Nuclear Operating Company

South Texas Project Electric Generating Station P.O. Box 289 Wadsworth, Texas 77483

October 12, 2004
NOC-AE-04001801
10 CFR 50.80

U.S. Nuclear Regulatory Commission
Attention: James E. Dyer
Director, Office of Nuclear Reactor Regulation
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

South Texas Project
Units 1 and 2
Docket Nos. STN 50-498 and STN 50-499
Application for Order Approving Indirect Transfer of Control of Licenses

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended (the Act), and 10 CFR 50.80, STP Nuclear Operating Company (STPNOC), as agent for the owners of the South Texas Project, is submitting this application on behalf of Texas Genco, LP (Texas Genco) and CenterPoint Energy, Inc. (CenterPoint Energy), and GC Power Acquisition LLC (GC Power), (together, the Applicants), to the Nuclear Regulatory Commission (NRC) for an order consenting to the indirect transfer of control of Texas Genco's interest in the South Texas Project Electric Generating Station (STP), including its interest in Facility Operating License Nos. NPF-76 and NPF-80 for STP Units 1 and 2, respectively, that would result from the transfer of Texas Genco's indirect parent company, Texas Genco Holdings, Inc. (TGN), from CenterPoint Energy to GC Power. No changes in the STP licenses, including the identity of the licensees, are proposed in the Application.

In connection with the indirect transfer of its ownership interest in STP, Texas Genco's related interest in STPNOC, a not-for-profit Texas corporation that is the licensed operator of STP, will also be transferred. However, this is not a controlling interest in STPNOC and, therefore, there will be no transfer of control of STPNOC's interest in the licenses to operate STP on behalf of the owners. If the NRC concludes that such indirect transfer of Texas Genco's interest in STPNOC also requires prior NRC consent, such consent is also requested in the Application.

Texas Genco is an indirect subsidiary of TGN and TGN is an indirect subsidiary of CenterPoint Energy. Through its subsidiary, CenterPoint Energy owns approximately 81% of the stock of TGN, and the remaining shares are traded publicly on the New York Stock Exchange. Currently, Texas Genco owns a 30.8% undivided ownership interest in STP. The other owners of STP are City Public Service Board of San Antonio (28.0%), AEP Texas Central Company (25.2%), and City of Austin, Texas (16.0%).

Texas Genco's 30.8% ownership interest is expected to increase as the result of exercising its right of first refusal (ROFR) under the Amended and Restated South Texas Project Participation

A001

STI: 31797173

Agreement, pursuant to which Texas Genco has entered into a Purchase and Sale Agreement dated as of September 3, 2004 to acquire an additional 13.2% undivided ownership interest in STP from AEP Texas Central Company. This acquisition by Texas Genco and resultant increase in its ownership interest in STP and related interest in STPNOC to 44% will not result in the transfer of a controlling interest in STPNOC and therefore does not change the nature of this application. STPNOC will file a separate application with the NRC for approval of the license transfer contemplated by that transaction.

GC Power is owned in equal parts by investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, four of the largest private investment firms in the world.

The transaction through which CenterPoint Energy will sell GC Power its ownership interest in TGN involves four steps, pursuant to which GC Power will acquire all of the generating assets of Texas Genco. First, the fossil generation assets of Texas Genco will be transferred to a new subsidiary of TGN[1] to facilitate the transfer of those fossil assets to GC Power. Second, CenterPoint Energy will buy the publicly held TGN stock. This step merely returns TGN to its status before May 2001 when its predecessor sold the stock in an initial public offering pursuant to the Business Separation Plan approved by the Public Utility Commission of Texas as part of electric industry restructuring in Texas. Third, a subsidiary of GC Power will acquire the fossil generation assets. Throughout each of the first three steps in the transaction, the corporate ownership of Texas Genco will remain unchanged and Texas Genco will retain its interest in STP and the STP licenses. Therefore, no direct or indirect transfer of control of Texas Genco or its interest in the STP licenses will result from any of the first three steps and no NRC approval is required. Finally, after NRC approval of the indirect transfer of control of the STP licenses, TGN will be merged with a subsidiary of GC Power and Texas Genco will become an indirect wholly owned subsidiary of GC Power. The structure and purpose of each step is described in further detail in the Application.

The proposed indirect transfer of Texas Genco's ownership interest in STP does not result in any changes to (i) the physical assets of STP, (ii) the authority of STPNOC to operate STP, (iii) the operating procedures of STP, (iv) the management of STPNOC, or (v) the technical qualifications of STPNOC.

The enclosed Application demonstrates that Texas Genco will possess the requisite qualifications to satisfy its obligations under the STP licenses, that there is assurance of adequate decommissioning funding, and that Texas Genco will otherwise be fully qualified to continue as licensee. This request for the NRC's approval of the indirect transfer of control of Texas Genco's interest in the STP licenses does not involve any entities that are owned, controlled, or dominated by a foreign entity. The transfer would not have any adverse impact on the public

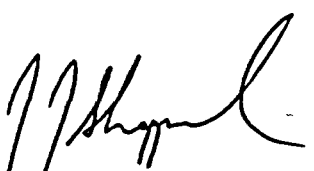
[1]Conditions 2.C.8 and 2.C.10 of the STP operating licenses NPF-80 and NPF-76, respectively, provide that Texas Genco shall provide to the Director, Office of Nuclear Reactor Regulation (NRR) a copy of any application to transfer any facilities for the production of electric energy exceeding 10% of their net utility plant from CenterPoint Energy or its subsidiaries to a proposed direct or indirect parent or an affiliated company. Contemporaneously with this Application, STPNOC, on behalf of Texas Genco, is filing with the NRC a Notice of Intent to Transfer Generation Assets.

health and safety, nor be inimical to the common defense and security. The Applicants therefore respectfully request that the NRC consent to the indirect transfer of control of Texas Genco's interest in STP in accordance with 10 CFR 50.80.

The actual date for any indirect transfer of control of Texas Genco is dependent upon the receipt of all regulatory approvals and will occur promptly on receipt of such approvals. The Applicants request that NRC review this Application on a schedule that will permit the issuance of NRC consent to the indirect transfer of control by February 28, 2005. The Applicants request that such consent be immediately effective upon issuance and should permit the indirect transfer of control at any time until one year after the NRC order consenting to the indirect transfer. STPNOC will inform NRC if there are any significant developments that have an impact on the schedule.

The Application includes proprietary, separately bound Attachments, which contain confidential commercial and financial information. The Applicants request that these Attachments be withheld from public disclosure pursuant to 10 CFR 9.17(a)(4) and the policy reflected in 10 CFR 2.390, as described in the Affidavits of David G. Tees and Jack A. Fusco provided in Attachment 4 to the Application. Non-proprietary versions of these documents suitable for public disclosure are provided as Attachments 5, 6, and 7 to the Application.

