition of Majority Banks or Supermajority Banks, or consent to the assignment or transfer by the Borrower of any of its respective rights and obligations under this Agreement and the other Loan Documents, or release any material portion of the Collateral, in each case without the written consent of all the Banks;

(iii) amend, modify or waive any provision of Section 5.6 or amend, modify or waive any provision of Section 8.2(c) to permit a merger involving the Borrower not otherwise permitted in such Section, in each case without the consent of the Supermajority Banks; or

(iv) amend, modify or waive any provision of Article X without the written consent of then Administrative Agent.

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Administrative Agent and all future holders of the amounts payable hereunder. In the case of any waiver, the Borrower, the Banks and the Administrative Agent shall be restored to their former position and rights hereunder and under any outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing, but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

SECTION 11.2. Notices. Unless otherwise expressly provided herein, all notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by facsimile followed by any original sent by mail or delivery), and, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in Schedule 1.1 in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the amounts payable hereunder:

Borrower:	1111 Louisiana Houston, Texas 77002
Attention:	Linda Geiger Assistant Treasurer
Telecopy:	(713) 207-3301
With a copy to:	Marc Kilbride Treasurer
Telecopy:	(713) 207-3301

The Administrative Agent:	Credit Suisse First Boston Eleven Madison Avenue New York, New York 10010
Attention:	Julia Kingsbury
Telecopy:	(212) 325-8304

provided that any notice, request or demand to or upon the Administrative Agent or the Banks shall not be effective until received.

SECTION 11.3. No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Bank, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

SECTION 11.4. Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

SECTION 11.5. Payment of Expenses and Taxes; Indemnity. The Borrower agrees (a) to pay or reimburse (i) the Administrative Agent and its Affiliates for all their reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation and execution of, and any amendment, supplement or modification to, this Agreement and any Notes and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of special counsel to the Administrative Agent and (ii) the Banks for the reasonable fees and disbursements of special counsel to the Banks in connection with the same, (b) to pay or reimburse each Bank and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, any Notes, the other Loan Documents and any such other documents, including, without limitation, the reasonable fees and disbursements of the several special counsel to the Banks and the Administrative Agent, (c) without duplication of any other provision contained in this Agreement or any Notes, to pay, indemnify, and hold each Bank and the Administrative Agent harmless from, any and all recording and filing fees, if any, and any and all liabilities (for which each Bank has not been otherwise reimbursed under this Agreement) with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any Notes, the other Loan Documents and any such other documents, and (d) without duplication of any other provision contained in this Agreement or any Notes, to pay, indemnify, and hold each Bank and the Administrative Agent together with their respective directors, officers, employees, agents and

affiliates (collectively, "Indemnified Persons") harmless from and against, any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, any Notes, the other Loan Documents or the use, or proposed use, of proceeds of the Loans and any such other documents (all the foregoing in this clause (d), collectively, the "Indemnified Liabilities"); provided that the Borrower shall have no obligation hereunder to an Indemnified Person with respect to Indemnified Liabilities to the extent they are found in a final judgment of a court of competent jurisdiction to have resulted primarily from the gross negligence or willful misconduct of such Indemnified Person, AND PROVIDED FURTHER THAT IT IS THE INTENTION OF THE BORROWER TO INDEMNIFY THE INDEMNIFIED PERSONS AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE. The agreements in this Section 11.5 shall survive repayment of the Loans and all other amounts payable hereunder.

SECTION 11.6. Effectiveness; Successors and Assigns; Participations; Assignments. (a) This Agreement shall become effective on the Closing Date and thereafter shall be binding upon and inure to the benefit of the Borrower, the Banks, the Administrative Agent, all future holders of the Loans and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Bank.

(b) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions or Bank Affiliates (a "Participant") participating interests in any Loan owing to such Bank, any Note held by such Bank, any Commitment of such Bank or any other interest of such Bank hereunder and under the other Loan Documents. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Loan and Commitment or other interest for all purposes under this Agreement and the other Loan Documents, the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement and the other Loan Documents and except with respect to the matters set forth in Section 11.1, the amendment of which requires the consent of all of the Banks, the participation agreement between the selling Bank and the Participant may not restrict such Bank's voting rights hereunder. The Borrower agrees that each Participant, to the extent provided in its participation, shall be entitled to the benefits of Sections 4.4, 4.7, 5.1 and 5.3 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the selling Bank would have been entitled to receive in respect of the amount of the participation sold by such selling Bank to such Participant had no such sale occurred. Except as expressly provided in this Section 11.6(b), no Participant shall be a third-party beneficiary of or have any rights under this Agreement or under any of the other Loan Documents.

