

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

-----  
Commission file number 1-13265

CENTERPOINT ENERGY RESOURCES CORP.

(Exact name of registrant as specified in its charter)

Delaware 76-0511406  
(State or other jurisdiction (I.R.S. Employer Identification No.)  
of incorporation or organization)

1111 Louisiana  
Houston, Texas 77002  
(Address of principal executive offices) (Zip Code)

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

CENTERPOINT ENERGY RESOURCES CORP. MEETS THE CONDITIONS SET FORTH IN GENERAL  
INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q  
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  No

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

As of May 2, 2002, all 1,000 shares of CenterPoint Energy Resources Corp. common  
stock were held by Utility Holding, LLC, a wholly owned subsidiary of  
CenterPoint Energy, Inc.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES  
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)  
 STATEMENTS OF CONSOLIDATED INCOME  
 (THOUSANDS OF DOLLARS)  
 (UNAUDITED)

THREE MONTHS ENDED MARCH 31, -----	
-----	2002 2003 -----
----- REVENUES	
\$ 1,242,279	\$ 2,094,020 -----
----- EXPENSES: Natural gas and fuel	
.....	861,579
1,655,120	Operation and maintenance
.....	164,713 177,666
Depreciation and amortization	
.....	40,271 43,910 Taxes
other than income taxes	
.....	32,520 45,176 -----
----- Total	
1,099,083	1,921,872 -----
--- OPERATING INCOME	
.....	.....
143,196	172,148 -----
OTHER INCOME (EXPENSE): Interest expense	
.....	(35,577)
(35,820)	Distribution on trust preferred
.....	securities ..... (6) (6) Other, net
.....	.....
2,256	1,060 -----
Total	
.....	.....
(33,327)	(34,766) -----
- INCOME BEFORE INCOME TAXES	
.....	109,869 137,382
Income Tax Expense	
.....	40,700
49,210	----- NET
INCOME	
.....	.....
\$ 69,169	\$ 88,172 =====
=====	

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES  
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)  
 CONSOLIDATED BALANCE SHEETS  
 (THOUSANDS OF DOLLARS)  
 (UNAUDITED)

ASSETS

DECEMBER 31,	MARCH 31,	2002	2003	-----	CURRENT
ASSETS: Cash and cash equivalents					
					\$ 9,237 \$ 83,248
Accounts and notes receivable, principally customers, (net of allowance for doubtful accounts of \$19,568 and \$25,057, respectively)	384,772	639,605	Accrued unbilled revenue	284,112	277,082
Materials and supplies				32,264	31,946
Natural gas inventory				103,443	30,970
Non-trading derivative assets				27,275	21,071
Prepaid expenses and other current assets					891,868
	50,765	31,086	-----		Total current assets
					891,868
1,115,008	-----				PROPERTY, PLANT AND EQUIPMENT:
Property, plant and equipment				3,885,820	3,938,476
Less accumulated depreciation				(650,148)	(693,733)
Property, plant and equipment, net				3,235,672	3,244,743
-----					
OTHER ASSETS: Goodwill					
1,740,510	1,740,510	Other intangibles, net			
				19,878	20,053
Non-trading derivative assets					
Notes receivable - affiliated companies, net				3,866	5,376
Other				39,097	38,171
55,571	104,053	-----		Total other assets	
					1,858,922
1,908,163	-----				TOTAL ASSETS
					\$
5,986,462	\$ 6,267,914	=====			

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES  
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)  
 CONSOLIDATED BALANCE SHEETS -- (CONTINUED)  
 (THOUSANDS OF DOLLARS)  
 (UNAUDITED)

LIABILITIES AND STOCKHOLDER'S EQUITY

DECEMBER 31,	MARCH 31,	2002	2003	-----	CURRENT
LIABILITIES: Short-term borrowings					
					\$ 347,000 \$ --
Current portion of long-term debt					
					517,616 250,917
Accounts payable, principally trade					
465,694 681,003					Accounts and notes payable - affiliated companies, net
					101,231 15,979
Interest accrued					
					49,084
Taxes accrued					
					29,933
Customer deposits					
					23,462
Non-trading derivative liabilities					
					54,081
56,725					Other
					9,973 4,865
102,510 70,477					Total current liabilities
					1,647,189 1,133,361
OTHER LIABILITIES: Accumulated deferred income taxes, net					
					595,889 619,452
Benefit obligations					
					132,434
Non-trading derivative liabilities					
					130,321
					873 485
125,876 162,678					Total other liabilities
					855,072 912,936
LONG-TERM DEBT					
					1,441,264 2,090,918
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 9) COMPANY OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY					
508 508					STOCKHOLDER'S EQUITY: Common stock
					1 1
Paid-in capital					
					1,986,364 1,986,364
Retained earnings					
					44,804
Accumulated other comprehensive income					
					11,260 10,850
Total stockholder's equity					
					2,042,429 2,130,191
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY					
					\$ 5,986,462 \$ 6,267,914
=====					

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES  
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)  
 STATEMENTS OF CONSOLIDATED CASH FLOWS  
 (THOUSANDS OF DOLLARS)  
 (UNAUDITED)

THREE MONTHS ENDED MARCH 31,	-----	
2002	2003	CASH FLOWS FROM OPERATING
		ACTIVITIES: Net income
		.....
\$ 69,169	\$ 88,172	Adjustments to reconcile net income to net
		cash provided by operating activities: Depreciation and
		amortization .....
		40,271
		43,910 Deferred income taxes
		..... (44,997)
23,598		Changes in other assets and liabilities: Accounts and
		notes receivable, net .....
100,084	(252,259)	Accounts receivable/payable, affiliates
		..... (25,872) (113,887) Inventory
		.....
		81,819 72,791 Accounts payable
		..... (11,004)
		215,309 Fuel cost recovery
		..... 40,438 7,056
		Interest and taxes accrued
		..... 86,255 8,767 Net
		non-trading derivative assets and liabilities
		..... (2,232) (1,362) Other current assets
		..... (3,600) 19,678
		Other current liabilities
		..... (44,570) (29,388)
		Other assets
		.....
		(6,287) (4,596) Other liabilities
		..... (24,859)
34,804		Net cash provided by
operating activities .....	254,615	112,593
		CASH FLOWS FROM INVESTING
		ACTIVITIES: Capital expenditures
		..... (48,655)
		(50,732) Other, net
		.....
847	(1,568)	Net cash used in
investing activities .....	(47,808)	
(52,300)		CASH FLOWS FROM FINANCING
		ACTIVITIES: Payments of long-term debt
		..... (6,633)
		(260,008) Proceeds from long-term debt
		..... -- 650,000 Debt
		issuance costs
		..... --
(51,798)		Decrease in short-term borrowings, net
		..... (195,527) (347,000) Increase
		in notes with affiliates, net
		..... 10,224 29,561 Other, net
		.....
(626)	(7,037)	Net cash provided by
(used in) financing activities .....	(192,562)	13,718
		NET INCREASE IN CASH AND CASH
EQUIVALENTS .....	14,245	74,011
		CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD
		..... 16,425 9,237 -----
		CASH AND CASH EQUIVALENTS AT END OF THE PERIOD
		..... \$ 30,670 \$ 83,248 =====
		SUPPLEMENTAL DISCLOSURE OF CASH FLOW
		INFORMATION: Cash Payments: Interest
		.....
		\$ 49,209 \$ 54,930 Income taxes
		.....
		166 793

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy Resources Corp. (CERC Corp.), formerly Reliant Energy Resources Corp. (RERC Corp.), together with its subsidiaries (the Company), are the CERC Corp.'s consolidated interim financial statements and notes (Interim Financial Statements) including its wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Annual Report on Form 10-K of CERC Corp. (CERC Corp. Form 10-K) for the year ended December 31, 2002, which was filed with the Securities and Exchange Commission (SEC) on March 12, 2003.

The Company is a wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring (Restructuring) of Reliant Energy, Incorporated (Reliant 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. Prior to the Restructuring, CenterPoint Energy and Reliant Energy obtained an order from the SEC that authorized the Restructuring transactions, including the distribution to CenterPoint Energy's shareholders of the shares of common stock of Reliant Resources, Inc. that it owned, and granted CenterPoint Energy certain authority with respect to financing for CenterPoint Energy and its subsidiaries, dividends and other matters. The financing authority granted by that order will expire on June 30, 2003. CenterPoint Energy must obtain a further order from the SEC under the 1935 Act, related to, among other things, the financing activities of CenterPoint Energy and its subsidiaries subsequent to June 30, 2003.

In connection with CenterPoint Energy's registration as a public utility holding company under the 1935 Act, the SEC has limited the aggregate amount of the Company's external borrowings to \$2.7 billion. The Company's 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 the Company's ability to pay dividends out of capital accounts to the extent current or retained earnings are insufficient for the payment of dividends. Under these restrictions, the Company is permitted to pay dividends in excess of the respective current or retained earnings in an amount up to \$100 million.

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

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

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

Notes to Consolidated Financial Statements: Note 3(e) (Regulatory Matters), Note 5 (Derivative Instruments) and Note 10 (Commitments and Contingencies).

For information regarding environmental matters and legal proceedings, see Note 9.

## (2) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards (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. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption.

The Company has identified no asset retirement obligations. The Company's rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of March 31, 2003, these previously recognized removal costs of \$385 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities.

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

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

In June 2002, the Emerging Issues Task Force ("EITF") reached a consensus that all mark-to-market gains and losses on energy trading contracts should be shown net in the statement of consolidated income whether or not settled physically. In October 2002, the EITF issued a consensus that superceded the June 2002 consensus. The October 2002 consensus required, among other things, that energy derivatives held for trading purposes be shown net in the statement of consolidated income. This new consensus, EITF 02-3 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," is effective for fiscal periods beginning after December 15, 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.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not expect the adoption of FIN 46 to have a material impact on its results of operations or financial condition.

(3) DERIVATIVE INSTRUMENTS

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. The Company utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes and cash flows of its natural gas businesses on its operating results and cash flows.

Cash Flow Hedges. During the three months ended March 31, 2003, there was no hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. During the three months ended March 31, 2003, there was no effect on earnings as a result of the discontinuance of cash flow hedges. As of March 31, 2003, the Company expects \$16 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

For additional information regarding the Company's use of derivatives, see Note 5 to the CERC Corp. 10-K Notes, which is incorporated herein by reference.

(4) GOODWILL AND INTANGIBLES

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

DECEMBER 31,	
2002 MARCH	
31, 2003 -----	
-----	
-----	
-----	
-----	
-----	
CARRYING	
ACCUMULATED	
CARRYING	
ACCUMULATED	
AMOUNT	
AMORTIZATION	
AMOUNT	
AMORTIZATION	
-----	
-----	
-----	
----- (IN	
MILLIONS)	
Land use	
rights .... \$	
7 \$ (2) \$ 7 \$	
(2) Other	
.....	
18 (3) 18 (3)	
-----	
-----	
-----	
----- Total	
.....	
\$ 25 \$ (5) \$	
25 \$ (5)	
=====	
=====	
=====	
=====	

The Company recognizes specifically identifiable intangibles when specific rights and contracts are acquired. The Company amortizes other acquired

intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives. The Company has no intangible assets with indefinite lives recorded as of March 31, 2003. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 47 to 75 years for land use rights and 4 to 25 years for other intangibles.

Amortization expense for other intangibles for the three months ended March 31, 2002 and 2003 was \$0.3 million and \$0.3 million, respectively. Estimated amortization expense for the remainder of 2003 is approximately \$1.1 million and is approximately \$2.1 million per year for the five succeeding fiscal years.

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

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

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

(a) Short-Term Borrowings

Credit Facilities. As of March 31, 2003, the Company had a revolving credit facility that provided for an aggregate of \$200 million in committed credit that is classified as short-term. The revolving credit facility terminates on March 23, 2004. Rates for borrowings under this facility, including the facility fee, are LIBOR plus 250 basis points based on current credit ratings and the applicable pricing grid. As of March 31, 2003, such credit facility was not utilized.

The revolving credit facility contains various business and financial covenants. The borrower is currently in compliance with the covenants.

(b) Long-Term Debt

On March 25 and April 14, 2003, the Company issued \$650 million and \$112 million, respectively, aggregate principal amount of 7.875% senior unsecured notes due in 2013. A portion of the proceeds was used to refinance \$360 million aggregate principal amount of the Company's 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) and to pay costs associated with the refinancing. Proceeds were also used to repay borrowings under the Company's \$350 million revolving credit facility prior to its expiration on March 31, 2003. The remaining \$140 million aggregate principal amount of TERM Notes are due to be refinanced or remarketed in November 2003.

(c) Receivables Facility

In connection with the Company's November 2002 amendment and extension of its \$150 million receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by CERC. This transaction is accounted for as a sale of receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and, as a result, the related receivables are excluded from the Consolidated Balance Sheets. The receivables facility terminates on November 14, 2003. As of December 31, 2002 and March 31, 2003, CERC had utilized \$107 million and \$150 million of its receivables facility, respectively.

(6) TRUST PREFERRED SECURITIES

A statutory business trust created by CERC Corp. has issued convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Effective January 7, 2003, the convertible preferred securities are convertible at the option of the holder into \$33.62 of cash and 2.34 shares of CenterPoint Energy common stock for each \$50 of liquidation value. As of December 31, 2002 and March 31, 2003, \$0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their underlying convertible junior subordinated debentures, bear interest at 6.25% and mature in June 2026.

The sole asset of the trust consists of convertible junior subordinated debentures of CERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities, and a principal amount corresponding to the common and convertible preferred securities issued by the trust. For additional information regarding the convertible preferred securities, see Note 7 to the CERC Corp. 10-K Notes, which is incorporated herein by reference.