If there are any questions regarding this request for approval of the indirect transfer of control of Texas Genco's interest in the STP licenses, please contact John Conly at (361) 972-7336 or me at (361) 972-8757. Service of any comments, hearing requests, intervention petitions, or other filings should be made to: John E. Matthews at Morgan, Lewis and Bockius LLP, 1111 Pennsylvania Ave. N.W., Washington, DC 20004, (jmatthews@morganlewis.com) (tel: 202-739-5524) on behalf of STPNOC; Stan Blanton, Balch & Bingham LLP, 1710 Sixth Avenue North, Birmingham, AL 35203, (sblanton@balch.com) (tel. 205-226-3417) on behalf of GC Power; and Gerry Garfield, Day, Berry & Howard LLP, CityPlace I, 185 Asylum Street, Hartford, CT 06103, (ggarfield@dbh.com) (tel. 860-275-0182) for Texas Genco and CenterPoint Energy.



J. J. Sheppard
President & Chief Executive Officer

jtc

Enclosure: Application

cc: w/o proprietary attachment except *
(paper copy)

Regional Administrator, Region IV
U.S. Nuclear Regulatory Commission
611 Ryan Plaza Drive, Suite 400
Arlington, TX 76011-8064

* U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

* Steven R. Hom
U. S. Nuclear Regulatory Commission
One White Flint North
11555 Rockville Pike
Rockville, MD 20852
Mail Stop OWFN/15-D21

Jeffrey Cruz
U. S. Nuclear Regulatory Commission
P. O. Box 289, Mail Code: MN116
Wadsworth, TX 77483

Richard A. Ratliff
Bureau of Radiation Control
Texas Department of State Health Services
1100 West 49th Street
Austin, TX 78756-3189

C. M. Canady
City of Austin
Electric Utility Department
721 Barton Springs Road
Austin, TX 78704

(electronic copy)

A. H. Gutterman
J. E. Matthews
Morgan, Lewis & Bockius LLP

L. D. Blaylock
City Public Service

R. L. Balcom
Texas Genco, LP

A. Ramirez
City of Austin

C. A. Johnson
AEP Texas Central Company

Jon C. Wood
Matthews & Branscomb

Stan Blanton
Balch & Bingham LLP

David H. Jaffe
U. S. Nuclear Regulatory Commission

Gerry Garfield
Day, Berry & Howard LLP

UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
South Texas Project Units 1 and 2	)	

AFFIRMATION

I, J. J. Sheppard, being duly sworn, hereby depose and state that I am President and CEO of STP Nuclear Operating Company; that I am duly authorized to sign and file with the Nuclear Regulatory Commission the attached application for order approving indirect transfer of control of licenses; that I am familiar with the content thereof; and that the matters set forth therein with regard to STP Nuclear Operating Company are true and correct to the best of my knowledge and belief.

J. J. Sheppard
President & CEO

STATE OF TEXAS	)	
	)	
COUNTY OF MATAGORDA	)	

Subscribed and sworn to me, a Notary Public, in and for the State of Texas, this 12th day of October, 2004.

LINDA RITTENBERRY
Notary Public, State of Texas
My Commission Expires
OCTOBER 9, 2005

Notary Public in and for the State of Texas

UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
South Texas Project Units 1 and 2	)	

AFFIRMATION

I, David G. Tees, being duly sworn, hereby depose and state that I am Manager and President of Texas Genco GP, LLC, which is the General Partner of Texas Genco, LP; that I am familiar with the content of the attached application for order approving indirect transfer of control of licenses; and that the matters set forth therein with regard to Texas Genco, LP and its affiliates are true and correct to the best of my knowledge and belief.

David G. Tees
Manager & President

STATE OF TEXAS	)	
	)	
COUNTY OF HARRIS	)	

Subscribed and sworn to me, a Notary Public, in and for the State of Texas, this 8-th day of October, 2004.

Notary Public in and for the State of Texas

ROSE GALLARDO
Notary Public, State of Texas
My Commission Expires
March 23, 2008

UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
South Texas Project Units 1 and 2	)	

AFFIRMATION

I, Jack A. Fusco, being duly sworn, hereby depose and state that I am CEO of GC Power Acquisition LLC; that I am familiar with the content of the attached application for order approving indirect transfer of control of licenses; and that the matters set forth therein with regard to GC Power Acquisition LLC are true and correct to the best of my knowledge and belief.

Jack A. Fusco
CEO

STATE OF TEXAS)
)
COUNTY OF Harris)

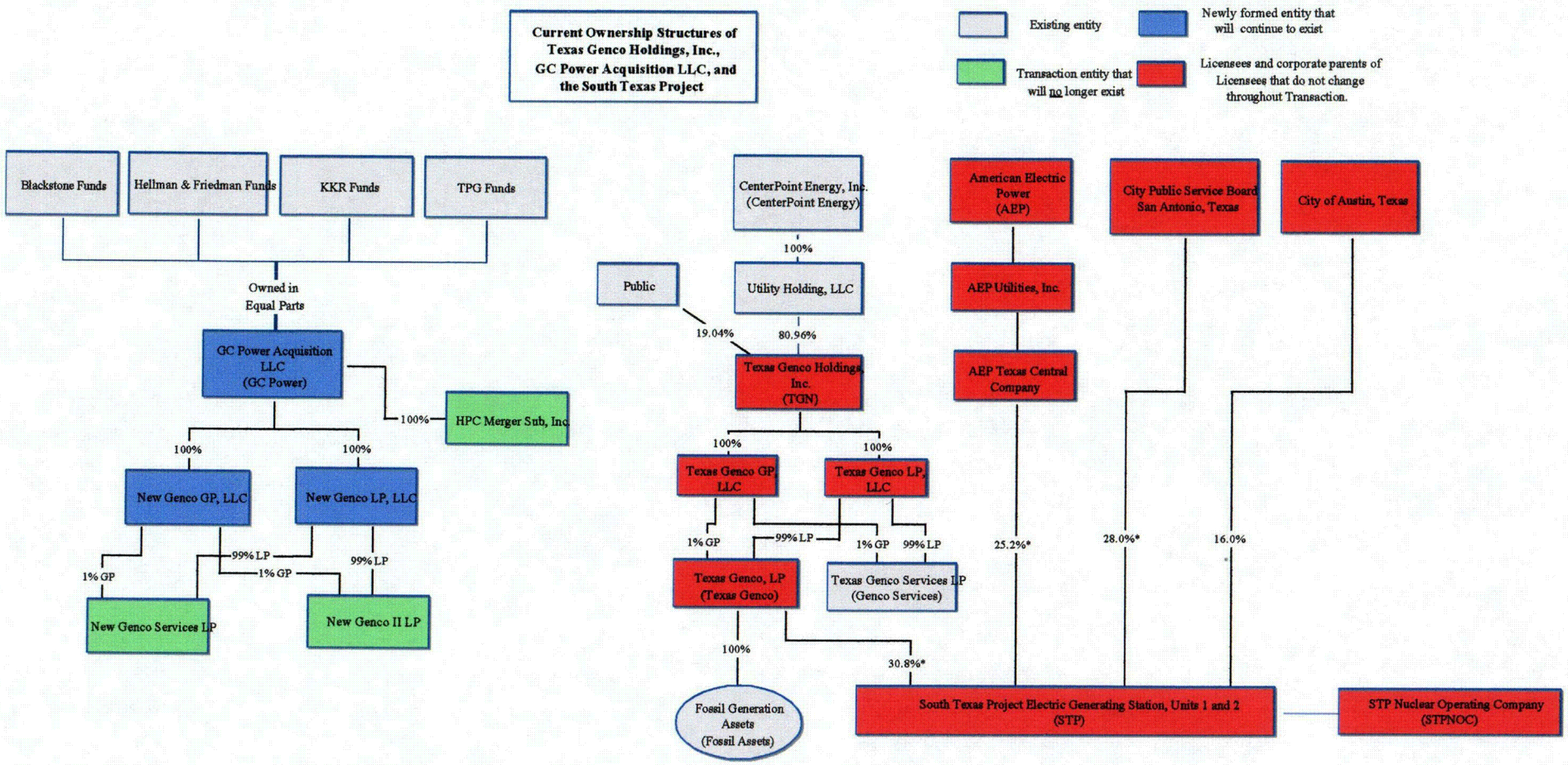
Subscribed and sworn to me, a Notary Public, in and for the State of Texas, this 16TH day of October, 2004.