(c) Any Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more additional banks ("Purchasing Banks") all or any part of its rights and obligations under this Agreement pursuant

to an Assignment and Acceptance, substantially in the form of Exhibit 11.6(c) ("Assignment and Acceptance"), executed by such Purchasing Bank and such transferor Bank (and, in the case of a Purchasing Bank that is not a Bank Affiliate, by the Administrative Agent) and delivered to the Administrative Agent for its acceptance and recording in the Register; provided that each such sale hereunder shall be in an aggregate amount of not less than $1,000,000. Upon such execution, delivery, acceptance and recording, from and after the Closing Date determined pursuant to such Assignment and Acceptance (the "Transfer Effective Date"), (i) the Purchasing Bank thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder with the Commitments as set forth therein and (ii) the transferor Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of a transferor Bank's rights and obligations under this Agreement, such transferor Bank shall cease to be a party hereto). Such Assignment and Acceptance shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Bank and the resulting adjustment of Pro Rata Percentages arising from the purchase by such Purchasing Bank of all or a portion of the rights and obligations of such transferor Bank under this Agreement. On or prior to the Transfer Effective Date determined pursuant to such Assignment and Acceptance, (i) appropriate entries shall be made in the accounts of the transferor Bank and the Register evidencing such assignment and releasing the Borrower from any and all obligations to the transferor Bank in respect of the assigned Loan or Loans and (ii) appropriate entries evidencing the assigned Loan or Loans shall be made in the accounts of the Purchasing Bank and the Register as required by Section 4.1 hereof. In the event that any Notes have been issued in respect of the assigned Loan or Loans, such Notes shall be marked "cancelled" and surrendered by the transferor Bank to the Administrative Agent for return to the Borrower.

(d) The Administrative Agent shall maintain at its address referred to in Section 11.2 a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of the Banks and the Commitments of, and principal amount of the Loans owing to, each Bank from time to time. To the extent permitted by applicable law, the entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Banks may (and, in the case of any Loan or other obligations hereunder not evidenced by a Note, shall) treat each Person whose name is recorded in the Register as the owner of a Loan or other obligation hereunder as the owner thereof for all purposes of this Agreement and the other Loan Documents, notwithstanding any notice to the contrary. Any assignment of any Loan or other obligation hereunder not evidenced by a Note shall be effective only upon appropriate entries with respect thereto being made in the Register. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an Assignment and Acceptance executed by a transferor Bank and Purchasing Bank (and, in the case of a Purchasing Bank that is not then a Bank Affiliate, by the Administrative Agent) together with payment to the Administrative Agent of a registration and processing fee of (i) $3,000 with respect to (and payable by) any Purchasing Bank that is not already a Bank or a Bank Affiliate and (ii) $1,000 with respect to any Purchasing Bank that is already a Bank or a Bank Affiliate, the Administrative Agent shall promptly accept such Assignment and Acceptance on the Transfer Effective Date determined

pursuant thereto, record the information contained therein in the Register and give notice of such acceptance and recordation to the Borrower.

(f) Each of the Banks and the Administrative Agent agrees to exercise its best efforts to keep, and to cause any third party recipient of the information described in this Section 11.6(f) to keep, any information delivered or made available by the Borrower to it (including any information obtained pursuant to Section 8.1), confidential from anyone other than Persons employed or retained by such party who are or are expected to become engaged in evaluating, approving, structuring or administering the transactions contemplated hereunder; provided that nothing herein shall prevent any Bank or the Administrative Agent from disclosing such information (i) to any other Bank or any Affiliate of any Bank, (ii) pursuant to subpoena or upon the order of any court or administrative agency, (iii) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (iv) if such information has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which either the Administrative Agent, any Bank, the Borrower or their respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to the Administrative Agent's or such Bank's, as the case may be, legal counsel, independent auditors and other professional advisors and (viii) to any actual or proposed Participant or Purchasing Bank (each, a "Transferee") that has agreed in writing to be bound by the provisions of this Section 11.6(f). Unless prohibited from doing so by applicable law, in the event that any Bank or the Administrative Agent is legally requested or required to disclose any confidential information pursuant to clause (ii), (iii), or (v) of this Section 11.6(f), such party shall promptly notify the Borrower of such request or requirement prior to disclosure so that Borrower may seek an appropriate protective order and/or waive compliance with the terms of this Agreement. If, however, in the opinion of counsel for such party, such party is nonetheless, in the absence of such order or waiver, compelled to disclose such confidential information or otherwise stand liable for contempt or suffer possible censure or other penalty or liability, then such party may disclose such confidential information without liability to the Borrower; provided, however, that such party will use its best efforts to minimize the disclosure of such information. Subject to the exceptions above to disclosure of information, each of the Banks and the Administrative Agent agrees that it shall not publish, publicize, or otherwise make public any information regarding this Agreement or the transactions contemplated hereby without the written consent of the Borrower, in its sole discretion.