(7) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

FOR THE THREE MONTHS ENDED MARCH 31, -----	
----- 2002	2003 ----- (IN
MILLIONS) Net income	
.....	.....
\$ 69	\$ 88
----- Other	
comprehensive income: Net deferred gain (loss)	
from cash flow hedges ..... 46 (1)	
Reclassification of deferred loss from cash flow	
hedges realized in net income	
.....	4 1 -----
-	----- Other comprehensive income
.....	50 -----
--	----- Comprehensive income
.....	\$ 119 \$
88	=====

(8) RELATED PARTY TRANSACTIONS

From time to time, CERC has advanced money to, or borrowed money from, CenterPoint Energy or its subsidiaries. As of December 31, 2002, CERC had net short-term borrowings, included in accounts and notes payable-affiliated companies, of \$74 million and net accounts payable of \$27 million. As of March 31, 2003, CERC had net accounts payable of \$16 million included in accounts and notes payable-affiliated companies. As of December 31, 2002 and March 31, 2003, CERC had net long-term receivables, included in notes receivable-affiliated companies, totaling \$39 million and \$38 million, respectively. For each of the three months ended March 31, 2002 and 2003, the Company had net interest expense related to affiliate borrowings of \$0.1 million.

In 2002, the Company supplied natural gas to Reliant Energy Services, Inc. (Reliant Energy Services), a subsidiary of Reliant Resources, which was an affiliate through September 30, 2002. For the three months ended March 31, 2002, the sales and services by the Company to Reliant Resources and its subsidiaries totaled \$14 million. For the three months ended March 31, 2003, the sales and services by the Company to CenterPoint Energy and its affiliates totaled \$5 million. Purchases of natural gas by the Company from Reliant Resources and its subsidiaries were \$107 million for the three months ended March 31, 2002.

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 \$13 million and \$31 million for the three months ended March 31, 2002 and 2003, respectively, and are included primarily in operation and maintenance expenses.

The 1935 Act generally prohibits borrowings by CenterPoint Energy from its subsidiaries, including the Company.

(9) ENVIRONMENTAL MATTERS AND LEGAL PROCEEDINGS

(a) Environmental Matters.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company (REGT), Reliant Energy Pipeline Services, Inc., RERC Corp., Reliant Energy Services, Inc., other Reliant Energy entities and third parties, in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented seven times. As of May 1, 2003, there were 572 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties in the same court. On January 6, 2003, two other plaintiffs filed a third suit of substantially similar allegations against CenterPoint Energy, as well as other defendants, in Bossier Parish (26th Judicial District Court).

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

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of March 31, 2003, the Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

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

At March 31, 2003, the Company had accrued \$19 million for remediation of the Minnesota sites. At March 31, 2003, the estimated range of possible remediation costs was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. The Company has utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. The Company has collected \$12.2 million at March 31, 2003 to be used for future environmental remediation.

The Company has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for sites in other states. Recently, the Company was informed that it has been named as a defendant in a third party complaint in the U.S. District Court for Maine under which contribution is sought for the cost to remediate a former MGP site in Bangor, Maine. The claim is based on the previous ownership of the site by a former affiliate of one of the Company's divisions. The Company has not been served with the complaint and presently is not aware of details regarding the site, the extent of any legal obligation to contribute to site remediation or the estimated cost of remediation. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

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

Other Environmental. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of

the Company in activities at these sites, the Company does not believe that these matters will have a material adverse effect on its financial position, results of operations or cash flows.

(b) Department of Transportation

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to the Company's interstate pipelines as well as its intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities, in accordance with the requirements of the legislation, over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While the Company anticipates that increased capital and operating expenses will be required to comply with the requirements of the legislation, it will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

(c) Legal Matters.

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

In addition, CERC Corp., CenterPoint Energy Gas Transmission Company, CenterPoint Energy Field Services, Inc. and CenterPoint Energy-Mississippi River Transmission Corporation are defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. On April 10, 2003, the judge denied the plaintiffs' motion to certify the requested class. Plaintiffs have requested and secured 30 days to amend their petition and may seek to redefine the class to comply with the judge's findings. The action is currently pending in state court in Stevens County, Kansas.

City of Tyler, Texas, Gas Costs Review. By letter to CenterPoint Energy Entex (Entex) dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from \$2.8 million to \$39.2 million for gas purchased by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas (the Railroad Commission). Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint Petition requests that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. The Company believes that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs and that the city has no legal or factual support for the statements made in its letter.

Gas Cost Recovery Suits. In October 2002, a suit was filed in state district court in Wharton County, Texas, against CenterPoint Energy, the Company, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utility Code, civil conspiracy and violations of the

Texas Free Enterprise and Antitrust Act. The plaintiffs seek class certification, but no class has been certified. The plaintiffs allege that defendants inflated the prices charged to certain consumers of natural gas. In February 2003, a similar suit was filed against the Company in state court in Caddo Parish, Louisiana purportedly on behalf of a class of residential and business customers in Louisiana who allegedly have been overcharged for gas or gas service provided by the Company. The plaintiffs in both cases seek restitution for alleged overcharges, exemplary damages and penalties. The Company denies that it has overcharged any of its customers for natural gas and believes that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

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

(10) REPORTABLE BUSINESS SEGMENTS

Because CERC Corp. is an indirect wholly owned subsidiary of CenterPoint Energy, the Company's determination of reportable segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments.

The Company's reportable business segments include the following: Natural Gas Distribution, Pipelines and Gathering and Other Operations. For descriptions of the reportable business segments, see Note 13 to the CERC Corp. 10-K Notes, which is incorporated herein by reference.

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

The following table summarizes financial data for the reportable business segments:

AS OF DECEMBER			
31, FOR THE			
THREE MONTHS			
ENDED MARCH 31,			
2002 2002 -----			
-----			
-----			
NET REVENUES			
FROM			
INTERSEGMENT			
THIRD PARTIES			
(1) REVENUES			
EBIT TOTAL			
ASSETS -----			
-----			
-----			
---- (IN			
MILLIONS)			
Natural Gas			
Distribution			
... \$ 1,180 \$ -			
- \$ 110 \$ 4,051			
Pipelines and			
Gathering ....			
62 30 38 2,481			
Other			
Operations			
..... --			
-- 1 206			
Eliminations			
.....			
-- (30) (3)			
(752) -----			
-----			
-----			
---			
Consolidated			
.....			

\$ 1,242 \$ -- \$  
146 \$ 5,986  
=====  
=====  
=====  
=====  
=====

(1) Included in revenues from third parties are revenues from sales to Reliant Resources, a former affiliate, of \$14 million for the three months ended March 31, 2002.



AS OF MARCH 31,  
 FOR THE THREE  
 MONTHS ENDED  
 MARCH 31, 2003  
 2003 -----

-----  
 --- REVENUES  
 FROM NET THIRD  
 PARTIES  
 INTERSEGMENT  
 AND AFFILIATES  
 REVENUES EBIT  
 TOTAL ASSETS --  
 -----

----- (IN  
 MILLIONS)  
 Natural Gas  
 Distribution  
 ... \$ 2,028 \$  
 17 \$ 134 \$  
 4,406 Pipelines  
 and Gathering  
 .... 61 48 45  
 2,477 Other  
 Operations  
 ..... --  
 2 -- 376 Sales  
 to Affiliates  
 ..... 5 -- -  
 - --  
 Eliminations  
 .....  
 -- (67) (6)  
 (991) -----  
 -----

-----  
 Consolidated  
 .....  
 \$ 2,094 \$ -- \$  
 173 \$ 6,268  
 =====

=====

Reconciliation of Operating Income to EBIT and EBIT to Net Income:

FOR THE THREE MONTHS  
 ENDED MARCH 31, -----  
 -----  
 2002 2003 -----  
 ----- (IN  
 MILLIONS) Operating  
 Income ..... \$  
 143 \$ 172 Other Income,  
 net ..... 3 1 ---  
 -----

EBIT  
 .....  
 146 173 Interest Expense  
 ..... (36) (36)  
 -----  
 - Income Before Income  
 Taxes ... 110 137 Income  
 Tax Expense .....  
 (41) (49) -----  
 ----- Net Income  
 ..... \$ 69  
 \$ 88 =====  
 =====

ITEM 2. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

The following narrative analysis should be read in combination with our interim financial statements and notes contained in Item 1 of this report.

Reliant Energy, Incorporated (Reliant Energy) completed the separation of the generation, transmission and distribution, and retail sales functions of Reliant Energy's Texas electric operations pursuant to the following steps, which occurred on August 31, 2002 (the Restructuring):

- o CenterPoint Energy, Inc. (CenterPoint Energy) became the holding company for the Reliant Energy group of companies;
- o Reliant Energy and its subsidiaries, including CenterPoint Energy Resources Corp. and its subsidiaries (CERC), became subsidiaries of CenterPoint Energy; and
- o each share of Reliant Energy common stock was converted into one share of CenterPoint Energy common stock.

After the Restructuring, CenterPoint Energy distributed to its shareholders the shares of common stock of Reliant Resources, Inc. (Reliant Resources) that it owned (the Distribution) in a tax-free transaction.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered 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.

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and are therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Changes in Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in the amount of revenue and expense items of CERC between the three months ended March 31, 2003 and the three months ended March 31, 2002. Reference is made to "Management's Narrative Analysis of the Results of Operations of CenterPoint Energy Resources Corp. and its Consolidated Subsidiaries" in Item 7 of the Annual Report on Form 10-K of CERC Corp. (CERC Corp. Form 10-K), which is incorporated by reference herein.

CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by seasonal fluctuations in the demand for natural gas and price movements of energy commodities. Our results of operations are also affected by, among other things, the actions of various federal, state and municipal governmental authorities having jurisdiction over rates we charge, competition in our various business operations, debt service costs and income tax expense. For more information regarding factors that may affect the future results of operations of our business, please read "Business - - Risk Factors" in Item 1 of the CERC Corp. Form 10-K and "Management's Narrative Analysis of the Results of Operations of CenterPoint Energy Resources Corp. and its Consolidated Subsidiaries - - Certain Factors Affecting Future Earnings" in Item 7 of the CERC Corp. Form 10-K, which is incorporated herein by reference.

The following table sets forth our consolidated results of operations for the three months ended March 31, 2002 and 2003, followed by a discussion of our consolidated results of operations based on earnings from continuing operations before interest expense, distribution on trust preferred securities and income taxes (EBIT). EBIT, as defined, is shown because it is a financial measure we use to evaluate the performance of our business segments and we believe it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. We expect that some analysts and investors will want to review EBIT when evaluating our company. EBIT is not defined under accounting principles generally accepted in the United States

(GAAP), should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Additionally, our computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion. We consider operating income to be a comparable measure under GAAP. We believe the difference between operating income and EBIT on both a consolidated and business segment basis is not material. We have provided a reconciliation of consolidated operating income to EBIT and EBIT to net income below.

THREE MONTHS ENDED MARCH 31, -----	
2002	2003 -----
	Operating Revenues
	\$ 1,242 \$
2,094	Operating Expenses: Natural
	gas and fuel ..... 862
	1,655 Operation and maintenance
	..... 165 178 Depreciation
	and amortization ..... 40 44
	Taxes other than income taxes
	..... 32 45 -----
	Total Operating Expenses
	..... 1,099 1,922 -----
	Operating Income
	..... 143 172
	Other Income, net
	..... 3 1 -----
	EBIT
146 173	Interest Expense and Distribution on Trust Preferred
	Securities .. (36) (36) ----- Income
	Before Income Taxes .....
	110 137 Income Tax Expense
	..... (41) (49) --
	Net Income
	..... \$ 69 \$
88	=====

For the three months ended March 31, 2003, EBIT increased \$27 million as compared to the same period in 2002. Operating margins (revenues less fuel costs) for the three months ended March 31, 2003 were \$59 million higher than in the same period in 2002 primarily because of:

- o continued customer growth (\$4 million);
- o higher revenues from rate increases late in 2002 (\$11 million);
- o colder weather (\$7 million);
- o improved margins from our unregulated commercial and industrial sales (\$9 million);
- o increased margins resulting from higher gas and liquid commodity prices (\$9 million) which were partially offset by reduced project related revenues (\$5 million); and
- o franchise fees billed to customers (\$11 million).

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

Operations and maintenance expense increased \$13 million for the three months ended March 31, 2003 as compared to the same period in 2002. The increase in operations and maintenance expense was primarily due to:

- o certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared with being included in interest expense in the prior year (\$4 million);
- o increased bad debt expense primarily due to colder weather and higher gas prices (\$4 million); and
- o higher employee benefit expenses primarily due to increased pension costs (\$5 million).

The increases in operations and maintenance expense were partially offset by a decrease in project related costs (\$5 million).

Depreciation and amortization expense increased \$4 million for the three months ended March 31, 2003 as compared to the same period in 2002 primarily as a result of increases in plant in service.

Taxes other than income taxes increased \$13 million for the three months ended March 31, 2003 as compared to the same period in 2002, primarily due to increased franchise fees resulting from higher revenues (\$11 million).

Other Income, net decreased \$2 million for the three months ended March 31, 2003 as compared to the same period in 2002 due to a decrease in interest income and other non-operating income.

Our effective tax rate for the three months ended March 31, 2003 was 35.8% compared to 37.0% for the same period in 2002. The decrease in the effective rate for the first quarter of 2003 compared to 2002 was primarily the result of an increase in pre-tax income which diluted the impact of the permanent items on our effective tax rate, offset by an increase in state tax expense.

#### LIQUIDITY

Long-Term Debt and Trust Preferred Securities. Of the \$2.3 billion of long-term debt and trust preferred securities outstanding at March 31, 2003, approximately \$2.2 billion aggregate principal amount is senior and unsecured, and approximately \$79.4 million aggregate principal amount with a final maturity of 2012 is subordinated. In addition, the debentures relating to \$0.4 million of trust preferred securities issued by our statutory business-trust subsidiary are subordinated.