Lynne E. Purdue
Notary Public in and for the State of Texas

LYNNE E. PURDUE
Notary Public, State of Texas
My Commission Expires
March 30, 2008

Figure 1

Current Ownership Structures of Texas Genco Holdings, Inc., GC Power Acquisition LLC, and the South Texas Project

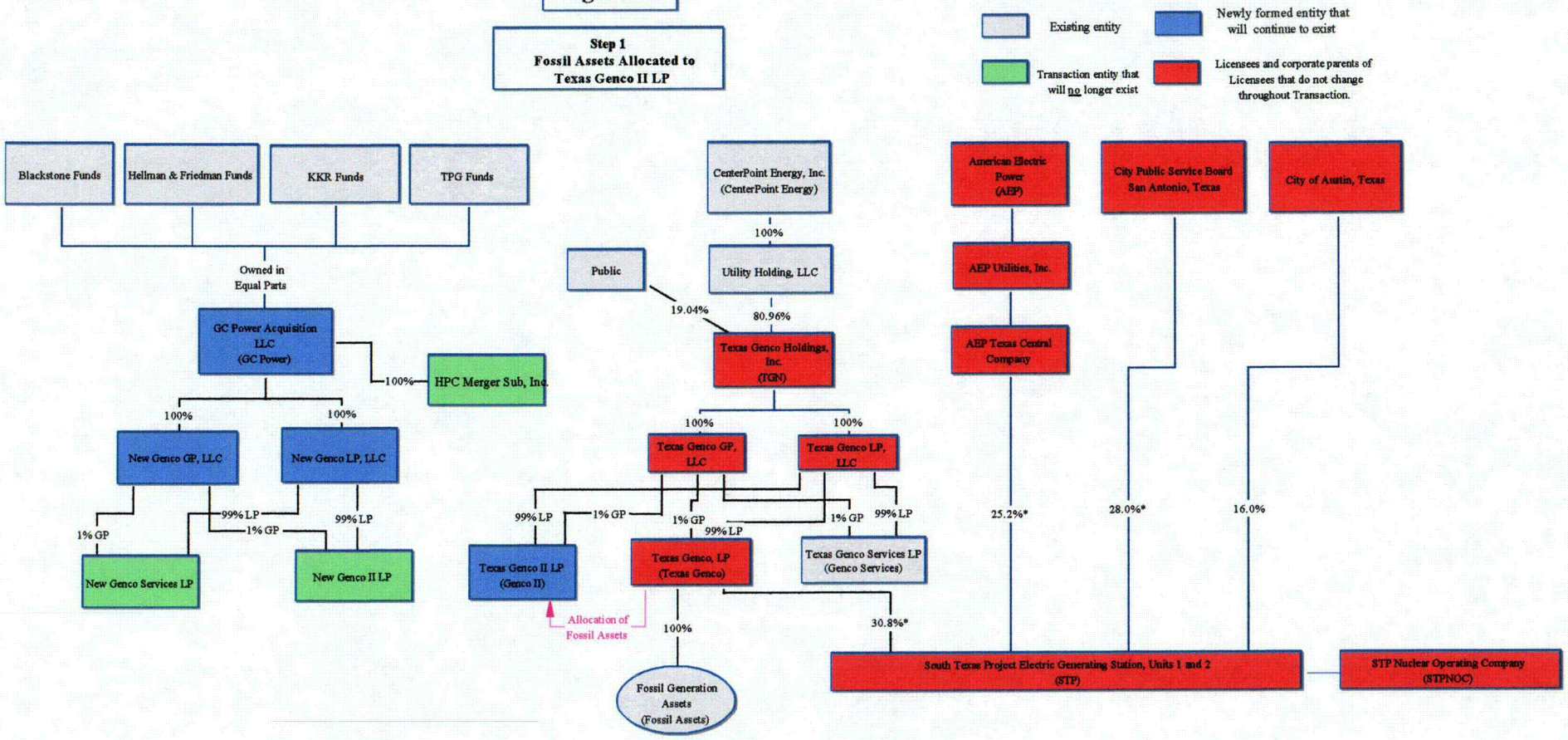


* Subject to change pending ROFR Acquisition

CO1

Figure 1A

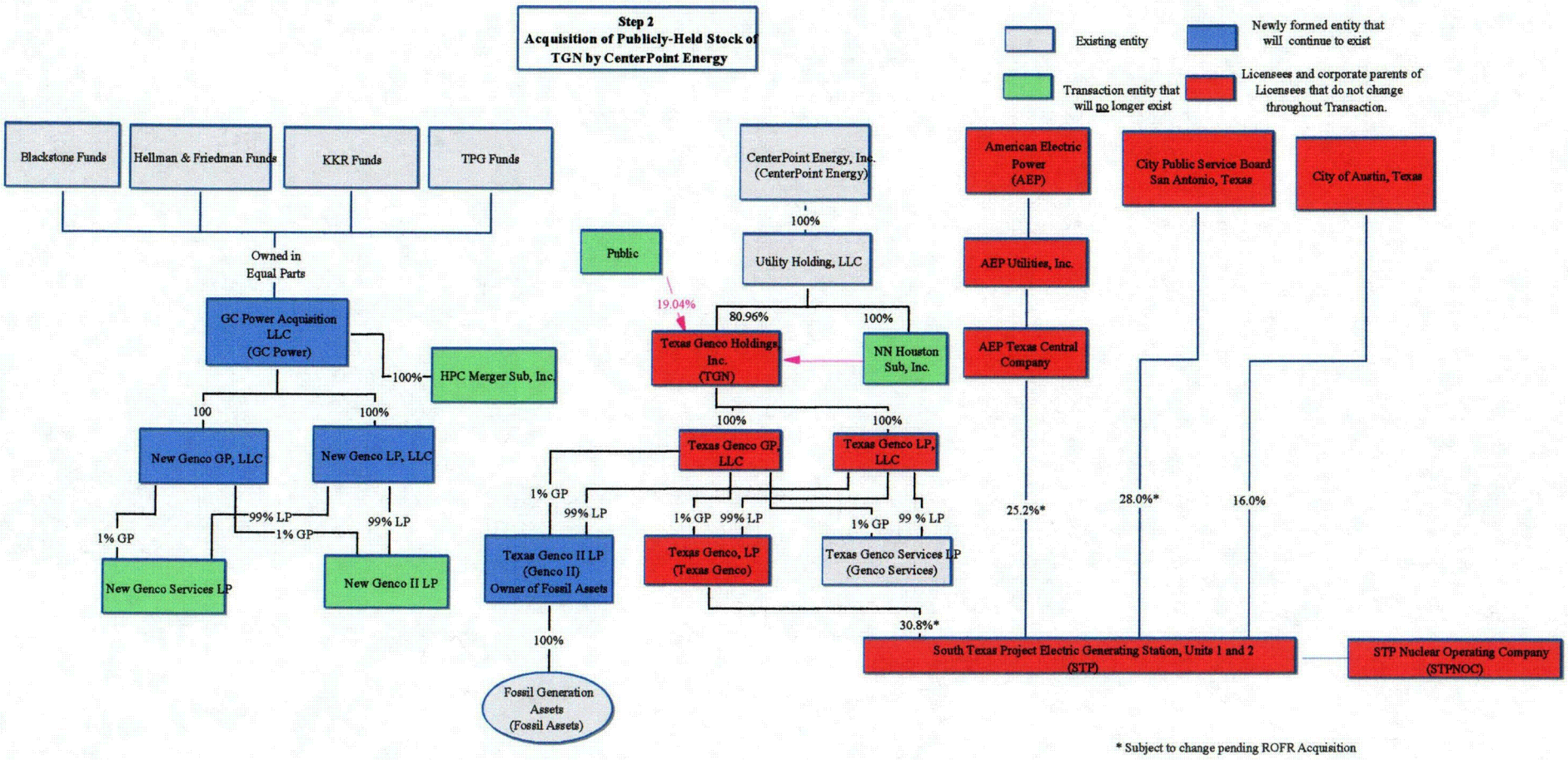
Step 1
Fossil Assets Allocated to Texas Genco II LP