(g) If, pursuant to this Section, any interest in this Agreement or any Loan is transferred to any Transferee that is organized under the laws of any jurisdiction other than the United States or any state thereof, the transferor Bank shall cause such Transferee, concurrently with the effectiveness of such transfer, (i) to deliver to the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Administrative Agent and the Borrower) either U.S. Internal Revenue Service Form W-8BEN or U.S. Internal Revenue Service Form W-8ECI, or successor applicable forms (wherein such Transferee claims entitlement to complete exemption from U.S. federal withholding tax on all interest payments hereunder) and (ii) to agree (for the benefit of the transferor Bank, the Administrative Agent and the Borrower) to deliver to the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Administrative Agent and the Borrower) a new duly executed and completed Form W-8BEN or Form W-8ECI, or successor applicable forms or other manner of certification, as the case may be, upon the expiration or obsolescence of any previously delivered form in accordance with

applicable U.S. laws and regulations and amendments, unless in any such case any change in treaty, law or regulation has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Transferee from duly completing and delivering any such form with respect to it and such Transferee so advises the transferor Bank (and, in the case of any Purchasing Bank registered in the Register, the Administrative Agent and the Borrower).

(h) Nothing herein shall prohibit any Bank from pledging or assigning all or any portion of its Loans to any Federal Reserve Bank in accordance with applicable law. In order to facilitate such pledge or assignment, the Borrower hereby agrees that, upon request of any Bank at any time and from time to time after the Borrower has made its initial borrowing hereunder, the Borrower shall provide to such Bank, at the Borrower's own expense, a promissory note, substantially in the form of Exhibit 11.6(h) evidencing the Loans owing to such Bank.

SECTION 11.7. Setoff. In addition to any rights and remedies of the Banks provided by law, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Loans to which it is a party (whether at the stated maturity, by acceleration or otherwise) to setoff and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank or any branch or agency thereof to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such setoff and application.

SECTION 11.8. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be maintained with the Borrower and the Administrative Agent.

SECTION 11.9. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.10. Integration. This Agreement and the other Loan Documents represent the agreement of the Borrower, the Administrative Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Bank relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

SECTION 11.11. GOVERNING LAW. (a) THIS AGREEMENT AND ANY NOTES OR OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS

OF THE PARTIES UNDER THIS AGREEMENT AND ANY NOTES AND ANY OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK.

(b) Notwithstanding anything in Section 11.11(a) to the contrary, nothing in this Agreement or in any Note or any other Loan Documents shall be deemed to constitute a waiver of any rights which any Bank may have under applicable federal law relating to the amount of interest which any Bank may contract for, take, receive or charge in respect of any Loans, including any right to take, receive, reserve and charge interest at the rate allowed by the laws of the state where such Bank is located. To the extent that Texas law is applicable to the determination of the Highest Lawful Rate, the Banks and the Borrower agree that (i) if Chapter 303 of the Texas Finance Code, as amended, is applicable to such determination, the weekly rate ceiling (formerly known as the indicated (weekly) rate ceiling in Article 1.04, Subtitle 1, Title 79, of the Revised Civil Statutes of Texas, as amended, as computed from time to time shall apply, provided that, to the extent permitted by such Article, the Administrative Agent may from time to time by notice to the Borrower revise the election of such interest rate ceiling as such ceiling affects then current or future balances of the Loans; and (ii) the provisions of Chapter 346 of the Texas Finance Code, as amended (formerly found in Chapter 15 of Subtitle 3, Title 79, of the Revised Civil Statutes of Texas, 1925, as amended, shall not apply to this Agreement or any Note issued hereunder.

SECTION 11.12. Submission to Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in Section 11.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent permitted by applicable law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 11.12 any special, exemplary, punitive or consequential damages.

SECTION 11.13. Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, any Notes and the other Loan Documents;

(b) neither the Administrative Agent nor any Bank has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between the Administrative Agent and the Banks, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or among the Borrower and the Banks.