The issuance of secured debt by us is limited under the terms of various debt instruments aggregating \$907 million and having a final maturity of 2013 which provide for equal and ratable security for such debt in the event debt secured by "principal property" (as defined in the debt instruments) is issued. Additionally, our \$200 million credit agreement expiring in March 2004 prohibits the issuance of debt secured by "principal property." The definition is similar to that contained in the debt instruments described above. Finally, our ability to issue secured debt is limited under the terms of agreements entered into by CenterPoint Energy. The assets that may be pledged as security for our debt is subject to SEC approval because our parent is a registered holding company.

On February 28, 2003, CenterPoint Energy reached agreement with a syndicate of banks on a second amendment to its \$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 us and another \$250 million basket for borrowings by CenterPoint Energy 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.

On March 25 and April 14, 2003, we issued \$650 million and \$112 million, respectively, aggregate principal amount of 7.875% senior unsecured notes due in 2013. A portion of the proceeds were used to refinance \$360 million aggregate principal amount of our 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) and to pay costs associated with the refinancing. Proceeds were also used to repay borrowings under the Company's \$350 million revolving credit facility prior to its expiration on March 31, 2003. The remaining \$140 million aggregate principal amount of TERM Notes is due to be refinanced or remarketed in November 2003.

Short-Term Debt and Receivables Facility. Our revolver and receivables facility are scheduled to terminate on the dates indicated below.

TOTAL AMOUNT COMMITTED OUTSTANDING AS OF TYPE OF FACILITY TERMINATION DATE	CREDIT MARCH 31, 2003 - ----- ----- ----- ----- (IN MILLIONS)	
Receivables	November 14,	2003 \$ 150 \$ 150
Revolver	March 23, 2004	200 --
		-----
Total	\$ 350	\$ 150
	=====	=====

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



On March 31, we had approximately \$48 million in external temporary investments.

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. The money pool may not provide sufficient funds to meet our cash needs. At March 31, 2003, we had not borrowed from or invested in the money pool.

Capital Requirements. We anticipate investing up to an aggregate \$1.3 billion in capital expenditures in the years 2003 through 2007, including approximately \$264 million and \$279 million in 2003 and 2004, respectively.

Cash Requirements in 2003. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. On April 30, 2003 we had unutilized capacity under our bank facility of \$200 million and money pool investments of \$30 million. Our principal remaining cash requirements during 2003 include the following:

- o approximately \$213 million of capital expenditures; and
- o remarketing or refinancing of \$140 million of TERM Notes, plus the possible payment of option termination costs, which will be determined at the time of remarketing or refinancing (estimated to be \$18.2 million as of March 31, 2003).

We expect to meet our capital requirements with cash flows from operations, short-term borrowings and proceeds from debt offerings planned in 2003. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from short-term borrowings, including the renewal, extension or replacement of existing bank facilities, and anticipated sales of securities in the capital markets will be sufficient to meet our cash needs. However, disruptions in our ability to access the capital markets on a timely basis could adversely affect our liquidity. In addition, the cost of our debt issuances may be high. Please read "Business -- Risk Factors -- Risk Factors Associated with Financial Condition and Other Risks -- If we are unable to arrange future financings on acceptable terms, our ability to fund future capital expenditures and refinance existing indebtedness could be limited" in Item 1 of the CERC 10-K, which is incorporated herein by reference.

Prior to the Restructuring, Reliant Energy obtained an order from the SEC that granted Reliant Energy 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.

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

Impact on Liquidity of a Downgrade in Credit Ratings. As of May 1, 2003, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to senior unsecured debt of CERC Corp.:

MOODY'S  
S&P FITCH  
- - - - -  
- - - - -  
- - - - -  
- - - - -  
- - - - -  
- - - - -  
RATING  
OUTLOOK(1)  
RATING  
OUTLOOK(2)  
RATING  
OUTLOOK(3)  
- - - - -  
- - - - -  
- - - - -  
- - - - -  
----- Ba1  
Negative  
BBB Stable  
BBB Stable  
- - - - -

- (1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.
- (2) A "stable" outlook from S&P indicates that the rating is not likely to change over the intermediate to longer term.

(3) A "stable" outlook from Fitch indicates the direction a rating is likely to move over a one- to two-year period.

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

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

Our bank facility contains a "material adverse change" clause that could impact our ability to borrow under this facility. The "material adverse change" clause in our revolving credit facility applies to new borrowings under the facility, other than borrowings being used to repay commercial paper, and relates to changes since December 31, 2002 in our business, condition (financial or otherwise), operations, performance or properties.

Our \$150 million receivables facility requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Receivables would cease to be sold in the event a credit rating fell below the threshold.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary, provides comprehensive natural gas sales and services to industrial and commercial customers that are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. has agreements with provisions standard for the industry that establish credit thresholds and then require a party to provide additional collateral on two business days' notice when that party's credit rating or the rating of a credit support provider for that party (CERC Corp. in this case) falls below those levels. As of May 1, 2003, the senior unsecured debt of CERC Corp. was rated BBB by S&P and Ba1 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to CenterPoint Energy Gas Resources Corp. by counterparties could aggregate \$39 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Our debentures and borrowings generally provide that a default on obligations by CenterPoint Energy does not cause a default under our debentures, revolving credit facility or receivables facility. A payment default on any indebtedness at CERC Corp. exceeding \$50 million will cause a default under CenterPoint Energy's \$3.85 billion bank facility entered into on February 28, 2003.

Pension Plan. As discussed in Note 8(a) of the notes to the consolidated financial statements in the CERC 10-K (CERC Corp. 10-K Notes), which is incorporated herein by reference, we participate in CenterPoint Energy's qualified non-contributory pension plan covering substantially all employees. Pension expense for 2003 is estimated to be \$36 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 \$13 million. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension will impact our future pension expense. We cannot predict with certainty what these factors will be in the future.

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

- o the need to provide cash collateral in connection with certain contracts;
- o acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of suppliers;
- o increased costs related to the acquisition of gas for storage;



- o increases in interest expense in connection with debt refinancings; and
- o various regulatory actions.

Capitalization. Factors affecting our capitalization include:

- o covenants and other provisions in our bank facility, receivables facility and other borrowing agreements; and
- o limitations imposed on us because our parent is a registered holding company.

Our bank facility and our receivables facility limit our debt as a percentage of our total capitalization to 60% and contain an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest covenant. Our bank facility contains a provision that could, under certain circumstances, limit the amount of dividends that could be paid by CERC Corp.

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 \$2.7 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 \$100 million.

Relationship with CenterPoint Energy. We are an indirect 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.

#### OFF BALANCE SHEET FINANCING

In connection with the November 2002 amendment and extension of our \$150 million receivables facility, we formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by us. This transaction described above is accounted for as a sale of receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and, as a result, the related receivables are excluded from our Consolidated Balance Sheets. For additional information regarding this transaction, please read Note 3(i) to the CERC Corp. 10-K Notes, which is incorporated herein by reference.

#### 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.

#### 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 \$3.2 billion or 52% of our total assets as of March 31, 2003. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized,

depreciation and amortization methods and useful lives. We evaluate our PP&E for impairment whenever indicators of impairment exist. 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.

#### IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

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

We recorded goodwill associated with the acquisition of our Natural Gas Distribution and Pipelines and Gathering operations in 1997. We reviewed our goodwill for impairment as of January 1, 2003. We computed the fair value of the Natural Gas Distribution and the Pipelines and Gathering operations as the sum of the discounted estimated net future cash flows applicable to each of these operations. We determined that the fair value for each of the Natural Gas Distribution operations and the Pipelines and Gathering operations exceeded their corresponding carrying value, including unallocated goodwill. We also concluded that no interim impairment indicators existed subsequent to this initial evaluation. As of March 31, 2003, we had recorded \$1.7 billion of goodwill. Future evaluations of the carrying value of goodwill could be significantly impacted by our estimates of cash flows associated with our Natural Gas Distribution and Pipelines and Gathering operations, regulatory matters, and estimated operating costs.

#### UNBILLED REVENUES

Revenues related to the sale and/or delivery of natural gas are generally recorded when natural gas is delivered to customers. However, the determination of sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of natural gas delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. Accrued unbilled revenues recorded in the Consolidated Balance Sheets as of December 31, 2002 and March 31, 2003 were \$284 million and \$277 million, respectively, related to our Natural Gas Distribution business segment.

#### NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, we adopted Statement of Financial Accounting Standards (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. 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 have identified no asset retirement obligations. Our rate-regulated businesses have previously recognized removal costs as a component of depreciation expense in accordance with regulatory treatment. As of March 31, 2003, these previously recognized removal costs of \$385 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items

only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. We have applied this guidance prospectively.

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

In June 2002, the Emerging Issues Task Force ("EITF") reached a consensus that all mark-to-market gains and losses on energy trading contracts should be shown net in the statement of consolidated income whether or not settled physically. In October 2002, the EITF issued a consensus that superceded the June 2002 consensus. The October 2002 consensus required, among other things, that energy derivatives held for trading purposes be shown net in the statement of consolidated income. This new consensus, EITF 02-3 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," is effective for fiscal periods beginning after December 15, 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 our consolidated financial statements. We have adopted the additional disclosure provisions of FIN 45 in our consolidated financial statements as of December 31, 2002.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect the adoption of FIN 46 to have a material impact on its results of operations or financial condition.

#### ITEM 4. CONTROLS AND PROCEDURES

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of certain legal and regulatory proceedings affecting us, please review Note 9 to our interim financial statements, "Business -- Regulation" and "Business -- Environmental Matters" in Item 1 of the CERC Corp. 10-K, Item 3 of the CERC Corp. Form 10-K and Notes 10(c) and (d) to the CERC Corp. 10-K Notes, all of which are incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

Forward-Looking Statements. From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements 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," "intend," "may," "plan," "potential," "predict," "should," "will," "forecast," "goal," "objective," "projection," or other similar words.

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

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

- o state and federal legislative and regulatory actions or developments, 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;
- o timely rate increases, including recovery of costs;
- o the successful and timely completion of our capital projects;
- o industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- o our pursuit of potential business strategies, including acquisitions or dispositions of assets;
- o changes in business strategy or development plans;
- o the timing and extent of changes in commodity prices, particularly natural gas;
- o changes in interest rates or rates of inflation;
- o unanticipated changes in operating expenses and capital expenditures;
- o weather variations and other natural phenomena;
- o the timing and extent of changes in the supply of natural gas;
- o commercial bank and financial market conditions, our access to capital, the costs of such capital and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- o actions by rating agencies;

- o legal and administrative proceedings and settlements;
- o changes in tax laws;
- o inability of various counterparties to meet their obligations with respect to our financial instruments;
- o any lack of effectiveness of our disclosure controls and procedures;
- o changes in technology;
- o significant changes in our relationship with our employees, including the availability of qualified personnel and potential adverse effects if labor disputes or grievances were to occur;
- o significant changes in critical accounting policies;
- o acts of terrorism or war, including any direct or indirect effect on our business resulting from terrorist attacks such as occurred on September 11, 2001 or any similar incidents or responses to those incidents;
- o the availability and price of insurance;
- o political, legal, regulatory and economic conditions and developments in the United States; and
- o other factors we discuss in the CERC Corp. Form 10-K, including those outlined in "Management's Narrative Analysis of Results of Operations of CenterPoint Energy Resources Corp. and its Consolidated Subsidiaries -- Certain Factors Affecting Our Future Earnings."

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

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

(a) Exhibits.

The following exhibits are filed herewith:

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

REPORT OR SEC FILE OR EXHIBIT REGISTRATION REGISTRATION EXHIBIT NUMBER DESCRIPTION STATEMENT NUMBER REFERENCE - ----- ----- ----- ----- ----- ----- ----- ----- ----- -----
3(a)(1) - Certificate of Incorporation of Form 10-K for the year ended 1-3187 3(a)(1) RERC Corp. December 31, 1997 3(a)(2) - Certificate of Merger merging Form 10-K for the year ended 1-3187 3(a) (2) former NorAm Energy Corp. with and December 31, 1997 into HI Merger, Inc. dated August

6, 1997 3(a)  
(3) -  
Certificate  
of Amendment  
changing  
Form 10-K  
for the year  
ended 1-3187  
3(a)(3) the  
name to  
Reliant  
Energy  
December 31,  
1998  
Resources  
Corp. 3(b) -  
Bylaws of  
RERC Corp.  
Form 10-K  
for the year  
ended 1-3187  
3(b)  
December 31,  
1997

REPORT OR SEC  
FILE OR  
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DESCRIPTION  
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REFERENCE - -  
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+4(a) -  
\$200,000,000  
Credit  
Agreement,  
dated as of  
March 25,  
2003, among  
CERC Corp.,  
as Borrower,  
and the  
Initial  
Lenders named  
therein, as  
Initial  
Lenders -  
4(b) -  
Supplemental  
Indenture No.  
5, dated Form  
8-K dated  
March 18,  
2003 1-3187  
4.1 as of  
March 25,  
2003, to  
Indenture,  
dated as of  
February 1,  
1998, between  
CERC Corp.  
and JPMorgan  
Chase, as  
Trustee -  
4(c) -  
Supplemental  
Indenture No.  
6, dated Form  
8-K dated  
April 7, 2003  
1-3187 4.2 as  
of April 14,  
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1998, between  
CERC Corp.  
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+99(a) -  
Section 906  
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of David M.  
McClanahan -  
+99(b) -  
Section 906  
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of Gary L.  
Whitlock -  
+99(c) -  
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Narrative  
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3(i)  
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and Allowance  
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(Derivative  
Instruments),  
7 (Trust  
Preferred  
Securities),  
8(a) (Pension  
Plans), 10(c)  
(Environmental  
Matters),  
10(d) (Other  
Legal  
Matters) and  
13  
(Reportable  
Segments).