* Subject to change pending ROFR Acquisition

C07

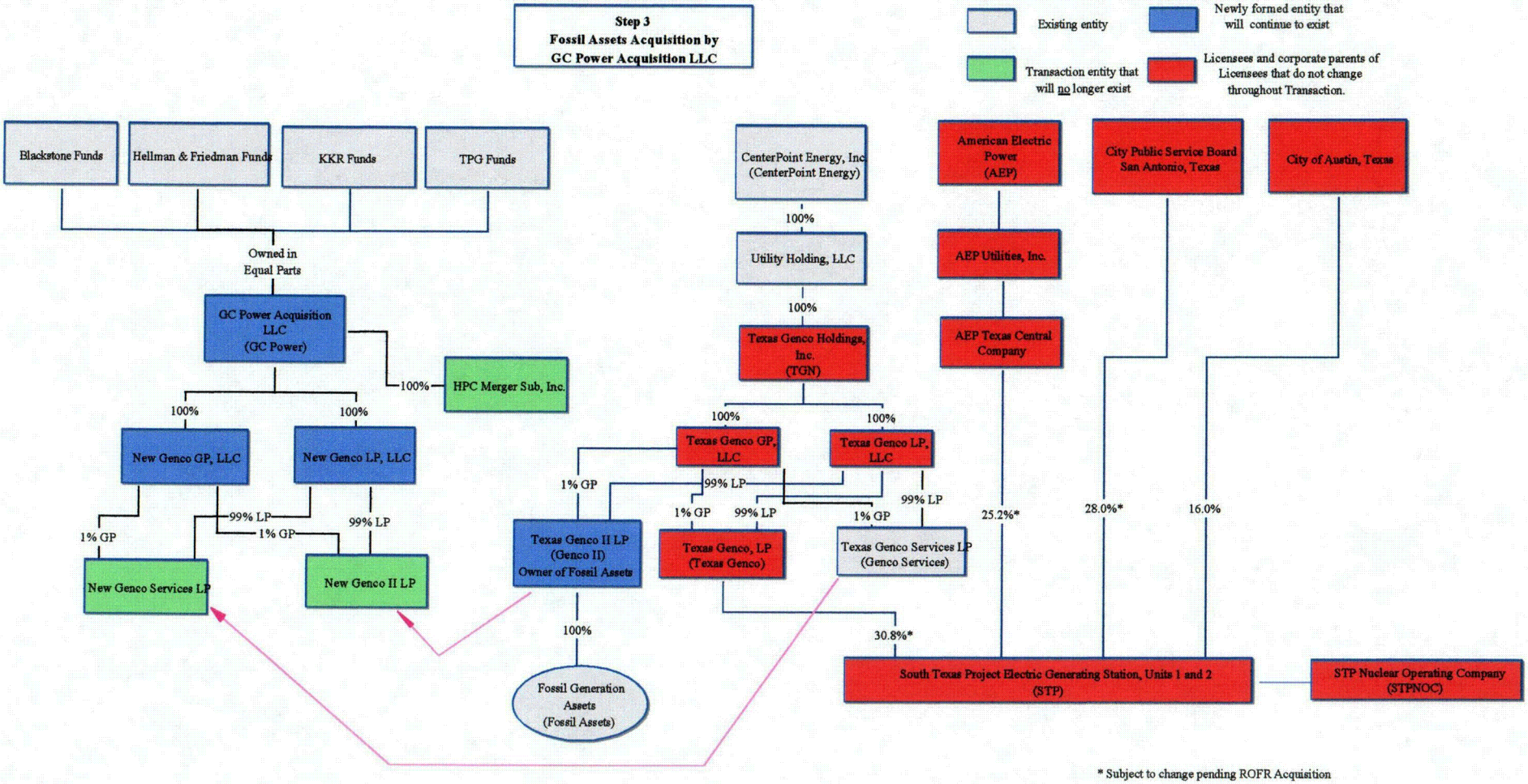
Figure 1B



C03

Figure 1C

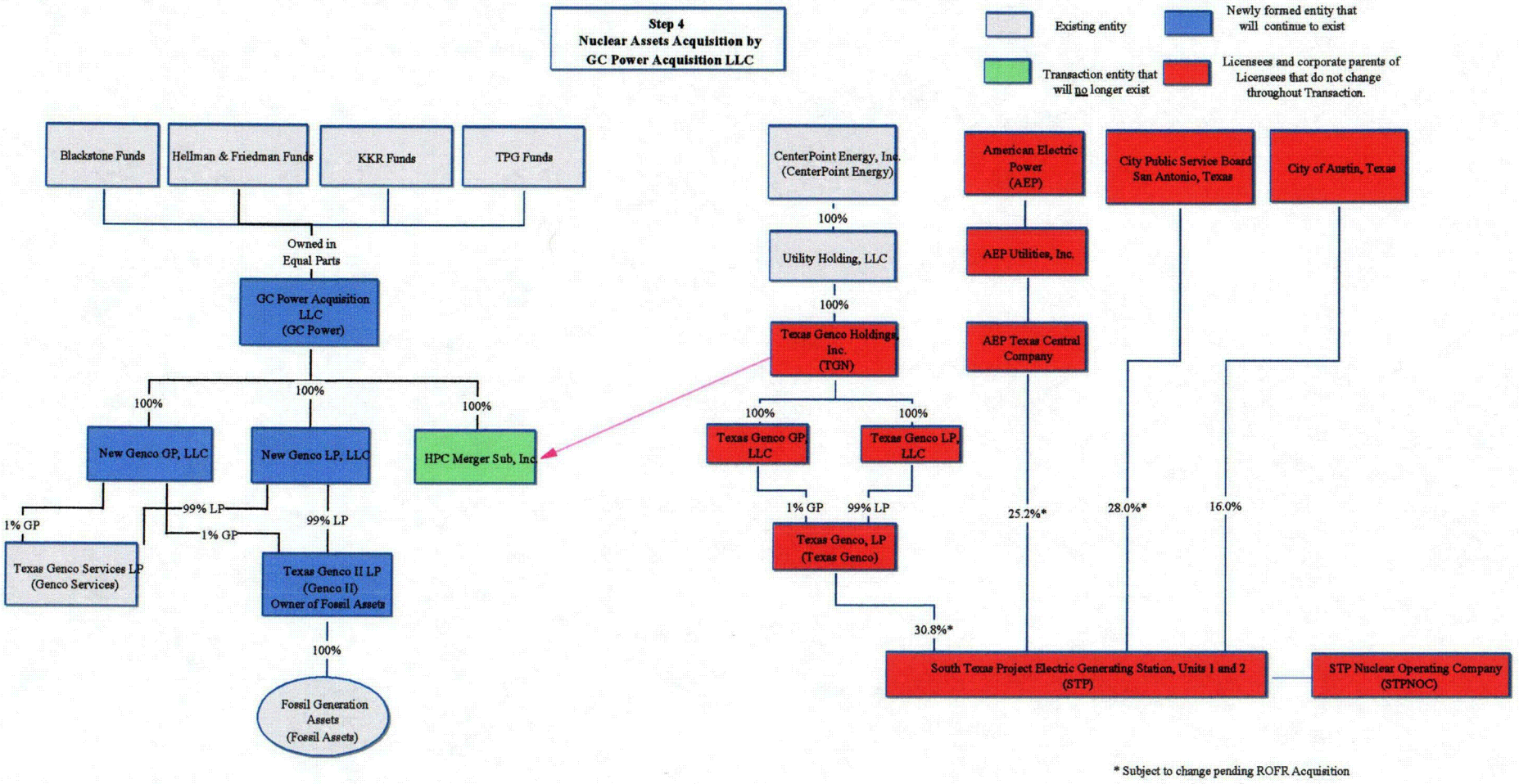
Step 3
Fossil Assets Acquisition by
GC Power Acquisition LLC