SECTION 11.14. Limitation on Agreements. All agreements between the Borrower, the Administrative Agent or any Bank, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of demand being made in respect of an amount due under any Loan Document or otherwise, shall the amount paid, or agreed to be paid, to the Administrative Agent or any Bank for the use, forbearance, or detention of the money to be loaned under this Agreement, any Notes or any other Loan Document or otherwise or for the payment or performance of any covenant or obligation contained herein or in any other Loan Document exceed the Highest Lawful Rate. If, as a result of any circumstances whatsoever, fulfillment of any provision hereof or of any of such documents, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by applicable usury law, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if, from any such circumstance, the Administrative Agent or any Bank shall ever receive interest or anything that might be deemed interest under applicable law that would exceed the Highest Lawful Rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing on account of such Bank's Loans or the amounts owing on other obligations of the Borrower to the Administrative Agent or any Bank under any Loan Document and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of such Bank's Loans and the amounts owing on other obligations of the Borrower to the Administrative Agent or any Bank under any Loan Document, as the case may be, such excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Administrative Agent or any Bank for the use, forbearance or detention of the indebtedness of the Borrower to the Administrative Agent or any Bank shall, to the fullest extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full of the principal (including the period of any renewal or extension thereof) so that the interest on account of such indebtedness shall not exceed the Highest Lawful Rate. Notwithstanding anything to the contrary contained in any Loan Document, it is understood and agreed that if at any time the rate of interest that accrues on the outstanding principal balance of any Loan shall exceed the Highest Lawful Rate, the rate of interest that accrues on the outstanding principal balance of any Loan shall be limited to the Highest Lawful Rate, but any subsequent reductions in the rate of interest that accrues on the outstanding principal balance of any Loan shall not reduce the rate of interest that accrues on the outstanding principal balance of any Loan below the Highest Lawful Rate until the total amount of interest accrued on the outstanding principal

balance of any Loan equals the amount of interest that would have accrued if such interest rate had at all times been in effect. The terms and provisions of this Section 11.14 shall control and supersede every other provision of all Loan Documents.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers or Administrative Agents thereunto duly authorized, as of the date first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC,

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Vice President and Treasurer

Signature page to CenterPoint Energy Houston
Electric, LLC $1,310,000,000 credit agreement,
dated as of November 12, 2002,

CREDIT SUISSE FIRST BOSTON, acting
through its Cayman Islands Branch,
as Administrative Agent, and as a Bank,

By: /s/ JAMES P. MORAN

Name: James P. Moran
Title: Director

By: /s/ VANESSA GOMEZ

Name: Vanessa Gomez
Title: Associate

Signature page to CenterPoint Energy Houston Electric, LLC $1,310,000,000 credit agreement, dated as of November 12, 2002,

GOVERNMENT EMPLOYEES INSURANCE COMPANY, as a Bank,

By: /s/ THOMAS M. WELLS

Name: Thomas M. Wells
Title: Senior Vice President, Controller and Chief Financial Officer

Signature page to CenterPoint Energy Houston
Electric, LLC $1,310,000,000 credit agreement,
dated as of November 12, 2002,

GENERAL RE CORPORATION,
as a Bank

By: /s/ ELIZABETH A. MONRAD

Name: Elizabeth A. Monrad
Title: Senior Vice President, Treasurer and
Chief Financial Officer

EXHIBIT 4(l)(2)

EXECUTION COPY

PLEDGE AGREEMENT
(Series I Bonds)

PLEDGE AGREEMENT, dated as of November 12, 2002, made by and among CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), with and in favor of the Administrative Agent (as defined below).

W I T N E S S E T H:
- - - - - - - - - - -

WHEREAS, pursuant to the Credit Agreement, the Banks thereunder have respectively agreed to make Loans to the Company, upon the terms and subject to the conditions set forth therein;

NOW, THEREFORE, in consideration of the premises and to induce the Banks to make Loans under the Credit Agreement, the parties hereto hereby agree as follows:

1. Defined Terms. (a) Unless otherwise defined herein, each term defined in the Credit Agreement and used herein shall have the meaning given to such term in the Credit Agreement.

(b) The following terms shall have the following meanings:

"Administrative Agent": Credit Suisse First Boston, in its capacity as administrative agent under the Credit Agreement.

"Agreement": this Pledge Agreement, as the same may be amended, modified or otherwise supplemented from time to time.

"Bonds": bonds issued by the Company pursuant to the Indenture, including without limitation, the Pledged Bonds.

"Collateral": the collective reference to (i) the Pledged Bonds, all documents and instruments issued or delivered in respect of any Pledged Bonds, the rights and interest of the holder or registered owner of each Pledged Bond in and under the Pledged Bonds (including such rights and interest in any and all collateral securing the Pledged Bonds), such documents and instruments, any and all other documents and instruments that from time to time secure payment of such Pledged Bonds, (ii) all Investment Property constituting or arising from any Collateral, and (iii) all Proceeds of any of the foregoing.

"Credit Agreement": the Credit Agreement, dated as of November 12, 2002, among CenterPoint Energy Houston Electric, LLC, the Banks party thereto, and Credit Suisse First Boston, as administrative agent, as amended, supplemented or otherwise modified from time to time.

"Indenture": the General Mortgage Indenture, dated as of October 10, 2002, by the Company and the Trustee, as amended or supplemented from time to time.

"Investment Property": the collective reference to (i) all "investment property" as such term is defined in Section 9-102(a)(49) of the New York UCC as in effect on the date hereof and (ii) whether or not constituting "investment property" as so defined, all Pledged Bonds.