(b) Reports on Form 8-K.

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

On May 1, 2003, we filed a Current Report on Form 8-K dated April 7, 2003, announcing the pricing and closing of \$112 million of senior notes which will be added to and form a single series with its prior existing 7.875% senior notes due on April 1, 2013, in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended.



SIGNATURES

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

CENTERPOINT ENERGY RESOURCES CORP.

By:                   /s/ James S. Brian  
-----  
                          James S. Brian  
Senior Vice President and Chief Accounting Officer

Date: May 13, 2003

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

By: /s/ David M. McClanahan

-----  
David M. McClanahan  
President and Chief Executive Officer

CERTIFICATIONS

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

By: /s/ Gary L. Whitlock

-----  
Gary L. Whitlock  
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

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8(a) (Pension  
Plans), 10(c)  
(Environmental  
Matters),  
10(d) (Other  
Legal  
Matters) and  
13



U.S. \$200,000,000

CREDIT AGREEMENT

Dated as of March 25, 2003

Among

CENTERPOINT ENERGY RESOURCES CORP.

as Borrower,

and

THE INITIAL LENDERS NAMED HEREIN

as Initial Lenders,

and

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

as Lead Arrangers and Joint Bookrunners,

and

CITICORP USA, INC.

as Administrative Agent,

and

CITICORP NORTH AMERICA, INC

as Collateral Agent,

and

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

as Co-Syndication Agents,

and

CREDIT SUISSE FIRST BOSTON, CAYMAN ISLANDS BRANCH

as Documentation Agent

CERC 364-Day Revolving Credit Agreement

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- Exhibit H - Form of Pledge Agreement

CREDIT AGREEMENT

Dated as of March 25, 2003

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

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Commitment" has the meaning specified in Section 2.01.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Excess Cash Flow" means, for any period,

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

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

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

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

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

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

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

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

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

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

"GAAP" has the meaning specified in Section 1.03.

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

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



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

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

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

"Indebtedness" of any Person means the sum of (a) all items (other than capital stock, capital surplus and retained earnings) that, in accordance with GAAP consistently applied, would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as at the date on which the Indebtedness is to be determined and (b) the amount of all Guarantees by such Person; provided, however, that Indebtedness of a Person shall not include any Junior Subordinated Debt owned by any Hybrid Preferred Securities Subsidiary or any Guarantee by Borrower of payments with respect to any Hybrid Preferred Securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Permitted Liens" means

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Significant Subsidiary" means (i) for the purposes of determining what constitutes an "Event of Default" under Sections 6.01(d), (e), (f) and (g), a Subsidiary of the Borrower (other than a Project Finance Subsidiary) whose total assets, as determined in accordance with GAAP, represent at least 10% of the total assets of the Borrower, on a consolidated basis, as determined in accordance with GAAP and (ii) for all other purposes the "Significant Subsidiaries" shall be those Subsidiaries whose total assets, as determined in accordance with GAAP, represent at least 10% of the total assets of the Borrower on a consolidated basis, as determined in accordance with GAAP for the Borrower's most recently completed fiscal year and identified in the certificate most recently delivered pursuant to Section 5.01(j)(ii).

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

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

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

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

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



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

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

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

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

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

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

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

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

## ARTICLE II

## AMOUNTS AND TERMS OF THE ADVANCES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 2.06. Termination or Reduction of the Commitments. The Borrower shall have the right, upon at least three Business Days' notice to the Administrative Agent, to terminate in whole or permanently reduce ratably in part the unused portions of the respective Commitments of the Lenders, provided that (i) each partial reduction shall be in a minimum aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and (ii) no such termination or reduction shall be permitted if, after giving effect thereto and to any prepayments made under Section 2.11 by the Borrower on the effective date thereof, the Total Aggregate Outstanding Extensions of Credit then outstanding would exceed the Total Commitments then in effect. Any terminated or permanently reduced portion of the respective Commitments of the Lenders may not be reinstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 2.10. Optional Conversion of Revolving Advances. The Borrower may on any Business Day, upon notice given to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.09 and 2.13, Convert all Revolving Advances of one Type comprising the same Borrowing into Revolving Advances of the other Type; provided, however, that any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b) and no Conversion of any Revolving Advances shall result in more separate Borrowings than permitted under Section 2.02(b). Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Revolving Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

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

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

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

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

(b) If any Lender determines in good faith that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by such Lender (with a copy of such demand to the Administrative Agent), the Borrower shall pay to the Administrative Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder. A certificate as to such amounts submitted to the Borrower and the Administrative Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

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

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

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



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

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

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

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

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

SECTION 2.15. Taxes. (a) Any and all payments by the Borrower to or for the account of any Lender or the Administrative Agent hereunder or under the Notes or CAF Notes (if any) or any other documents to be delivered hereunder shall be made, in accordance with Section 2.14 or the applicable provisions of such other documents, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, net income taxes and franchise taxes imposed on it as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Administrative Agent or such Lender other than a connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any Note or CAF Note, if any (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes or CAF Notes (if any) being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note or CAF Note or any other documents to be delivered hereunder to any Lender or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) such Lender or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law; provided, however, that the Borrower shall not be required to increase any such sums payable to any Lender with respect to any Taxes (i) that are attributable to such Lender's failure to comply with the requirements of Section 2.15(e) or (ii) that are United States withholding taxes imposed on sums payable to such Lender at the time such Lender becomes a party

to this Agreement, except to the extent that any such Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Taxes pursuant to this Section 2.15. Whenever any Taxes or Other Taxes (as defined in Section 2.15(b)) are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for the account of the relevant Lender or Administrative Agent, as the case may be, either (A) official tax receipts or notarized copies of such receipts to such Lender within thirty (30) days after payment of any applicable tax or (B) a certificate executed by a Responsible Officer of the Borrower confirming that such Taxes or Other Taxes have been paid, together with evidence of such payment.

(b) In addition, the Borrower shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under the Notes or CAF Notes (if any) or any other documents to be delivered hereunder or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or the Notes or CAF Notes (if any) or any other documents to be delivered hereunder (hereinafter referred to as "Other Taxes").

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

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

(e) Each Lender registered in the Register that is not a United States person as defined in Section 7701(a)(30) of the Internal Revenue Code agrees that it will deliver to the Borrower and the Administrative Agent on the Effective Date, or on the date which it becomes a party to this Agreement, two duly completed copies of United States Internal Revenue Service Form W-8BEN, W-8ECI, W-8EXP or W-8IMY (or other appropriate corresponding form) or any successor applicable form, as the case may be. Each such Lender also agrees to deliver to the Borrower and the Administrative Agent two further copies of the said Form W-8BEN, W-8ECI, W-8EXP or W-8IMY or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Administrative Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender so advises the Borrower and the Administrative Agent. Each such Lender shall certify in the case of a Form W-8BEN, W-8ECI, W-8EXP or W-8IMY that is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. In the event that any such Lender fails to deliver any forms required under this Section 2.15(e), the Borrower's obligation to pay additional amounts shall be reduced to the amount that it would have been obligated to pay had such forms been provided.

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

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

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

(h) If any Taxes or Other Taxes are not correctly or legally asserted and the Agent or any Lender determines, in its sole discretion, that it has received a refund of those Taxes or Other Taxes as to which it has been indemnified by the Borrower, the Administrative Agent or such Lender shall within 20 days after such refund pay to the Borrower the amount of such refund to the extent that the Borrower indemnified the Administrative Agent or such Lender for such Taxes or Other Taxes pursuant to this Section 2.15, net of any out-of-pocket costs of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

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

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

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

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

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

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

### ARTICLE III

#### CONDITIONS TO EFFECTIVENESS AND LENDING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

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

- (a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.
- (b) The execution, delivery and performance by the Borrower of this Agreement and the Notes or CAF Notes (if any), and the consummation of the transactions contemplated hereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene the Borrower's certificate of incorporation or by-laws or any law or any contractual restriction binding on or affecting the Borrower, or (ii) constitute a default under any existing indenture, loan agreement or other material agreement to which the Borrower or any Subsidiary of the Borrower is a party.
- (c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes or CAF Notes (if any), and no law or regulation is applicable that restrains, prevents or imposes materially adverse conditions upon the transactions contemplated hereby.
- (d) This Agreement has been, and each of the Notes or CAF Notes (if any) when delivered hereunder will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the Notes or CAF Notes (if any) when delivered hereunder will be, the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.
- (e) The Consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 2002, and the related Consolidated statements of income and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, accompanied by an opinion of Deloitte & Touche LLP, independent public accountants, copies of which have been furnished to each Lender, fairly present, in all material respects, the Consolidated financial condition of the Borrower and its Subsidiaries as at such date and the Consolidated results of the operations of the Borrower and its Subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied. Since December 31, 2002, there has been no Material Adverse Change.
- (f) There is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) could be reasonably likely to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby.
- (g) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no proceeds of any Advance will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

(h) Neither the Borrower nor any Subsidiary of the Borrower is an "investment company" as defined in, or otherwise subject to regulation under, the Investment Company Act of 1940, as amended. None of the execution and delivery of the Loan Documents by the Borrower or the performance of its obligations thereunder violate any regulation under the Public Utility Holding Company Act of 1935, as amended.

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

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

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

#### ARTICLE V

##### COVENANTS OF THE BORROWER

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

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

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

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

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

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

(e) Visitation Rights. The Borrower will, and will cause each of its Subsidiaries to, at any reasonable time and from time to time, permit up to six representatives of the Lenders designated by the Required Lenders, or representatives of the Agents, on not less than five (5) Business Days' notice, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and each Significant Subsidiary and to discuss the general business affairs of the Borrower and each of its Subsidiaries with their respective officers and independent certified public accountants; subject, however, in all cases to the imposition of such conditions as the Borrower and each of its Significant Subsidiaries shall deem necessary based on reasonable considerations of safety and security; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to disclose to any Agent, any Lender or any agents or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. Notwithstanding the foregoing, none of the conditions precedent to the exercise of the right of access described in the preceding sentence that relate to notice requirements or limitations on the Persons permitted to exercise such right shall apply at any time when a Default or an Event of Default shall have occurred.

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

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

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

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

(j) Reporting Requirements. Furnish to the Lenders:

(i) as soon as practicable and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, unaudited Consolidated balance sheets of the Borrower and its Subsidiaries, prepared in conformity with GAAP consistently applied, as of the end of such quarter and Consolidated statements of income and cash flows of the Borrower and its Subsidiaries, prepared in conformity with GAAP consistently applied, for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly



certified (subject to year-end audit adjustments and the inclusion of abbreviated footnotes) by Responsible Officer of the Borrower as having been prepared in accordance with generally accepted accounting principles and certificates of a Responsible Officer of the Borrower as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03 (which requirement may be satisfied by delivering the Borrower's quarterly report on Form 10-Q with respect to such fiscal quarter as filed with the Securities and Exchange Commission);

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

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

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

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

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

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

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

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

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

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

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

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

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

not apply to (i) restrictions and conditions imposed by law or by this Agreement, (ii) restrictions and conditions existing on the date hereof, any amendment or modification thereof (other than an amendment or modification expanding the scope of any such restriction or condition and any restrictions or conditions) that (x) replace restrictions or conditions existing on the date hereof and (y) are substantially similar to such existing restriction or condition, (iii) restrictions (including any extension of such restrictions that does not expand the scope of any such restrictions) existing at the time at which any such Subsidiary first becomes a Significant Subsidiary, so long as such restriction was in existence prior to such time in accordance with the other provisions of this Agreement and was not agreed to or incurred in contemplation of such change of status and (iv) any restrictions with respect to a Significant Subsidiary imposed pursuant to an agreement that has been entered into in connection with a disposition of all or substantially all of the Capital Stock or assets of such Subsidiary (if such disposal is otherwise permitted under this Agreement).

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

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

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

(i) Use of Proceeds: Regulation U. Use the proceeds of any Borrowing (i) to purchase or carry, within the meaning of Regulation U, any Margin Stock, (ii) to participate in any tender offer for the securities of any Person, unless such tender offer has been approved by the board of directors, general partners or other governing body of such Person or (iii) for any purpose that would violate or result in a violation of any law or regulation. Borrower will not, and will not permit any of its Subsidiaries to engage principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying, within the meaning of Regulation U, any Margin Stock.