* Subject to change pending ROFR Acquisition

Figure 1D

Step 4
Nuclear Assets Acquisition by GC Power Acquisition LLC

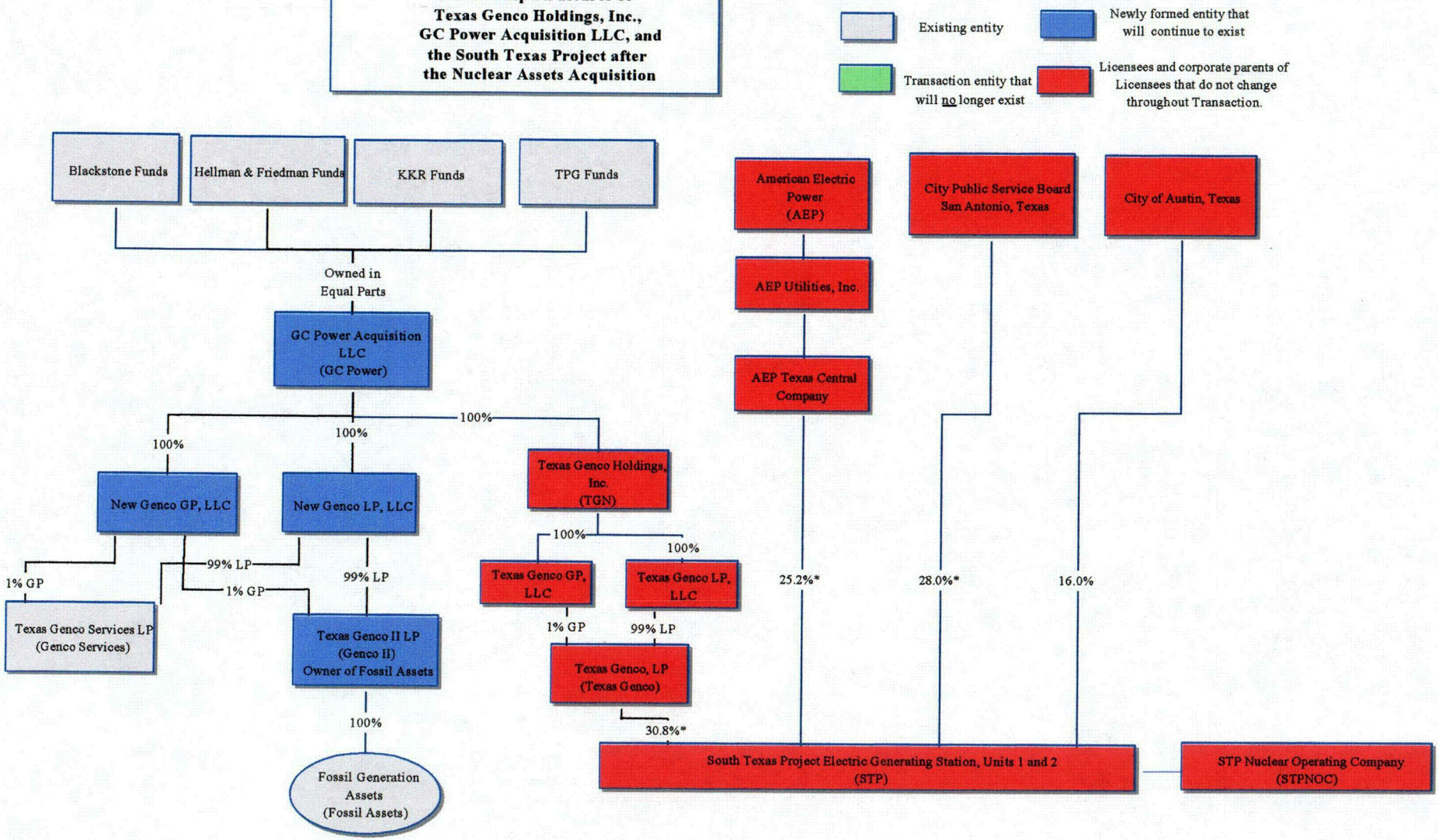


* Subject to change pending ROFR Acquisition

C05

Figure 1E

Ownership Structures of Texas Genco Holdings, Inc., GC Power Acquisition LLC, and the South Texas Project after the Nuclear Assets Acquisition



* Subject to change pending ROFR Acquisition

C06

APPLICATION FOR ORDER APPROVING

INDIRECT TRANSFER OF CONTROL OF LICENSES

October 12, 2004

---

submitted by

STP Nuclear Operating Company,

on behalf of Texas Genco, LP and CenterPoint Energy, Inc.,

and

GC Power Acquisition LLC

South Texas Project Electric Generating Station, Units 1 and 2
NRC Facility Operating License Nos. NPF-76 and NPF-80
Docket Nos. STN 50-498 and STN 50-499

TABLE OF CONTENTS

Page

ATTACHMENTS

Figure 1	Diagram of the Current Ownership Structures of Texas Genco Holdings, Inc., GC Power Acquisition LLC, and STP Electric Generating Station, Units 1 & 2
Figures 1A-1D	Diagrams of the Transaction
Figure 1E	Diagram of the Ownership Structures of Texas Genco Holdings, Inc., GC Power Acquisition LLC, and STP Electric Generating Station, Units 1 & 2 after the Nuclear Acquisition
Attachment 1	Transaction Agreement
Attachment 2	2003 Annual Report (Form 10-K) for Texas Genco Holdings, Inc.
Attachment 3	Biographical Summaries for the Chief Executive Officer and Board of Managers of GC Power Acquisition LLC
Attachment 4	10 CFR 2.390 Affidavits of David G. Tees and Jack A. Fusco
Attachment 5	Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for Texas Genco Holdings, Inc. for the Period between the Closing of the Fossil Assets Acquisition and the Closing of the Nuclear Assets Acquisition (Non-Proprietary Versions)
Attachment 6	Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for the Consolidated Business of GC Power Acquisition LLC (Non-Proprietary Versions)
Attachment 7	Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for Texas Genco, LP after the Closing of the Nuclear Assets Acquisition (Non-Proprietary Versions)
Attachment 8	2004 Decommissioning Funding Status Report

Proprietary Addenda

Attachment 5A	Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for Texas Genco Holdings, Inc. for the Period between the Closing of the Fossil Assets Acquisition and the Closing of the Nuclear Assets Acquisition (Proprietary Versions)
Attachment 6A	Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for the Consolidated Business of GC Power Acquisition LLC (Proprietary Versions)
Attachment 7A	Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for Texas Genco, LP after the Closing of the Nuclear Assets Acquisition (Proprietary Versions)

GLOSSARY

Blackstone	The Blackstone Group
Blackstone Funds	Blackstone Partners and/or other investment vehicles under common control with Blackstone Partners
Blackstone Partners	Blackstone Capital Partners IV L.P.