"New York UCC": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Obligations": the collective reference to the unpaid principal of and interest on the Loans under the Credit Agreement and all other obligations and liabilities of the Company (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Company, whether or not a claim for post-filing or post-petition interest is allowed or allowable in such proceeding) to the Administrative Agent or any other Secured Party, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, any other Loan Documents, or any other document made, delivered or given in connection with any of the foregoing, in each case whether on account of principal, interest, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Banks that are required to be paid by the Company pursuant to the terms of any of the foregoing agreements).

"Pledged Bonds": the Series I Bonds, initially authenticated and delivered in the aggregate principal amount of One Billion Three Hundred Ten Million Dollars ($1,310,000,000), established in the Ninth Supplemental Indenture, dated as of November 12, 2002, between the Company and the Trustee.

"Proceeds": all "proceeds" as such term is defined in Section 9-102(a)(64) of the New York UCC as in effect on the date hereof and, in any event, including, without limitation, principal, interest and other income from the Pledged Bonds and all collections thereon and any money or property realized or collected in connection with any collateral security or guarantee with respect to the Pledged Bonds.

"Secured Party": each Bank under the Credit Agreement and the Administrative Agent, and each of their successors and assigns.

"Securities Act": the Securities Act of 1933, as amended.

"Trustee": JPMorgan Chase Bank, in its capacity as Trustee under the Indenture.

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

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

2. Delivery and Pledge.

(a) The Company hereby issues, delivers, transfers and assigns to the Administrative Agent, for the ratable benefit of the Secured Parties, the Pledged Bonds, as collateral security for the prompt and complete payment and performance by the Company when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations, and hereby grants a first priority security interest in the Collateral to the Administrative Agent for the ratable benefit of the Secured Parties. The Company hereby agrees that (i) subject to the terms hereof, the Administrative Agent is, and will have all the rights and interests of, a holder and registered owner of each Pledged Bond, and all rights and interests under

and in the Collateral, and (ii) the Administrative Agent may exercise such rights and any other rights set forth herein or under applicable law, and realize on such interests, in each case for the ratable benefit of the Secured Parties, to satisfy, in whole or in part, the Obligations, in accordance with, and subject to, the terms hereof and the terms of the Credit Agreement. The Pledged Bonds shall be registered in the name of the Administrative Agent, and shall be held by the Administrative Agent for the ratable benefit of the Secured Parties. Notwithstanding anything herein to the contrary, should the Company become the subject of a case, proceeding or action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, the Pledged Bonds shall not be considered to be property of the Company's estate and the Administrative Agent and the Secured Parties shall be free to exercise all remedies hereunder respecting the Pledged Bonds or otherwise.

(b) The Company shall cause the physical delivery of the Pledged Bonds in certificated form to the Administrative Agent, registered in its name as Administrative Agent.

3. Restrictions on Transfer of Pledged Bonds; Voting of Pledged Bonds.

(a) Unless an Event of Default shall have occurred and be continuing, the Administrative Agent shall not sell, assign or transfer the Pledged Bonds.

(b) Unless an Event of Default shall have occurred or unless otherwise instructed by the Majority Banks, where consent of holders of Bonds of the Company is sought, the Administrative Agent shall vote, or shall consent with respect thereto, as follows: (i) the Administrative Agent shall vote all Pledged Bonds then held by it, or consent with respect thereto, in favor of any or all amendments or modifications of the Indenture which the Company has requested in connection with the supplemental indentures thereto for the issuance of additional Bonds to the extent permitted under the Credit Agreement; and (ii) with respect to any other amendments or modifications of the Indenture, the Administrative Agent shall vote all Pledged Bonds then held by it, or consent with respect thereto, in accordance with the written direction of the Majority Banks (or such greater percentage of Banks as provided in the Credit Agreement). Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, the Administrative Agent may vote the Pledged Bonds as contemplated by Section 6 of this Agreement.

4. Representations and Warranties. The Company represents and warrants that:

(a) The Pledged Bonds in certificated form delivered to the Administrative Agent and registered in its name as Administrative Agent, and the other Bonds described in Schedule 1 attached hereto represent, in the aggregate, all of the Bonds authenticated and delivered as of the date hereof.

(b) Each of the Pledged Bonds constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(c) Upon delivery in certificated form to the Administrative Agent of the Pledged Bonds, (i) subject to Section 3(b) hereof, the Administrative Agent shall be entitled to all voting, consensual and other rights accruing to the holders of Bonds under the Indenture, and (ii) the security interest created pursuant to this Agreement will constitute a valid, perfected first priority security interest in the Collateral, enforceable in accordance with its terms against all creditors of the Company and any persons purporting to purchase any Collateral from the Company, subject to the effects of bankruptcy, insolvency,

fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(d) There exists no default under any Pledged Bond.