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

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

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

#### ARTICLE VI

##### EVENTS OF DEFAULT

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

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE VII

## THE AGENTS

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

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

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

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

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

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

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

#### ARTICLE VIII

#### MISCELLANEOUS

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CERC 364-Day Revolving Credit Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CENTERPOINT ENERGY RESOURCES CORP., as Borrower

By /s/ Marc Kilbride  
-----  
Title:

CERC 364-Day Revolving Credit Agreement

CITICORP USA, INC., as Administrative Agent

By /s/ [Illegible]

-----  
Title: Vice President

CERC 364-Day Revolving Credit Agreement

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

By \_\_\_\_\_ /s/ Anita J. Brickell  
-----  
Title: Managing Director

CERC 364-Day Revolving Credit Agreement



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

By /s/ Richard R. Thayer

-----  
Richard R. Thayer  
Managing Director

CERC 364-Day Revolving Credit Agreement

CITICORP NORTH AMERICA, INC., as Collateral Agent

By /s/ [Illegible]

-----  
Title: Vice President

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WACHOVIA BANK, NATIONAL ASSOCIATION, as Co-Syndication Agent

By \_\_\_\_\_ /s/ [Illegible]  
-----  
Title: Vice President

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

By /s/ Michael Murphy  
-----  
Title: Managing Director

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

By /s/ S. William Fox  
-----  
Title: Director

By /s/ Ian W. Nalitt  
-----  
Title: Associate

CERC 364-Day Revolving Credit Agreement

INITIAL LENDERS

Commitments

\$35,000,000

CITICORP USA, INC., as an Initial Lender

By /s/ [Illegible]  
-----  
Title: Vice President

\$35,000,000

JPMORGAN CHASE BANK, as an Initial Lender

By /s/ Robert Truhard  
-----  
Title: Vice President

\$30,000,000

WACHOVIA BANK, NATIONAL ASSOCIATION, as an Initial Lender

By /s/ [Illegible]  
-----  
Title: Vice President

\$30,000,000

BANK ONE, NA, as an Initial Lender

By /s/ Madeleine N. Pember  
-----  
Title: Director

\$30,000,000

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

By /s/ S. William Fox  
-----  
Title: Director

By /s/ Ian W. Nalitt  
-----  
Title: Associate

\$25,000,000

BANK OF AMERICA, N.A., as an Initial Lender

By /s/ Richard L. Stein  
-----  
Title: Principal

\$15,000,000

DEUTSCHE BANK AG NEW YORK BRANCH, as an Initial Lender

By /s/ Hans Narberhaus  
-----  
Title: Vice President

By /s/ Joel Makowsky  
-----  
Title: Vice President

\$200,000,000

Total of the Commitments

CERC 364-Day Revolving Credit Agreement

SCHEDULE I

APPLICABLE LENDING OFFICES

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

CERC 364-Day Revolving Credit Agreement

Name of Initial Lender  
-----

Domestic Lending Office  
-----

Eurodollar Lending Office  
-----

Bank of America, N.A.

901 Main Street, 14th Floor  
Dallas, TX 75202-3714  
ABA # 111000012  
Account # 1292000883  
Account Name: Credit Services  
Attn: Marija Salic  
Reference: Reliant Energy  
Resources Corp.

901 Main Street, 14th Floor  
Dallas, TX 75202-3714  
ABA # 111000012  
Account # 1292000883  
Account Name: Credit Services  
Attn: Marija Salic  
Reference: Reliant Energy  
Resources Corp.

Deutsche Bank AG New York  
Branch

31 West 52nd Street  
New York, NY 10019  
ABA # 021001033  
Account # 60200119  
Account Name: Deutsche Bank NY  
Loan Operations  
Attn: Esther Ocampo/Frank Gerencser  
Reference: CenterPoint Energy  
Resources

31 West 52nd Street  
New York, NY 10019  
ABA # 021001033  
Account # 60200119  
Account Name: Deutsche Bank NY  
Loan Operations  
Attn: Esther Ocampo/Frank Gerencser  
Reference: CenterPoint Energy  
Resources

CERC 364-Day Revolving Credit Agreement



EXHIBIT A - FORM OF  
PROMISSORY NOTE

U.S.\$ \_\_\_\_\_

Dated: \_\_\_\_\_, 2003

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

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

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

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

CENTERPOINT ENERGY RESOURCES CORP.

By \_\_\_\_\_  
Title:

CERC 364-Day Revolving Credit Agreement



EXHIBIT B - FORM OF  
NOTICE OF BORROWING

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

Attention: \_\_\_\_\_

[DATE]

Ladies and Gentlemen:

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

(i) The Business Day of the Proposed Revolving Borrowing is \_\_\_\_\_, 20\_\_.

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

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

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

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

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

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

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

CERC 364-Day Revolving Credit Agreement

(C) the Borrower is Solvent.

Very truly yours,

CENTERPOINT ENERGY RESOURCES CORP.

By \_\_\_\_\_  
Title:(1)

- - - - -

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

CERC 364-Day Revolving Credit Agreement

EXHIBIT C - FORM OF  
ASSIGNMENT AND ACCEPTANCE

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

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

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

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

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

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

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

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

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

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

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

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

CERC 364-Day Revolving Credit Agreement

Schedule 1  
to  
Assignment and Acceptance

Percentage interest assigned: \_\_\_\_\_%

Assignee's Commitment: \$ \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Advances assigned: \$ \_\_\_\_\_

Principal amount of Note payable to Assignee: \$ \_\_\_\_\_

Principal amount of Note payable to Assignor: \$ \_\_\_\_\_

Effective Date(1): \_\_\_\_\_, 20\_\_

[NAME OF ASSIGNOR], as Assignor

By \_\_\_\_\_  
Title:

Dated: \_\_\_\_\_, 20\_\_

[NAME OF ASSIGNEE], as Assignee

By \_\_\_\_\_  
Title:

Domestic Lending Office:  
[Address]

Eurodollar Lending Office:  
[Address]

Accepted [and Approved](2) this  
\_\_\_\_\_ day of \_\_\_\_\_, 20\_\_

CITICORP USA, INC., as Administrative Agent

By \_\_\_\_\_  
Title:

[Approved this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_

-----

- (1) This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Agent.
- (2) Required if the Assignee is an Eligible Assignee solely by reason of clause (iii) of the definition of "Eligible Assignee".

CENTERPOINT ENERGY RESOURCES CORP.

By \_\_\_\_\_](1)  
Title:

- - - - -

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

CERC 364-Day Revolving Credit Agreement



EXHIBIT D - FORM OF  
CAF NOTE

U.S.\$ \_\_\_\_\_

Dated: \_\_\_\_\_, 200\_

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

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

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

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

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

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

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

CENTERPOINT ENERGY RESOURCES CORP.

By \_\_\_\_\_  
Title:

CERC 364-Day Revolving Credit Agreement

EXHIBIT E - FORM OF  
COMPETITIVE BID REQUEST

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

Ladies and Gentlemen:

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

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

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

Very truly yours,

CENTERPOINT ENERGY RESOURCES CORP.,  
as Borrower

By \_\_\_\_\_  
Title:

Dated: \_\_\_\_\_

- - - - -

- (1) Fixed Rate Advance or CAF Eurodollar Rate Advance.
- (2) A period of at least 15 days and no longer than 180 days.

CERC 364-Day Revolving Credit Agreement

EXHIBIT F - FORM OF  
COMPETITIVE BID

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

Ladies and Gentlemen:

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

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

Effective Date of CAF Advance: \_\_\_\_\_, 200\_

Aggregate Maximum Amount: \$ \_\_\_\_\_

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

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

Very truly yours,  
[NAME OF BIDDING LENDER]  
By \_\_\_\_\_  
Name:  
Title:  
Telephone No.:  
Fax:

Dated: \_\_\_\_\_

- - - - -

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

EXHIBIT G - FORM OF  
COMPETITIVE BID CONFIRMATION

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

Ladies and Gentlemen:

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

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

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

Very truly yours,

CENTERPOINT ENERGY RESOURCES CORP.,  
as Borrower

By \_\_\_\_\_  
Title:

Dated: \_\_\_\_\_

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

CERC 364-Day Revolving Credit Agreement

EXHIBIT H - FORM OF  
PLEDGE AGREEMENT

PLEDGE AGREEMENT

Dated [\_\_\_], 2003

From

CENTERPOINT ENERGY RESOURCES CORP.

as Grantor

to

CITICORP NORTH AMERICA, INC.

as Collateral Agent

CERC - Pledge Agreement

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PLEDGE AGREEMENT

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

PRELIMINARY STATEMENTS.

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

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

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

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

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

CERC - Pledge Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CERC - Pledge Agreement

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

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

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

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

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

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

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

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

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

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

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

(b) The Grantor will hold and preserve its records relating to the Collateral and will permit up to six representatives of the Bridge Secured Parties designated by the Required Lenders (as defined in the Bridge Credit Agreement) or representatives of the Collateral Agent, on not less than five (5) Business Days' notice, at any reasonable time during normal business hours, to inspect and make copies of abstracts from such records and other documents and to discuss general business affairs of the Grantor with its officers; subject, however, in all cases to the imposition of such conditions as the Grantor shall deem necessary based on reasonable considerations of safety and security; provided, however, that the Grantor shall not be required to disclose to the Collateral Agent or any Secured Party or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the Grantor to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. Notwithstanding the foregoing, none of the conditions as to the exercise of the right of access described in the preceding sentence that relate to notice requirements or limitations on the Persons permitted to exercise such right shall apply at any time when a Default or an Event of Default shall have occurred (as each such term is defined in either of the Credit Agreements).

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

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

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

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

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

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

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

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

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

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

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

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

#### Section 8. Transfers and Other Liens; Additional

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

CENTERPOINT ENERGY RESOURCES CORP.

By \_\_\_\_\_  
Title:

CERC - Pledge Agreement

SCHEDULE I TO THE  
PLEDGE AGREEMENT

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

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

CERC - Pledge Agreement

SCHEDULE II TO THE  
PLEDGE AGREEMENT

PLEDGED EQUITY AND PLEDGED DEBT

I. INITIAL PLEDGED EQUITY

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

II. INITIAL PLEDGED DEBT

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

CERC - Pledge Agreement

SCHEDULE III TO THE  
PLEDGE AGREEMENT

CHANGES IN NAME, LOCATION, ETC.

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

CHANGES IN THE GRANTOR'S LOCATION

CHANGES IN THE GRANTOR'S CHIEF EXECUTIVE OFFICE

CHANGES IN THE TYPE OF ORGANIZATION

CHANGES IN THE JURISDICTION OF ORGANIZATION

CHANGES IN THE ORGANIZATIONAL IDENTIFICATION NUMBER

CERC - Pledge Agreement

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(SUBSECTIONS (a) AND (b) OF SECTION 1350,  
CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), I, David M. McClanahan, President and Chief Executive Officer of CenterPoint Energy Resources Corp. (the "Company"), hereby certify, to the best of my knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 13, 2003

/s/ David M. McClanahan  
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David M. McClanahan  
President and Chief Executive Officer

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

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

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(SUBSECTIONS (a) AND (b) OF SECTION 1350,  
CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the "Act"), I, Gary L. Whitlock, Executive Vice President and Chief Financial Officer of CenterPoint Energy Resources Corp. (the "Company"), hereby certify, to the best of my knowledge:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 13, 2003

/s/ Gary L. Whitlock

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Gary L. Whitlock  
Executive Vice President and  
Chief Financial Officer

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

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

## ITEM 1. BUSINESS

## REGULATION

We are subject to regulation by various federal, state, local and foreign governmental agencies, including the regulations described below.

## 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 \$2.7 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 \$100 million.

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

## FEDERAL ENERGY REGULATORY COMMISSION

The transportation and sale or resale of natural gas in interstate commerce is subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act and the Natural Gas Policy Act of 1978, as amended. The FERC has jurisdiction over, among other things, the construction of pipeline and related facilities used in the transportation and storage of natural gas in interstate commerce, including the extension, expansion or abandonment of these facilities. The rates charged by interstate pipelines for interstate transportation and storage services are also regulated by the FERC.

Our natural gas pipeline subsidiaries may periodically file applications with the FERC for changes in their generally available maximum rates and charges designed to allow them to recover their costs of providing service to customers (to the extent allowed by prevailing market conditions), including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period and, in some cases, are subject to refund under applicable law until such time as the FERC issues an order on the allowable level of rates.

In February 2000, the FERC issued Order No. 637, which introduced several measures to increase competition for interstate pipeline transportation services. Order No. 637 authorizes interstate pipelines to propose term-differentiated and peak/off-peak rates, and requires pipelines to make tariff filings to expand pipeline service options for customers. Both of our natural gas pipeline subsidiaries made two Order No. 637



compliance filings in 2000, and both obtained uncontested settlements filed with the FERC in 2001. In 2002, the FERC issued orders accepting both settlements, subject to certain modifications. The FERC has denied requests for rehearing and clarification of the orders and has accepted, with modification, the compliance tariff filed under one of the orders and ordered additional revised tariff sheets to be filed under the other order.

#### STATE AND LOCAL REGULATION

In almost all communities in which we provide natural gas distribution services, we operate under franchises, certificates or licenses obtained from state and local authorities. The terms of the franchises, with various expiration dates, typically range from 10 to 30 years. None of our material franchises expires before 2005. We expect to be able to renew expiring franchises. In most cases, franchises to provide natural gas utility services are not exclusive.

Substantially all of our retail natural gas sales are subject to traditional cost-of-service regulation at rates regulated by the relevant state public service commissions and, in Texas, by the Railroad Commission of Texas (Railroad Commission) and municipalities we serve.

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

**Oklahoma Rate Case.** In May 2002, Arkla filed a request in Oklahoma to increase its base rates by \$13.7 million annually. In December 2002, a settlement was approved by the Oklahoma Corporation Commission which is expected to result in an increase in base rates of approximately \$7.3 million annually. The new rates included in the final settlement were effective with all bills rendered on and after December 29, 2002.

**City of Tyler, Texas, Gas Costs Review.** By letter to Entex dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from \$2.8 million to \$39.2 million for gas purchases by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission. Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint Petition requests that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. We believe that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs and that the city has no legal or factual support for the statements made in its letter.

#### DEPARTMENT OF TRANSPORTATION

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to our interstate pipelines as well as our intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities in accordance with the requirements of the legislation over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While we anticipate that increased capital and operating expenses will be required to comply with the legislation, we will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

## ENVIRONMENTAL MATTERS

### GENERAL ENVIRONMENTAL ISSUES

We are subject to numerous federal, state and local requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements relate to a broad range of our activities, including: the discharge of pollutants into water and soil; the proper handling of solid, hazardous, and toxic materials; and waste, noise, and safety and health standards applicable to the workplace. In order to comply with these requirements, we will spend substantial amounts from time to time to construct, modify and retrofit equipment, and to clean up or decommission disposal or fuel storage areas and other locations as necessary.

Our facilities are subject to state and federal laws and regulations governing the discharge of pollutants into the air and waterways. In many cases we must obtain permits or other governmental authorizations that prescribe the parameters for discharges from our facilities. There are ongoing efforts to modify standards relating to both the discharge of pollutants into streams and waterways and to air quality. These efforts may result in more restrictive regulations and permit terms applicable to our facilities in the future.