CenterPoint Energy	CenterPoint Energy, Inc.
CenterPoint Houston	CenterPoint Houston Electric, LLC
ERCOT	Electric Reliability Council of Texas, Inc.
Fossil Assets	All fossil generation assets and liabilities currently held by Texas Genco
GC Power	GC Power Acquisition LLC
Genco II	Texas Genco II, LP
Genco Services	Texas Genco Services, LP
Fossil Assets Acquisition	Acquisition by GC Power of the Fossil Assets and Genco Services (Step 3 of Transaction)
Hellman & Friedman	Hellman & Friedman LLC
Hellman & Friedman Funds	Hellman & Friedman Capital Partners IV, L.P., and other investment vehicles under common control with Hellman & Friedman Capital Partners IV, L.P.
J. Aron	J. Aron & Company, a unit of Goldman, Sachs & Co.
KKR	Kohlberg Kravis Roberts & Co. L.P.
KKR Funds	KKR Millennium Fund and other investment vehicles under common control with KKR Millennium Fund
KKR Millennium Fund	KKR Millennium Fund (Energy) L.P.
MWe	Megawatt electric
NRC	Nuclear Regulatory Commission
NRR	Office of Nuclear Reactor Regulation
Nuclear Assets	All STP nuclear assets and liabilities currently held by Texas Genco
Nuclear Assets Acquisition	Acquisition of the Nuclear Assets by GC Power (Step 4 of Transaction)
NYSE	New York Stock Exchange
PUHCA	Public Utility Holding Company Act of 1935, as amended
PURA	Public Utility Regulatory Act of the State of Texas
REI	Reliant Energy, Incorporated
REI Transfer Order	Order Approving the Direct Transfer of Licenses from Reliant Energy Incorporated to Texas Genco, LP, Approving Conforming Amendments, and Approving Indirect Transfers, TAC Nos. MB2140 AND MB2141, Safety Evaluation Report (Dec. 20, 2001)
ROFR	Right of First Refusal
ROFR Acquisition	Transaction by which Texas Genco will acquire an additional 13.2% interest in STP (subject to a separate NRC application)

ROFR Application	Application filed by STPNOC that requests NRC approval of the ROFR Acquisition
SEC	Securities and Exchange Commission
STP	South Texas Project Electric Generating Station, Units 1 and 2
STPNOC	STP Nuclear Operating Company
STP Operating Agreement	South Texas Project Operating Agreement
STP Participation Agreement	Amended and Restated South Texas Project Participation Agreement
Texas Commission	Public Utility Commission of Texas
Texas Electric Restructuring Law	Senate Bill 7 enacted by Texas Legislature in 1999
Texas Genco	Texas Genco, LP
Texas Genco Entities	Texas Genco Holdings, Inc., Texas Genco GP, LLC, Texas Genco LP, LLC, and Texas Genco, LP
TGN	Texas Genco Holdings, Inc.
TPG	Texas Pacific Group
TPG Funds	TPG Partners and other investment vehicles under common control with TPG Partners
TPG Partners	TPG Partners IV, L.P.
Transaction	Transaction by which CenterPoint Energy will sell TGN to GC Power. Includes both the Fossil Assets Acquisition and Nuclear Assets Acquisition.
Transaction Agreement	Transaction purchase agreement, dated July 21, 2004, by which CenterPoint Energy will sell TGN to GC Power.