5. Covenants. The Company covenants and agrees with the Administrative Agent, for the benefit of the Secured Parties, that, from and after the date of this Agreement until this Agreement is terminated and the security interests created hereby are released:

(a) The Company shall (i) not take or omit to take any action, the taking or the omission of which would result in an alteration or impairment of the security interest created by this Agreement, it being understood that the foregoing is not intended to restrict any supplement to the Indenture that is effected from time to time in accordance with the terms thereof to the extent permitted by the Credit Agreement and (ii) defend such security interest against claims and demands of all persons whomsoever. At any time and from time to time, upon the written request of the Administrative Agent and at the sole expense of the Company, the Company shall promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Administrative Agent reasonably may request for the purposes of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, in the case of any relevant Collateral, taking any actions necessary to enable the Administrative Agent to obtain "control" (within the meaning of the New York UCC) with respect thereto.

(b) The Company shall not enter into any agreement amending or supplementing the Collateral except in accordance with, and subject to the terms of, the Indenture and to the extent permitted by the Credit Agreement.

(c) The Company shall pay, and save the Administrative Agent and the Secured Parties harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes and any and all recording and filing fees which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(d) Any sums paid upon or in respect of the Pledged Bonds upon the liquidation or dissolution of the Company shall be paid over to the Administrative Agent to be held by it or applied hereunder, for the ratable benefit of the Secured Parties, as additional collateral security for the Obligations, and in case any distribution of capital shall be made on or in respect of the Pledged Bonds or any property shall be distributed upon or with respect to the Pledged Bonds pursuant to the recapitalization or reclassification of the capital of the Company or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected security interest in favor of the Administrative Agent, be delivered to the Administrative Agent to be held or applied hereunder, for the ratable benefit of the Secured Parties, as additional collateral security for the Obligations. If any sums of money or property so paid or distributed in respect of the Pledged Bonds shall be received by the Company, the Company shall, until such money or property is paid or delivered to the Administrative Agent, hold such money or property in trust for the Administrative Agent and the Secured Parties, segregated from other funds of the Company, as additional collateral security for the Obligations.

(e) The Company shall not (i) create, incur or permit to exist any Lien or option in favor of, or any claim of any person with respect to, any of the Pledged Bonds, or any interest therein, except for the security interests created by this Agreement or by the Indenture or (ii) enter into any agreement or

undertaking restricting the right or ability of the Company or the Administrative Agent to sell, assign, transfer or apply to the Obligations any of the Collateral.

6. Remedies; Application of Proceeds.

(a) If an Event of Default shall have occurred and be continuing, the rights and remedies of the Administrative Agent with respect to the Company and the Collateral shall include (without limitation of the other rights and remedies available to the Administrative Agent or any Secured Party under the Credit Agreement or otherwise available to it) (i) the right to collect all amounts payable under the Pledged Bonds or any other Collateral for the benefit of the Secured Parties and hold it for their benefit or apply it to the Obligations, (ii) the right to attend or be represented by proxy at any meeting of bondholders under the Indenture, (iii) the right to vote the Pledged Bonds in accordance with the terms of the Indenture at the written direction of the Majority Banks, (iv) the right to issue consents and waivers with respect to the Pledged Bonds at the written direction of the Majority Banks, (v) the right to issue any and all instructions and requests for action to the Trustee that are permitted to a bondholder under the Indenture at the written direction of the Majority Banks, and (vi) the right to exercise all other rights and remedies of a "holder" of a Pledged Bond under the Indenture.

(b) If an Event of Default shall have occurred and be continuing at any time at the election of the Administrative Agent, the Administrative Agent may apply all or any part of Proceeds constituting Collateral in payment of the Obligations in such order as the Administrative Agent may determine consistent with the provisions of this Section 6. Application of Proceeds by the Administrative Agent hereunder, or any other application by the Administrative Agent of sums or property hereunder to be made to or for the benefit of the Secured Parties, shall be made first to the fees, costs, expenses or losses of the Administrative Agent in connection with this Agreement or its administration or enforcement or in any way relating to the Collateral or the rights of the Administrative Agent and the other Secured Parties hereunder, including, without limitation, reasonable attorneys' fees and disbursements of counsel to the Administrative Agent and the other Secured Parties hereunder, and then to the Secured Parties pro rata based on the aggregate amount of Obligations held by or owed to them (whether or not then due and payable). All Proceeds while held by the Administrative Agent (or by the Company in trust for the Administrative Agent) shall continue to be held as collateral security for the Obligations and shall not constitute payment thereof until applied as provided in this Section 6. Subject to the other applicable provisions hereof, any balance of such Proceeds remaining after the Obligations shall have been paid in full shall be paid over to the Company or to whomsoever may be lawfully entitled to receive the same.