We anticipate no significant capital and other special project expenditures between 2002 and 2006 for environmental compliance. 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 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.

### LIABILITY FOR PREEXISTING CONDITIONS AND REMEDIATION

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

At December 31, 2002, we had accrued \$19 million for remediation of the Minnesota sites. At December 31, 2002, the estimated range of possible remediation costs was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. We have an environmental expense tracker mechanism in our rates in Minnesota. We have collected \$12 million at December 31, 2002 to be used for future environmental remediation.

We have received notices from the United States Environmental Protection Agency and others regarding our status as a PRP for sites in other states. Based on current information, we have not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

**Hydrocarbon Contamination.** In August 2001, a number of Louisiana residents who live near the Wilcox Aquifer filed suit in the 1st Judicial District Court, Caddo Parish, Louisiana against us and others. The suit alleges that we and the other defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by the defendants and is the sole or primary drinking water aquifer in the area. The monetary damages sought are unspecified. In April 2002, a separate suit with identical allegations against the same parties was filed in the same court. Additionally in January 2003, a third suit with similar allegations was filed against the same parties in the 26th Judicial Court, Bossier Parish, Louisiana.

**Mercury Contamination.** Like similar companies, our pipeline and natural gas distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area around the meters with elemental mercury. We have found this type of contamination in the past, and we have conducted remediation at sites found to be contaminated. Although we are not aware of additional specific sites, it is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on our experience and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, we believe that the cost of any remediation of these sites will not be material to our financial position, results of operations or cash flows.

## RISK FACTORS

### RISKS RELATED TO OUR CORPORATE AND FINANCIAL STRUCTURE

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

As a result of several recent events occurring in 2001 and 2002, including the September 11, 2001 terrorist attacks, the bankruptcy of Enron Corp., the downgrading of our credit rating and the credit ratings of several energy companies and the unusual volatility in the U.S. financial markets, the availability and cost of capital for our business have been adversely affected. If we are unable to obtain affiliate or external financing on reasonable terms 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 \$2.3 billion of outstanding indebtedness and trust preferred securities, including \$850 million of debt that must be refinanced in 2003. In addition, capital constraints impacting our parent company's and our businesses over the next year 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 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 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.

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 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 \$293 million of debt, including capital leases, required to be paid 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.

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 \$100 million.

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 AFFECTING THE RESULTS OF OUR BUSINESSES

##### OUR NATURAL GAS DISTRIBUTION BUSINESS MUST COMPETE WITH ALTERNATIVE ENERGY SOURCES.

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

##### OUR NATURAL GAS DISTRIBUTION BUSINESS IS SUBJECT TO FLUCTUATIONS IN NATURAL GAS PRICING LEVELS.

We are subject to risk associated with upward price movements of natural gas. High natural gas prices might affect our ability to collect balances due from our customers and could create the potential for uncollectible accounts expense to exceed the recoverable levels built into our tariff rates. In addition, a sustained period of high natural gas prices could apply downward demand pressure on natural gas consumers in our service territory.

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

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

##### OUR PIPELINES AND GATHERING BUSINESSES MUST COMPETE DIRECTLY WITH OTHERS IN THE TRANSPORTATION AND STORAGE OF NATURAL GAS AND INDIRECTLY WITH ALTERNATIVE FORMS OF ENERGY.

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

##### IF WE FAIL TO EXTEND CONTRACTS WITH TWO OF OUR SIGNIFICANT INTERSTATE PIPELINES' CUSTOMERS, IT COULD HAVE AN ADVERSE IMPACT ON OUR OPERATIONS.

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

OUR INTERSTATE PIPELINES ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

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

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

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

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

We have insurance covering certain of our facilities, including property damage insurance and public liability insurance in amounts that we consider appropriate. Where we have such insurance policies in place, they are subject to certain limits and deductibles and do not include business interruption coverage. We cannot assure you that insurance coverage will be available in the future on commercially reasonable terms or that the insurance proceeds received for any loss of or any damage to any of our facilities will be sufficient to restore the loss or damage without negative impact on our results of operations, financial condition and cash flows. The costs of our insurance coverage have increased significantly in recent months and may continue to increase in the future.

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 and financial condition 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 natural gas distribution and pipelines and gathering facilities could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues and margins and limit our future growth prospects. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

### ITEM 3. LEGAL PROCEEDINGS

For a brief descriptions of certain legal and regulatory proceedings affecting us, see "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 10(c) and 10(d) to our consolidated financial statements.

### ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF CENTERPOINT ENERGY RESOURCES CORP. AND ITS CONSOLIDATED SUBSIDIARIES

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

Because we are an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), our determination of reportable segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. We have identified the following reportable business segments: Natural Gas Distribution, Pipelines and Gathering and Other Operations. Prior to 2001, we also conducted business in the Wholesale Energy and European Energy business segments. Wholesale Energy included wholesale energy trading, marketing, power origination and risk management services in North America but excluded the operations of Reliant Energy Power Generation, Inc., a wholly owned subsidiary of Reliant Resources, Inc. (Reliant Resources) and formerly an indirect wholly owned subsidiary of CenterPoint Energy's predecessor, Reliant Energy, Incorporated (Reliant Energy). European Energy included the energy trading and marketing operations initiated in the fourth quarter of 1999 in the Netherlands and other countries in Europe but excluded Reliant Energy Power Generation Benelux N.V., a Dutch power company.

Reliant Energy completed the separation of the generation, transmission and distribution, and retail sales functions of its Texas electric operations pursuant to the following steps, which occurred on August 31, 2002 (the Restructuring):

- CenterPoint Energy became the holding company for the Reliant Energy group of companies;
- Reliant Energy and its subsidiaries, including us, became subsidiaries of CenterPoint Energy; and

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

After the Restructuring, CenterPoint Energy distributed to its shareholders the shares of common stock of Reliant Resources that it owned (the Distribution) in a tax-free transaction.

Contemporaneous with the Restructuring, CenterPoint Energy registered and became subject, with its subsidiaries, to regulation as a registered 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.

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

On December 31, 2000, CERC Corp. transferred all of the outstanding capital stock (collectively, Stock Transfer) of Reliant Energy Services International, Inc. (RESI), Arkla Finance Corporation (Arkla Finance) and Reliant Energy Europe Trading & Marketing, Inc. (RE Europe Trading), all of which were wholly owned subsidiaries of CERC Corp., to Reliant Resources. Both CERC Corp. and Reliant Resources were wholly owned subsidiaries of Reliant Energy at that time. As a result of the Stock Transfer, RESI, Arkla Finance and RE Europe Trading each became a wholly owned subsidiary of Reliant Resources.

Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, a wholly owned subsidiary of CERC Corp., with Reliant Energy Services as the surviving corporation (Merger). As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. As consideration for the Stock Transfer and the Merger, Reliant Resources paid \$94 million to CERC Corp.

Reliant Energy Services, together with RESI and RE Europe Trading, conducted the Wholesale Energy business segment's trading, marketing, power origination and risk management business and operations of Reliant Energy prior to the formation of CenterPoint Energy. Arkla Finance is a company that holds an investment in marketable equity securities.

The Stock Transfer and the Merger were part of the Restructuring. We are reporting the results of RE Europe Trading as discontinued operations for all periods presented in our consolidated financial statements in accordance with Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB Opinion No. 30). The transfer of the operations of Reliant Energy Services, RESI and Arkla Finance did not result in the disposal of a segment of business as defined under APB NO. 30. For additional information regarding the operating results of the entities transferred to Reliant Resources, please read Note 14 to our consolidated financial statements.



CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by seasonal fluctuations in the demand for natural gas and price movements of energy commodities. Our results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates we charge, competition in our various business operations, debt service costs and income tax expense.

The following table sets forth selected financial data for the years ended December 31, 2000, 2001 and 2002, followed by a discussion of our consolidated results of operations based on earnings from continuing operations before interest expense, distribution on trust preferred securities and income taxes (EBIT). EBIT, as defined, is shown because it is a financial measure we use to evaluate the performance of our business segments and we believe it is a measure of financial performance that may be used as a means to analyze and compare companies on the basis of operating performance. We expect that some analysts and investors will want to review EBIT when evaluating our company. EBIT is not defined under accounting principles generally accepted in the United States (GAAP), should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Additionally, our computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion. We consider operating income to be a comparable measure under GAAP. We believe the difference between operating income and EBIT on both a consolidated and business segment basis is not material. We have provided a reconciliation of consolidated operating income to EBIT and EBIT to net income below.

SELECTED FINANCIAL RESULTS

YEAR ENDED DECEMBER 31, -----	2000(1)	2001	2002	-----	(IN MILLIONS)
Operating Revenues.....	\$21,589	\$5,044	\$4,208	-----	
Operating Expenses:				-----	
Natural gas and fuel.....		13,030	3,781	2,901	Purchased
power.....	7,141	--	--	--	- Operation and
maintenance.....	759	657	667		
Depreciation and amortization.....		214	207	167	Taxes other than income
taxes.....	113	133	120	-----	
-----					Total operating
expenses.....	21,257	4,778	3,855	-----	
-----					Operating
Income.....	332	266			
-----					353 Other Income,
net.....	2	14	8	-----	
-----					
EBIT.....	334	280	361		Interest Expense and Distribution on Trust Preferred
-----					Securities.....
(143)	(155)	(153)	-----		Income Before
Income Taxes.....	191	125	208		
-----					Income Tax
Expense.....	(93)	(58)			
(88)	-----	-----	-----		Income from Continuing
Operations.....	98	67	120		Loss from
Discontinued Operations.....	(24)	--			
-----					Net
Income.....	\$ 74	\$ 67	\$		
-----	120	=====	=====	=====	

(1) The 2000 selected financial results include the results of operations of Reliant Energy Services, RESI and Arkla Finance. For further discussion, please read Notes 13 and 14 to our consolidated financial statements.

2002 Compared to 2001. We reported EBIT for 2002 of \$361 million compared to \$280 million in 2001. The \$81 million increase was primarily due to:

- a \$31 million increase in EBIT primarily as a result of improved operating margins (revenues less fuel costs) from rate increases in 2002, a 5% increase in throughput and changes in estimates of unbilled revenues and deferred gas costs, which reduced operating margins in 2001; and
- a \$49 million increase in EBIT as a result the discontinuance of goodwill amortization in accordance with Statement of Financial Accounting Standards (SFAS) SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142) in 2002.

Operation and maintenance expenses increased \$10 million in 2002 as compared to 2001 primarily due to project work consisting of construction management, material acquisition, engineering, project planning and other services as well as increased benefit costs and higher general and administrative expenses. These increases were partially offset by a reduction in bad debt expense in 2002 as a result of improved collections and lower gas prices.

Depreciation and amortization expense decreased \$40 million in 2002 as compared to 2001 primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 3(d) to our consolidated financial statements. Goodwill amortization was \$49 million for the year ended December 31, 2001. This was partially offset by an increase in depreciation expense due to an increase in the asset base.

Taxes other than income taxes decreased \$13 million in 2002 as compared to 2001 due primarily to reduced franchise fees as a result of decreased revenues.

Other income decreased \$6 million in 2002 as compared to 2001 primarily due to decreased interest income from affiliated parties.

Our effective tax rates for 2002 and 2001 were 42.2% and 46.4%, respectively. The decrease in the effective rate for 2002 compared to 2001 was primarily the result of the discontinuance of goodwill amortization in accordance with SFAS No. 142, offset by an increase in state income taxes.

2001 Compared to 2000. We reported EBIT for 2001 of \$280 million compared to \$334 million in 2000. The \$54 million decrease was primarily due to:

- a \$106 million decrease in EBIT resulting from the transfer of Reliant Energy Services to Reliant Resources pursuant to the Merger discussed above;
- a \$24 million increase in EBIT primarily resulting from increased operating margins (revenues less fuel costs) due to increased volumes in the first quarter of 2001 due to the effect of colder weather, partially offset by changes in estimates of unbilled revenues and recoverability of deferred gas accounts and other items; and
- a \$33 million increase in EBIT primarily resulting from a \$27 million impairment loss on marketable equity securities classified as "available for sale" in 2000.

Operation and maintenance expenses decreased \$102 million in 2001 as compared to 2000 primarily due to the transfer of Reliant Energy Services to Reliant Resources pursuant to the Merger discussed above. This decrease was partially offset by increased customer growth and usage and reduced operating expenses due to exiting certain non-rate regulated retail gas markets outside of our established market areas during 2000 in our Natural Gas Distribution segment.

Depreciation and amortization expense decreased \$7 million in 2001 as compared to 2000 primarily as a result of the transfer of Reliant Energy Services to Reliant Resources, offset by an increase in depreciation expense due to an increase in the asset base.

Taxes other than income taxes increased \$20 million in 2001 as compared to 2000 due primarily to increased franchise fees, state franchise taxes and state gross receipts taxes.

Other income increased \$12 million in 2001 as compared to 2000 primarily due to a \$27 million impairment loss on marketable equity securities classified as "available for sale" in 2000, partially offset by a \$17 million reduction in interest income in 2001.

Interest expense increased \$12 million in 2001 as compared to 2000 primarily due to increased long-term borrowings.

Our effective tax rates for 2001 and 2000 were 46.4% and 48.7%, respectively. The decrease in the effective tax rate for 2001 compared to 2000 was primarily due to a decrease in state income taxes.

Loss from discontinued operations includes the results of RE Europe Trading for all periods presented in our consolidated financial statements in accordance with APB Opinion No. 30. For additional information, please read Note 14 to our consolidated financial statements.

#### FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding our exposure to risk as a result of fluctuations in commodity prices and derivative instruments, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this report.