I. INTRODUCTION

On July 21, 2004, CenterPoint Energy Inc. (CenterPoint Energy) entered into a definitive agreement with GC Power Acquisition LLC (GC Power) pursuant to which GC Power agreed to acquire 100% of Texas Genco, LP (Texas Genco), including its current 30.8% undivided ownership interest in the South Texas Project Electric Generating Station, Units 1 and 2 (STP), its related interest in STP Nuclear Operating Company (STPNOC), a not-for-profit Texas corporation, which is the licensed operator of STP, and its rights of first refusal on the remaining ownership interests in STP.

This Application requests the consent of the Nuclear Regulatory Commission (NRC), pursuant to 10 CFR 50.80, to the proposed indirect transfer of control of Texas Genco's interest in STP described herein. The indirect transfer of control of Texas Genco also results in an indirect transfer of Texas Genco's related interest in STPNOC. However, this is not a controlling interest in STPNOC, and therefore, there will be no transfer of control of STPNOC's licenses to operate STP on behalf of the owners. If the NRC concludes that the indirect transfer of Texas Genco's interest in STPNOC also requires prior NRC consent, such consent is hereby requested.

STP is composed of two 1,268 megawatt electric (MWe) (net) (3,853 MWt) nuclear generating units, each consisting of a Westinghouse four-loop pressurized water reactor and other associated plant equipment, and related site facilities. STP is located in southwest Matagorda County, approximately 12 miles south-southwest of Bay City and 10 miles north of Matagorda Bay. STPNOC is the licensed operator for STP, pursuant to licenses issued by the NRC. Currently, the two units are jointly owned by four entities in the following percentages:

Texas Genco	30.8%
City Public Service Board of San Antonio	28.0%
AEP Texas Central Company	25.2%
City of Austin, Texas	16.0%

These same entities hold related interests in STPNOC.

Texas Genco's 30.8% ownership interest is expected to increase as the result of exercising its right of first refusal (ROFR) under the Amended and Restated South Texas Project Participation Agreement (STP Participation Agreement), pursuant to which Texas Genco has entered into a Purchase and Sale Agreement dated as of September 3, 2004, to acquire an additional 13.2% undivided ownership interest in STP from AEP Texas Central Company (ROFR Acquisition). STPNOC will file a separate application with the NRC for approval of the license transfers contemplated by the ROFR Acquisition (ROFR Application). As a result of the ROFR Acquisition, Texas Genco's ownership share in STP, and the related interest in STPNOC, would increase to 44%. CenterPoint Energy and GC Power intend, subject to NRC approval, to close the sale of Texas Genco's indirect parent company, Texas Genco Holdings, Inc., to GC Power on or about the same time as the closing, subject to NRC approval, of the ROFR Acquisition. Assuming that NRC approves the ROFR Application prior to or concurrent with the approval of this Application, the NRC's consent sought by the present Application should encompass a total ownership interest in STP of 44%. For this reason, the financial qualifications and decommissioning funding information provided in this Application are presented for the expected 44% interest. Assuming NRC approval of the transfer of interests from AEP Texas Central Company, the entities will own the following percentages of STP:

Texas Genco	44.0%
City Public Service Board of San Antonio	40.0%
AEP Texas Central Company	0.0%
City of Austin, Texas	16.0%

Texas Genco is the second largest generator in the Electric Reliability Council of Texas, Inc. (ERCOT) market, the largest power market in the State of Texas. Under Texas law, Texas Genco is a registered power generation company, which is not subject to cost-based rate regulation. In addition, on October 21, 2003, the Federal Energy Regulatory Commission (FERC) certified Texas Genco as an exempt wholesale generator under Section 32 of the Public Utility Holding Company Act of 1935, as amended (PUHCA). As of June 30, 2004, Texas Genco owned and operated a total net generating capacity of 14,153 megawatts, including its 30.8% interest in each of the STP units. Texas Genco is an indirect subsidiary of Texas Genco Holdings, Inc. (TGN),[1] which is publicly traded on the New York Stock Exchange (NYSE) under the symbol "TGN." A simplified organizational chart depicting the current ownership structure of Texas Genco is provided in Figure 1. The Texas Genco Entities[2] have an equity capitalization of approximately $3.65 billion. By Order dated December 20, 2001, the NRC previously determined that Texas Genco was financially qualified to own its present 30.8% interest in STP.

Since January 1, 2002, Texas Genco's generation business has been operated as an independent power producer, with output sold at market prices to a variety of purchasers. Prior to that time, the assets of Texas Genco, including the 30.8% interest in STP and its related interest in STPNOC, were owned by the regulated Houston utility, Reliant Energy, Incorporated (REI).

[1] Texas Genco is a Texas limited partnership. It has a general partner, Texas Genco GP, LLC (1%), and a limited partner, Texas Genco LP, LLC (99%), both of which are wholly-owned by TGN and neither of which have any assets other than their respective interests in Texas Genco and interests in Texas Genco Services, LP, a Texas limited partnership that owns certain assets unrelated to TGN's wholesale generation business.

[2] The Texas Genco Entities include Texas Genco Holdings, Inc., Texas Genco GP, LLC, Texas Genco LP, LLC, and Texas Genco, LP.

Under Chapter 39 of the Public Utility Regulatory Act of the State of Texas (PURA) and Senate Bill 7 enacted by the Texas legislature in 1999 (Texas Electric Restructuring Law) and related rules and orders of the Public Utility Commission of Texas (Texas Commission), REI was required to split its integrated electric utility operations into separate generation, transmission and distribution, and retail sales companies. Pursuant to those requirements, REI formed CenterPoint Energy as a new holding company and transferred all of its previously regulated generating facilities to Texas Genco, which was then a wholly-owned subsidiary of CenterPoint Energy. CenterPoint Energy is publicly traded on the NYSE under the symbol "CNP" and is a registered holding company subject to regulation by the Securities and Exchange Commission (SEC) under PUHCA.