(c) If an Event of Default shall have occurred and be continuing, the Administrative Agent, on behalf of the Secured Parties, may exercise, in addition to all other rights and remedies granted in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the New York UCC. Without limiting the generality of the foregoing, the Administrative Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Company or any other person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Administrative Agent or Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Administrative Agent or any Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or

sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Company, which right or equity is hereby waived or released. The Administrative Agent shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, as set forth in Section 6(b) hereof, and only after such application and after the payment by the Administrative Agent of any other amount required by any provision of law, including, without limitation, Section 9-615(a)(3) of the New York UCC, need the Administrative Agent account for the surplus, if any, to the Company. To the extent permitted by applicable law, the Company waives all claims, damages and demands it may acquire against the Administrative Agent or any Secured Party arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given in writing at least 10 days before such sale or other disposition. The Company shall remain liable for any deficiency if the proceeds of any sale or other disposition of Collateral are insufficient to pay the Obligations.

(d) (i) The Company recognizes that the Administrative Agent may be unable to effect a public sale of any or all the Pledged Bonds, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Company acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Administrative Agent shall be under no obligation to delay a sale of any of the Pledged Bonds for the period of time necessary to permit the Company to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Company would agree to do so.

(ii) The Company agrees to use its reasonable efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Pledged Bonds pursuant to this Section 6(d) valid and binding and in compliance with any and all other applicable requirements of law.

7. Administrative Agent's Appointment as Attorney-in-Fact. At any time after the occurrence and during the continuance of an Event of Default, the Company hereby irrevocably constitutes and appoints the Administrative Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Company and in the name of the Company or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

8. Duty of Administrative Agent. The Administrative Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the New York UCC or otherwise, shall be to deal with it in the same manner as the Administrative Agent deals with similar securities and property for its own accounts. None of the Administrative Agent, any Bank, each of their successors and assigns, nor any of their respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Company or any other person or to take any other action whatsoever with regard to the Collateral

or any part thereof. The powers conferred on the Administrative Agent hereunder are solely to protect the Secured Parties' interests in the Collateral and shall not impose any duty upon the Administrative Agent to exercise any such powers. The Administrative Agent shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Company for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

9. Authority of Administrative Agent. The Company acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by it or the exercise or non-exercise by it of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Administrative Agent and the Secured Parties, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Administrative Agent and the Company, the Administrative Agent shall be conclusively presumed to be acting as an agent for the Banks with full and valid authority so to act or refrain from acting, and the Company shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

10. Execution of Financing Statements. Pursuant to any applicable law, the Company authorizes the Administrative Agent to file or record financing statements and other filing or recording documents or instruments with respect to the Collateral without the signature of the Company in such form and in such offices as the Administrative Agent reasonably determines appropriate to perfect the security interests of the Administrative Agent under this Agreement. A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement or other filing or recording document or instrument for filing or recording for filing in any jurisdiction.

11. Notices. All notices, requests and demands to or upon the Company or the Administrative Agent to be effective shall be in writing (or by telex, fax or similar electronic transfer confirmed in writing) and shall be deemed to have been duly given or made (i) when delivered by hand or (ii) if given by mail, when deposited in the mails by certified mail, return receipt requested, or (iii) if by telex, fax or similar electronic transfer, when sent and receipt has been confirmed, addressed to the Company or the Administrative Agent at the following:

(x) if to the Company: 1111 Louisiana, Houston, Texas 77002, Attention of Linda Geiger, Assistant Treasurer (Telecopy No. 713-207-3301); and

(y) if to the Administrative Agent: Credit Suisse First Boston, 11 Madison Avenue, New York, New York 10010, Attention of Julia Kingsbury (Telecopy No. 212-325-8304).

12. Return of Documents; Cooperation. Upon the payment in full of all Obligations and termination of this Agreement, the Administrative Agent shall (a) surrender the Pledged Bonds to the Trustee and (b) return to the Company all other Collateral previously delivered to the Administrative Agent and then held by it, in each case without recourse, representation or warranty, and execute and deliver to the Trustee or the Company, as the case may be, such documents of assignment as are reasonably necessary to terminate the Administrative Agent's security interest in the Collateral interest hereunder.

13. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or

unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. Amendments. (a) Except as set forth in clause (b) below, none of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Company and the Administrative Agent (as instructed by the Majority Banks or such other percentage of Banks as may be required pursuant to the terms of the Credit Agreement).

(b) The Administrative Agent is authorized (but is under no obligation) to enter into amendments and modifications of a technical nature that do not materially impair the rights of the Secured Parties hereunder taken as a whole.

15. No Waiver; Cumulative Remedies. (a) None of the Secured Parties shall by any act (except by a written instrument pursuant to Section 14(a) hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of any Secured Party, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by any Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which such Secured Party would otherwise have on any future occasion.

(b) The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

16. Headings. The headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

17. Successors and Assigns. This Agreement shall be binding upon the successors and assigns of the Company and shall inure to the benefit of each of the Secured Parties and its successors and assigns.

18. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

19. Integration. This Agreement, the Credit Agreement and the other Loan Documents represent the agreement of the Company and the Secured Parties with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Secured Parties relative to subject matter hereof and thereof not expressly set forth or referred to herein, in the Credit Agreement or in the other Loan Documents.

20. Submission To Jurisdiction; Waivers. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Company at its address referred to in Section 11 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

21. Release. At any time when the unpaid principal amount of the Loans under the Credit Agreement shall have been repaid in whole or in part, an amount of Pledged Bonds under this Agreement shall be released (whether by virtue of a reduction in the aggregate principal amount of the Pledged Bonds pursuant to the terms of such Pledged Bonds, or otherwise) from the security interests created hereby in the principal amount by which such Obligations are repaid, and all obligations (other than those expressly stated to survive such repayment) of the Administrative Agent and the Company in relation to such released Collateral shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to such released Collateral shall revert to the Company. At the request and sole expense of the Company following any such repayment, the Administrative Agent shall deliver to the Company any Collateral (including certificates representing Pledged Bonds released as part of such Collateral) released under the terms of this Section 21 and held by the Administrative Agent hereunder, and execute and deliver to the Company such documents (including appropriate notations to any Pledged Bond confirming the amount of any reduction in the aggregate principal amount of such Pledged Bond) as the Company shall reasonably request to evidence such release. The Company agrees that if at any time payment, or any part thereof, of any Obligation is rescinded or must otherwise be restored by the Administrative Agent or any other Secured Party, upon the bankruptcy or reorganization of the Company or otherwise, Pledged Bonds, in a principal amount equal to the amount rescinded or otherwise required to be restored, and all rights thereto, shall revert to the Administrative Agent for the ratable benefit of the Secured Parties.

22. WAIVER OF JURY TRIAL. THE COMPANY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be duly executed and delivered as of the date first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ MARC KILBRIDE
Name: Marc Kilbride
Title: Vice President and Treasurer

CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands branch, as Administrative Agent

By: /s/ S. WILLIAM FOX
Name: S. William Fox
Title: Vice President

By: /s/ JAMES P. MORAN
Name: James P. Moran
Title: Director

SCHEDULE 1
to Pledge Agreement

BONDS AUTHENTICATED AND DELIVERED UNDER THE INDENTURE

(1) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Eight Hundred Fifty Million Dollars ($850,000,000) established in the First Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the First Supplemental Indenture;

(2) the series of Securities (as defined in the Indentures), initially authenticated and delivered in the aggregate principal amount of Fifty Million Dollars ($50,000,000) established in the Second Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Second Supplemental Indenture;

(3) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Sixty Eight Million Dollars ($68,000,000) established in the Third Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Third Supplemental Indenture;

(4) the series of Securities, initially authenticated and delivered in the aggregate principal amount of One Hundred Million Dollars ($100,000,000) established in the Fourth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Fourth Supplemental Indenture;

(5) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Ninety Million Dollars ($90,000,000) established in the Fifth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Fifth Supplemental Indenture;

(6) the series of Securities, initially authenticated and delivered in the aggregate principal amount of One Hundred Million Dollars ($100,000,000) established in the Sixth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Sixth Supplemental Indenture;

(7) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Nineteen Million Two Hundred Thousand Dollars ($19,200,000) established in the Seventh Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Seventh Supplemental Indenture;

(8) the series of Securities, initially authenticated and delivered in the aggregate principal amount of One Hundred Million Dollars ($100,000,000) established in the Eighth Supplemental Indenture, dated as of October 10, 2002, between the Company and the Trustee, the form and terms of which are established in the Officer's Certificate, dated October 10, 2002, pursuant to the Eighth Supplemental Indenture; and

(9) the Pledged Bonds.

Exhibit 12

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
[(AN INDIRECT] WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

YEAR ENDED DECEMBER 31,	2002	2001	2000	1999	1998
- Income from continuing operations	$ 563,555	$445,955	$490,987	$277,240	$244,838
Income taxes for continuing operations	294,554	227,811	233,367	142,786	159,126
Capitalized Interest	(3,672)	(4,581)	(4,011)	(7,632)	(2,775)
	854,437	669,185	720,343	412,394	401,189
Fixed charges, as defined:					
Interest expense	260,121	233,344	230,385	196,791	229,505
Capitalized Interest	3,672	4,581	4,011	7,632	2,775

Interest component of rentals charged to operating expense	1,654	1,686	1,060	590
	203			
Total fixed charges	265,447	239,611	235,456	205,013
	232,483			
Earnings, as defined	$1,119,884	$908,796	$955,799	$617,407
	$633,672			
Ratios of earnings to fixed charges	4.22	3.79	4.06	3.01
	2.73			