#### CERTAIN FACTORS AFFECTING FUTURE EARNINGS

Our past earnings and results of operations are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on numerous factors including:

- state and federal legislative and regulatory actions or developments, 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;
- timely rate increases including recovery of costs;
- 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;
- our pursuit of potential business strategies, including acquisitions or dispositions of assets;
- changes in business strategy or development plans;
- the timing and extent of changes in commodity prices, particularly natural gas;
- changes in interest rates or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- weather variations and other natural phenomena;
- the timing and extent of changes in the supply of natural gas;
- commercial bank and financial market conditions, our access to capital, the costs of such capital and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- legal and administrative proceedings and settlements;
- changes in tax laws;
- inability of various counterparties to meet their obligations with respect to our financial instruments;

- any lack of effectiveness of our disclosure controls and procedures;
- changes in technology;
- significant changes in our relationship with our employees, including the availability of qualified personnel and the potential adverse effects if labor disputes or grievances were to occur;
- significant changes in critical accounting policies;
- acts of terrorism or war, including any direct or indirect effect on our business resulting from terrorist attacks such as occurred on September 11, 2001 or any similar incidents or responses to those incidents;
- the availability and price of insurance;
- 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 and Trust Preferred Securities. Of the \$1.96 billion of debt outstanding at December 31, 2002, approximately \$1.8 billion principal amount is senior and unsecured and, approximately \$79.4 million principal amount with a final maturity of 2012 is subordinated. In addition, the debentures relating to \$0.4 million of trust preferred securities issued by our statutory business-trust subsidiary are subordinated.

The issuance of secured debt by us is limited under an indenture relating to approximately \$145 million principal amount of debt maturing in 2006 which provides for equal and ratable security for such debt in the event debt secured by "principal property" (as defined in the indenture) is issued. Other than this indenture, agreements relating to the issuance of long-term debt do not restrict the issuance of secured debt. Additionally, our \$350 million credit agreement expiring in March 2003 prohibits the issuance of debt secured by "principal property". The definition is similar to that contained in the indenture described above. Finally, our ability to issue secured debt may be limited under the terms of agreements entered into by CenterPoint Energy. The assets that may be pledged as security for our debt may be limited by the SEC because our parent is a registered holding company.

On February 28, 2003, CenterPoint Energy reached agreement with a syndicate of banks on a second amendment to 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 us and another \$250 million basket for borrowings by CenterPoint Energy 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.

Short-Term Debt and Receivables Facility. During 2003, our bank and receivables facilities are scheduled to terminate on the dates indicated below.

TOTAL COMMITTED TYPE OF FACILITY	TERMINATION DATE
CREDIT - .....	.....
	----- (IN MILLIONS)
Revolver.....	March 31, 2003 \$350
Receivables.....	November 14, 2003 150 ---- \$500 ===

As of December 31, 2002, there was \$347 million borrowed under our \$350 million revolving credit facility. On February 28, 2003, we executed a commitment letter with a major bank for a \$350 million, 180-day bridge facility, which is subject to the satisfaction of various closing conditions. This facility will be

available for repaying borrowings under our existing \$350 million revolving credit facility that expires on March 31, 2003 in the event sufficient proceeds are not raised in the capital markets to repay such borrowings on or before March 31, 2003. Final terms for the bridge facility have not been established, but it is anticipated that the rates for borrowings under the facility will be LIBOR plus 450 basis points. We paid a commitment fee of 25 basis points on the committed amount and will be required to pay a facility fee of 75 basis points of the amount funded and an additional 100 basis points on the amount funded and outstanding for more than two months. In connection with this facility, we expect to provide the lender with collateral in the form of a security interest in the stock we own in our interstate natural gas pipeline subsidiaries.

On December 31, 2002, we had received proceeds from the sale of receivables of approximately \$107 million under the \$150 million receivables facility and our \$350 million bank facility was fully drawn or utilized in the form of letters of credit. Advances under the \$150 million receivables facility are not recorded as a financing because the facility provides for the sale of receivables to third parties as discussed in Note 3(i) to the consolidated financial statements.

On December 31, 2002, we had \$74 million borrowed from affiliates. 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. The money pool may not provide sufficient funds to meet our cash needs.

**Capital Requirements.** We anticipate investing up to an aggregate \$1.3 billion in capital expenditures in the years 2003 through 2007, including approximately \$264 million and \$279 million in 2003 and 2004, respectively.

**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 \$264 million of capital expenditures;
- the refinancing of borrowings under our \$350 million bank facility; and
- remarketing or refinancing of \$500 million of debt, plus the possible payment of option termination costs (currently estimated to be \$61 million) as discussed in "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Risk" in Item 7A of this report.

We expect to meet our capital requirements with cash flows from operations, short-term borrowings and proceeds from debt offerings. We believe that our current liquidity, along with anticipated cash flows from operations and proceeds from short-term borrowings, including the renewal, extension or replacement of existing bank facilities, and anticipated sales of securities in the capital markets will be sufficient to meet our cash needs. However, disruptions in our ability to access the capital markets on a timely basis could adversely affect our liquidity. In addition, the cost of our debt issuances may be high. Please read "Risk Factors -- Risks Related to Our Corporate and Financial Structure -- If we are unable to arrange future financings on reasonable 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 Reliant Energy 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.

We have registered \$50 million principal amount of debt securities with the SEC for future issuance. These debt securities may be sold in a public offering. The amount of any debt issuance, whether registered or unregistered, is expected to be affected by the market's perception of our creditworthiness, general market

conditions and factors affecting our industry. Proceeds from the sales of securities are expected to be used primarily to refinance existing long-term and short-term debt.

The following table sets forth estimates of our contractual obligations to make future payments for 2003 through 2007 and thereafter (in millions):

2008 AND CONTRACTUAL OBLIGATIONS						
TOTAL	2003	2004	2005	2006	2007	THEREAFTER
-----						
----- Long-term						
debt.....	\$1,959					
\$518 \$ 1 \$368 \$152 \$ 7 \$ 913 Short-term borrowings, including credit facilities.....						
347 347 -- -- -- -- Trust preferred securities.....	1					
-- -- -- -- -- 1 Operating lease payments(1).....	126	15	12	10		
8 7 74 Non-trading derivative liabilities.....	11	10	1	--	--	--
-----						
Total contractual cash obligations... \$2,444 \$890 \$14 \$378						
\$160 \$14 \$ 988	=====	=====	===	=====		
	=====	=====				

(1) For a discussion of operating leases, please read Note 10(b) to our consolidated financial statements

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 senior unsecured debt of CERC Corp.:

MOODY'S  
S&P FITCH  
-----  
-----  
-----  
-----  
-----  
-----  
RATING  
OUTLOOK(1)  
RATING  
OUTLOOK(2)  
RATING  
OUTLOOK(3)  
-----  
-----  
-----  
-----  
-----  
-----  
----- Ba1  
Negative  
BBB Stable  
BBB  
Negative

- (1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.
- (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, the willingness of suppliers to extend credit lines to us on an unsecured basis and the execution of our commercial strategies.

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

market transactions. The \$150 million receivables facility of CERC Corp. requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Receivables would cease to be sold in the event a credit rating fell below the threshold.

Our bank facilities contain "material adverse change" clauses that could impact our ability to borrow under these facilities. The "material adverse change" clause in our revolving credit facility applies to new borrowings under the facility and relates to changes since the most recent financial statements delivered to the banks. Financial statements are delivered quarterly.

CenterPoint Energy Gas Resources Corp., a wholly owned subsidiary, provides comprehensive natural gas sales and services to industrial and commercial customers that are primarily located within or near the

territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, CenterPoint Energy Gas Resources Corp. has agreements with provisions standard for the industry that establish credit thresholds and then require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case) falls below those levels. As of March 4, 2003, the senior unsecured debt of CERC Corp. was rated BBB by S&P and Ba1 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to CenterPoint Energy Gas Resources Corp. by counterparties could aggregate \$25 million; however, utilized credit capacity is significantly lower.

**Cross Defaults.** Our debentures and borrowings generally provide that a default on obligations by CenterPoint Energy does not cause a default under our debentures, revolving credit facility or receivables facility. A payment default at CERC Corp. exceeding \$50 million will cause a default under CenterPoint Energy's \$3.85 billion bank facility.

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

- the potential need to provide cash collateral in connection with certain contracts;
- acceleration of payment dates on certain gas supply contracts under certain circumstances; and
- various regulatory actions.

**Capitalization.** Factors affecting our capitalization include:

- covenants in our bank facilities and other borrowing agreements; and
- limitations imposed on us because our parent is a registered 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 \$2.7 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 \$100 million.

**Relationship with CenterPoint Energy.** We are an indirect 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.

**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 \$36 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 \$13 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.

#### OFF BALANCE SHEET FINANCING

In connection with the November 2002 amendment and extension of our \$150 million receivables facility, we formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by us. This transaction described above is accounted for as a sale of receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", and, as a result, the related receivables are excluded from our Consolidated Balance Sheets. For additional information regarding this transaction, please read Note 3(i) to our consolidated financial statements.



## 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.

### 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 \$3.2 billion or 54% 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.

### IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS

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

We recorded goodwill associated with the acquisition of our Natural Gas Distribution and Pipelines and Gathering operations in 1997. We reviewed our goodwill for impairment as of January 1, 2002. We computed the fair value of the Natural Gas Distribution and the Pipelines and Gathering operations as the sum of the discounted estimated net future cash flows applicable to each of these operations. We determined that the fair value for each of the Natural Gas Distribution operations and the Pipelines and Gathering operations exceeded their corresponding carrying value, including unallocated goodwill. We also concluded that no interim impairment indicators existed subsequent to this initial evaluation. As of December 31, 2002 we had recorded \$1.7 billion of goodwill. Future evaluations of the carrying value of goodwill could be significantly impacted by our estimates of cash flows associated with our Natural Gas Distribution and Pipelines and Gathering operations, regulatory matters, and estimated operating costs.

## UNBILLED REVENUES

Revenues related to the sale and/or delivery of natural gas are generally recorded when natural gas is delivered to customers. However, the determination of sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of natural gas delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of December 31, 2001 and 2002 were \$269 million and \$284 million, respectively, related to our Natural Gas Distribution business segment.

## NEW ACCOUNTING PRONOUNCEMENTS

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

In June 2001, the 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 completed an assessment of the applicability and implications of SFAS No. 143 and have identified no asset retirement obligations. Our rate-regulated businesses 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 \$378 million do not represent SFAS No. 143 asset retirement obligations, but rather embedded regulatory liabilities.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and APB Opinion No. 30, 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 additional future dispositions being reported as discontinued operations than was previously 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.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 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 June 2002, the Emerging Issues Task Force ("EITF") reached a consensus that all mark-to-market gains and losses on energy trading contracts should be shown net in the statement of consolidated income whether or not settled physically. In October 2002, the EITF issued a consensus that superceded the June 2002 consensus. The October 2002 consensus required, among other things, that energy derivatives held for trading purposes be shown net in the statement of consolidated income. This new consensus, EITF 02-3 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," is effective for fiscal periods beginning after December 15, 2002.

Our former subsidiaries, RESI, RE Europe Trading and Reliant Energy Services entered into energy derivatives held for trading purposes. On December 31, 2000, these subsidiaries were either sold or transferred to Reliant Resources, an unconsolidated related party. See Note 2 to our consolidated financial statements. For financial periods beginning subsequent to December 31, 2002, we will retroactively restate the financial statement presentation of these energy trading activities. For the year ended December 31, 2000, RESI, RE Europe Trading, and Reliant Energy Services reported combined revenues and natural gas and purchased power expenses of \$17.6 billion and \$17.4 billion, respectively. We are currently evaluating the effects on our Statements of Consolidated Income of the net presentation of these trading activities for the year ended December 31, 2000. Such presentation will not affect previously reported operating income or net income.

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 our consolidated financial statements. We have adopted the additional disclosure provisions of FIN 45 in our consolidated financial statements as of December 31, 2002.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect the adoption of FIN 46 to have a material impact on our results of operations and financial condition.

Please read Note 5 to our consolidated financial statements for a discussion of our adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) on January 1, 2001 and adoption of subsequent cleared guidance. Please read Note 3(d) to our consolidated financial statements for a discussion of our adoption of SFAS No. 142.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) REGULATORY MATTERS

CERC applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of the utility operations of Natural Gas Distribution and MRT. As of December 31, 2001 and 2002, CERC had recorded \$6 million and \$12 million, respectively, of net regulatory assets.

If, as a result of changes in regulation or competition, CERC's ability to recover these assets and liabilities would not be probable, CERC would be required to write off or write down these regulatory assets and liabilities. In addition, CERC would be required to determine any impairment of the carrying costs of plant and inventory assets.

Arkansas Rate Case

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

Oklahoma Rate Case

In May 2002, Arkla filed a request in Oklahoma to increase its base rates by \$13.7 million annually. In December 2002, a settlement was approved by the Oklahoma Corporation Commission that is expected to result in an increase in base rates of approximately \$7.3 million annually. The new rates included in the final settlement were effective with all bills rendered on and after December 29, 2002.

(i) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable, principally customers, net, are net of an allowance for doubtful accounts of \$33 million and \$20 million at December 31, 2001 and 2002, respectively. The provisions for doubtful accounts in CERC's Statements of Consolidated Income for 2000, 2001 and 2002 were \$33 million, \$46 million and \$15 million, respectively.

In the first quarter of 2002, CERC reduced its trade receivables facility from \$350 million to \$150 million. During 2001 and 2002, CERC sold its customer accounts receivable and utilized \$346 million of its \$350 million receivables facility at December 31, 2001 and \$107 million of its \$150 million receivables facility at December 31, 2002. The amount of receivables sold will fluctuate based on the amount of receivables created by CERC Corp.

In connection with CERC's November 2002 amendment and extension of its receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying and selling receivables created by CERC. This transaction is accounted for as a sale of receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", and, as a result, the related receivables are excluded from the Consolidated Balance Sheets.

## 5. DERIVATIVE INSTRUMENTS

Effective January 1, 2001, CERC adopted SFAS No. 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge), (b) the exposure to variability in expected future cash flows (Cash Flow Hedge), or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative after-tax increase in accumulated other comprehensive income of \$38 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately \$88 million, \$5 million, \$53 million and \$2 million, respectively, in CERC's Consolidated Balance Sheet.

CERC is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. CERC utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes and cash flows of its natural gas businesses on its operating results and cash flows.

### (a) Non-Trading Activities

**Cash Flow Hedges.** To reduce the risk from market fluctuations associated with purchased gas costs, CERC enters into energy derivatives in order to hedge certain expected purchases and sales of natural gas. CERC applies hedge accounting for its non-trading energy derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. CERC analyzes its physical transaction portfolio to determine its net exposure by delivery location and delivery period. Because CERC's physical transactions with similar delivery locations and periods are highly correlated and share similar risk exposures, CERC facilitates hedging for customers by aggregating physical transactions and subsequently entering into non-trading energy derivatives to mitigate exposures created by the physical positions.

During 2002, no hedge ineffectiveness was recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, CERC realizes in net income the deferred gains and losses recognized in accumulated other comprehensive income. During the year ended December 31, 2002, there was a \$0.9 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive income is reclassified and included in CERC's Statements of Consolidated Income under the caption "Natural Gas and Purchased Power." Cash flows resulting from these transactions in non-trading energy derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2002, CERC expects \$17 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

The maximum length of time CERC is hedging its exposure to the variability in future cash flows for forecasted transactions on existing financial instruments is primarily two years with a limited amount of exposure up to three years. CERC's policy is not to exceed five years in hedging its exposure.

(b) CREDIT RISKS

In addition to the risk associated with price movements, credit risk is also inherent in CERC's non-trading derivative activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the non-trading derivative assets of CERC as of December 31, 2001 and 2002:

DECEMBER 31, 2001	DECEMBER 31, 2002	-----	
INVESTMENT GRADE(1)(2)	INVESTMENT GRADE(1)(2)	NON-TRADING	TOTAL
DERIVATIVE ASSETS	DERIVATIVE ASSETS	ASSETS	ASSETS
GRADE(1)(2)	GRADE(1)(2)	GRADE(3)	TOTAL
-----			
----- (IN MILLIONS) Energy			
marketers.....	\$ 9		
	\$ 9	\$ 7	\$22
institutions.....			
	9		
Total.....	\$ 9	\$ 9	\$16
		\$31	====
			====
			===
			===

- (1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (such as parent company guarantees) and collateral, which encompasses cash and standby letters of credit.
- (2) For unrated counterparties, the Company performs financial statement analysis, considering contractual rights and restrictions and collateral, to create a synthetic credit rating.
- (3) The \$22 million non-trading derivative asset includes a \$15 million asset due to trades with Reliant Energy Services, an affiliate until the date of the Distribution. As of December 31, 2002, Reliant Energy Services did not have an Investment Grade rating.

(c) GENERAL POLICY

CenterPoint Energy has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including CenterPoint Energy's trading, marketing, risk management services and hedging activities. The committee's duties are to establish CenterPoint Energy's commodity risk policies, allocate risk capital within limits established by CenterPoint Energy's board of directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with CenterPoint Energy's risk management policies and procedures and trading limits established by CenterPoint Energy's board of directors.

CenterPoint Energy's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

7. TRUST PREFERRED SECURITIES

In June 1996, a Delaware statutory business trust created by CERC Corp. (CERC Trust) issued \$173 million aggregate amount of convertible preferred securities to the public. CERC Corp. accounts for CERC Trust as a wholly owned consolidated subsidiary. CERC Trust used the proceeds of the offering to purchase convertible junior subordinated debentures issued by CERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities. The convertible junior subordinated debentures represent CERC Trust's sole asset and its entire operations. CERC Corp. considers its obligation under the Amended and Restated Declaration of Trust, Indenture and Guaranty Agreement relating to the convertible preferred securities, taken together, to constitute a full and unconditional guarantee by CERC Corp. of CERC Trust's obligations with respect to the convertible preferred securities.

The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Effective January 7, 2003, the convertible preferred securities are convertible at the option of the holder into \$33.62 of cash and 2.34 shares of CenterPoint Energy common stock for each \$50 of liquidation value. As of December 31, 2001 and 2002, \$0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their

underlying convertible junior subordinated debentures, bear interest at 6.25% and mature in June 2026. Subject to some limitations, CERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, CERC Corp. may not pay dividends on its common stock to CenterPoint Energy. As of December 31, 2002, no interest payments on the convertible junior subordinated debentures had been deferred.

## 8. EMPLOYEE BENEFIT PLANS

### (a) PENSION PLANS

Substantially all of CERC'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 CERC 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 \$21 million for the year ended December 31, 2000. CERC recognized pension expense of \$1 million and \$13 million for the years ended December 31, 2001 and 2002, respectively.

In addition to the Plan, CERC 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 \$13 million, \$5 million and \$2 million for the years ended December 31, 2000, 2001 and 2002, respectively.

As of December 31, 2001, CenterPoint Energy allocated \$94 million of pension assets, \$40 million of non-qualified pension liabilities and \$2 million minimum pension liabilities to CERC. As of December 31, 2002, CenterPoint Energy has not allocated such pension assets or liabilities to CERC. This change in method of allocation had no impact on pension expense recorded for the year ended December 31, 2002.

## 10. COMMITMENTS AND CONTINGENCIES

### (a) ENVIRONMENTAL CAPITAL COMMITMENTS

CERC has various commitments for capital and environmental expenditures. CERC anticipates no significant capital and other special project expenditures between 2003 and 2007 for environmental compliance.

### (b) Lease Commitments

The following table sets forth information concerning CERC's obligations under non-cancelable long-term operating leases, principally consisting of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2003.....	\$ 15
2004.....	12
2005.....	10
2006.....	8
2007.....	7
2008 and beyond.....	74
	----
Total.....	\$126
	====

Total rental expense for all operating leases was \$33 million, \$31 million and \$27 million in 2000, 2001 and 2002, respectively.

### (c) Environmental Matters

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company (REGT), Reliant Energy Pipeline Services, Inc., RERC Corp., RES, other Reliant Energy entities and third parties, in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented seven times. As of November 21, 2002, there were 695 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties in the same court. More recently, on January 6, 2003, two other plaintiffs filed a third suit of similar



allegations against CenterPoint Energy, as well as other defendants, in Bossier Parish (26th Judicial District Court).

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

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of December 31, 2002, CERC is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

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

At December 31, 2001 and 2002, CERC had accrued \$23 million and \$19 million, respectively, for remediation of the Minnesota sites. At December 31, 2002, the estimated range of possible remediation costs was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. CERC has an environmental expense tracker mechanism in its rates in Minnesota. CERC has collected \$12 million at December 31, 2002 to be used for future environmental remediation.

CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for sites in other states. Based on current information, CERC has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

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

Other Environmental. From time to time CERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of CERC in activities at these sites, CERC does not believe that these matters will have a material adverse effect on CERC's financial position, results of operations or cash flows.

#### Department of Transportation

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002. This legislation applies to CERC's interstate pipelines as well as its intra-state pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires companies to assess the integrity of their pipeline transmission and distribution facilities in areas of high population concentration and further requires companies to perform remediation activities, in accordance with the requirements of the legislation, over a 10-year period.

In January 2003, the U.S. Department of Transportation published a notice of proposed rulemaking to implement provisions of the legislation. The Department of Transportation is expected to issue final rules by the end of 2003.

While CERC anticipates that increased capital and operating expenses will be required to comply with the requirements of the legislation, it will not be able to quantify the level of spending required until the Department of Transportation's final rules are issued.

#### (d) OTHER LEGAL MATTERS

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

In addition, CERC Corp., CenterPoint Energy Gas Transmission Company, CenterPoint Energy Field Services, Inc. and CenterPoint Energy-Mississippi River Transmission Corporation are defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Motions to dismiss and class certification issues have been briefed and argued.

City of Tyler, Texas, Gas Costs Review. By letter to Entex dated July 31, 2002, the City of Tyler, Texas, forwarded various computations of what it believes to be excessive costs ranging from \$2.8 million to \$39.2 million for gas purchased by Entex for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas (the Railroad Commission). Pursuant to an agreement, on January 29, 2003, Entex and the city filed a Joint Petition for Review of Charges for Gas Sales (Joint Petition) with the Railroad Commission. The Joint

Petition requests that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. The Company believes that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs and that the city has no legal or factual support for the statements made in its letter.

**Gas Recovery Suits.** In October 2002, a suit was filed in state district court in Wharton County, Texas, against CenterPoint Energy, CERC, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utility Code, civil conspiracy and violations of the Texas Free Enterprise and Antitrust Act. The plaintiffs seek class certification, but no class has been certified. The plaintiffs allege that defendants inflated the prices charged to residential and small commercial consumers of natural gas. In February 2003, a similar suit was filed against CERC in state court in Caddo Parish, Louisiana purportedly on behalf of a class of residential or business customers in Louisiana who allegedly have been overcharged for gas or gas service provided by CERC. The plaintiffs in both cases seek restitution for alleged overcharges, exemplary damages and penalties. CERC denies that it has overcharged any of its customers for natural gas and believes that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

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

### 13. REPORTABLE SEGMENTS

Because CERC Corp. is a wholly owned subsidiary of CenterPoint Energy, CERC's determination of reportable segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to segments. Reportable business segments from previous years have been restated to conform to the 2002 presentation. CERC accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

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

CERC's reportable business segments include the following: Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy and Other Operations. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers, and some non-rate regulated retail gas marketing operations. Pipelines and Gathering includes the interstate natural gas pipeline operations and natural gas gathering and pipeline services. Reliant Energy Services was previously reported within the Wholesale Energy segment. Other Operations includes unallocated general corporate expenses and non-operating investments. During 2000, Reliant Energy transferred RERC's non-rate regulated retail gas marketing from Other Operations to Natural Gas Distribution and RERC's natural gas gathering business from Wholesale Energy to Pipelines and Gathering. On December 31, 2000, RERC Corp. transferred all of the outstanding stock of RESI, Arkla Finance and RE Europe Trading, all wholly owned subsidiaries of

RERC Corp., to Reliant Resources. Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, a wholly owned subsidiary of RERC Corp., with Reliant Energy Services as the surviving corporation. As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. Reportable segments from previous years have been restated to conform to the 2002 presentation. All of CERC's long-lived assets are in the United States.

Financial data for business segments and products and services are as follows:

NATURAL GAS PIPELINES AND WHOLESALE OTHER RECONCILING SALES TO DISTRIBUTION GATHERING ENERGY OPERATIONS ELIMINATIONS AFFILIATES CONSOLIDATED -----					
-----					
----- (IN MILLIONS) AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2000: Revenues from external customers(1).....	\$4,445	\$ 182	\$16,961	\$ 1	--
\$-- \$21,589 Intersegment revenues.....	34	202	579		
-- (815) -- -- Depreciation and amortization.....	145	55	11	3	-- -- 214
EBIT.....	125	137	106	(30)	(4) -- 334
Total assets.....	4,518	2,358	--	448	(748) --
6,576 Expenditures for long- lived assets.....	195	61	27	8	-- -- 291 AS OF
AND FOR THE YEAR ENDED DECEMBER 31, 2001: Revenues from external customers(1).....	4,737	307	--	--	-- 5,044
Intersegment revenues.....	5	108	--	--	--
(113) -- -- Depreciation and amortization.....	147	58	--	2	-- -- 207
EBIT.....	149	138	--	3	(10) -- 280 Total
assets.....	3,732	2,361	--	101	(202) --
5,992 Expenditures for long- lived assets.....	209	54	--	--	-- 263 AS OF
AND FOR THE YEAR ENDED DECEMBER 31, 2002: Revenues from external customers(1).....	3,927	253	--	--	-- 28 4,208
Intersegment revenues.....	7	119	--	--	--
(126) -- -- Depreciation and amortization.....	126	41	--	--	-- 167
EBIT.....	210	158	--	6	(13) -- 361 Total
assets.....	4,051	2,481	--	206	(752) --
5,986 Expenditures for long- lived assets.....	196	70	--	--	-- 266

(1) Included in revenues from external customers are revenues from sales to Reliant Resources, a former affiliate, of \$816 million, \$181 million and \$42 million for the years ended December 31, 2000, 2001 and 2002, respectively.

YEAR ENDED DECEMBER 31, ----- 2000

2001 2002 ----- (IN MILLIONS)

RECONCILIATION OF OPERATING INCOME TO EBIT AND EBIT TO  
NET INCOME: Operating

income..... \$ 332 \$  
266 \$ 353 Other,  
net..... 2 14  
8 -----

EBIT.....  
334 280 361 Interest expense and other  
charges..... (143) (155) (153) Income  
taxes..... (93)  
(58) (88) Loss from discontinued  
operations..... (24) -- --  
----- Net

income..... \$ 74  
\$ 67 \$ 120 ===== REVENUES BY PRODUCTS AND  
SERVICES: Retail gas

sales..... \$ 4,358  
\$4,645 \$3,857 Wholesale energy and energy related  
sales..... 16,961 -- -- Gas  
transport.....  
182 307 255 Energy products and  
services..... 88 92 96 -----

Total.....  
\$21,589 \$5,044 \$4,208 ===== REVENUES BY  
GEOGRAPHIC AREAS U.S.

-----  
\$20,539 \$5,044 \$4,208

Canada.....  
1,050 -- -- -----

Total.....  
\$21,589 \$5,044 \$4,208 =====