On January 6, 2003, in accordance with its Business Separation Plan, CenterPoint Energy distributed to its shareholders approximately 19% of the common stock of TGN. This action was taken in order to allow the Texas Commission to determine the market value of the Texas Genco assets for purposes of its determination of CenterPoint Energy's stranded costs in 2004, as required by the Texas Electric Restructuring Law. The remaining approximately 81% of the stock of TGN continues to be owned by CenterPoint Energy through its wholly-owned subsidiary, Utility Holding LLC, a Delaware limited liability company that holds the stock of TGN and other businesses of CenterPoint Energy.

On July 21, 2004, CenterPoint Energy and TGN entered into a Transaction Agreement with GC Power. Under the terms of the Transaction Agreement, CenterPoint Energy agreed to repurchase the approximate 19% share of TGN's common stock held by the public and to sell that interest plus its 81% interest in TGN to GC Power. See Attachment 1. GC Power is a newly formed entity created for the purpose of acquiring TGN and its assets and liabilities. GC Power

is owned in equal parts by investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P., and Texas Pacific Group, four of the largest private investment firms in the world. As a result of the Transaction, GC Power will be one of the leading wholesale electric power generating companies in Texas.

Through this Application, STPNOC, on behalf of Texas Genco and CenterPoint Energy, and GC Power request that, in accordance with 10 CFR 50.80, NRC consent to the indirect transfer of control of Texas Genco's interest in STP that will result from the transfer of TGN by CenterPoint Energy to GC Power. The information contained in this Application demonstrates that Texas Genco will possess the requisite qualifications to own its undivided ownership interest in STP and its related interest in STPNOC. The proposed indirect transfer of control of Texas Genco's interest in STP will not result in any change in the role of STPNOC as the licensed operator of the facility, will not result in any changes to STPNOC's technical qualifications, and will not result in any physical changes to the facility. Moreover, the proposed indirect transfer of control of Texas Genco's interest in STP will not result in any change to the operations and facility operating licenses of STP or the management of STPNOC. The ROFR Acquisition will increase Texas Genco's ownership interest in STP to 44%, but will not result in the transfer of a controlling interest in STPNOC and therefore does not change the nature of this Application. STPNOC will remain the licensee with exclusive operating authority and GC Power will not acquire control of STPNOC's licenses to operate the units on behalf of the owners. Because Texas Genco will remain the licensee of STP and no change in the STP licenses will occur, no conforming amendment to the STP licenses is necessary.

II. STATEMENT OF PURPOSE OF THE TRANSFERS AND NATURE OF THE TRANSACTION MAKING THE TRANSFERS NECESSARY OR DESIRABLE

The sale of CenterPoint Energy's interest in Texas Genco is consistent with CenterPoint Energy's undertakings pursuant to the Business Separation Plan approved in December 2000 by the Texas Commission pursuant to the Texas Electric Restructuring Law. CenterPoint Energy will sell TGN to GC Power in a transaction involving four steps (Transaction). Diagrams of each step of the Transaction are provided in Figures 1A-1D. The Transaction will not affect the operation of STP and will not alter the status of Texas Genco as a licensee under the STP licenses. Moreover, throughout each step of the Transaction, Texas Genco will continue to be financially qualified to own and maintain its interest in STP.

Initially, all fossil generation assets and liabilities currently held by Texas Genco (Fossil Assets) will be allocated to Texas Genco II, LP (Genco II), a newly organized limited partnership and wholly-owned indirect subsidiary of TGN. See Figure 1A. Texas Genco will retain its interest in the STP assets and liabilities (Nuclear Assets). The allocation of the Fossil Assets to Genco II will be accomplished through a multi-survivor merger under Texas corporate law in which both Texas Genco and Genco II will survive. Neither ownership nor control of TGN, Texas Genco, Texas Genco's interests in STP, or the STP licenses, will be transferred to Genco II nor altered in any way as a result of this step in the Transaction.[3] After this initial step, Texas Genco will continue to be financially qualified to own and maintain its interest in STP as described in Section VI.A. herein.

[3] Conditions 2.C.8 and 2.C.10 of the STP operating licenses NPF-80 and NPF-76, respectively, provide that Texas Genco shall provide to the Director, Office of Nuclear Reactor Regulation (NRR) a copy of any application to transfer any facilities for the production of electric energy exceeding 10% of their net utility plant from CenterPoint Energy or its subsidiaries to a proposed direct or indirect parent or an affiliated company. Contemporaneously with this Application, STPNOC, on behalf of Texas Genco, is filing with the NRC a Notice of Intent to Transfer Generation Assets.

Subsequent to the allocation of the Fossil Assets to Genco II, CenterPoint Energy will acquire all of the publicly-held stock of TGN that had been distributed to shareholders in 2003 as described in Section I of this Application. See Figure 1B. To effect this step, TGN will merge with NN Houston Sub, Inc., pursuant to which the publicly-held stock of TGN will be exchanged for cash and TGN will be the surviving entity. NN Houston Sub, Inc. is a Texas corporation and an indirect, wholly-owned subsidiary of CenterPoint Energy, which was organized solely for the purpose of entering into the Transaction Agreement and completing this merger transaction. There will be no change in the assets or control of TGN, or its subsidiary Texas Genco, as a result of this step in the Transaction.

On the first day after the acquisition by CenterPoint Energy of the publicly-held stock of TGN, or as soon as possible thereafter, GC Power will acquire the Fossil Assets (Fossil Assets Acquisition).[4] See Figure 1C. Specifically, a Texas limited partnership to be formed by GC Power as a wholly-owned indirect subsidiary of GC Power, will merge with and into Genco II, with Genco II being the surviving entity as an indirect wholly-owned subsidiary of GC Power.

After NRC approval of the indirect transfer of control of Texas Genco's interest in STP to GC Power, the final step will complete the sale of the Nuclear Assets to GC Power through a merger of TGN and a subsidiary of GC Power (Nuclear Assets Acquisition). See Figure 1D. Specifically, HPC Merger Sub, Inc., a newly formed, wholly-owned subsidiary of GC Power, will merge with and into TGN, with TGN being the surviving corporation as a direct wholly-owned subsidiary of GC Power. When this last step is complete, the Nuclear Assets owned by Texas Genco and the Fossil Assets owned by Genco II will be under common control of GC

[4] Certain assets unrelated to TGN's wholesale generation business which are currently held by Texas Genco Services, LP such as real estate, leases, and service contracts will also be transferred to GC Power as part of this step of the Transaction.

Power. See Figure 1E. Throughout each step of the Transaction, including this final step, Texas Genco will remain financially qualified to own and maintain its interest in STP and its related interest in STPNOC as described in Section VI.A herein.

The acquisition by CenterPoint Energy of the publicly held stock of TGN and the acquisition by GC Power of the Fossil Assets are independent of the closing of the Nuclear Assets Acquisition. The parties have agreed to separate the sale of the Fossil Assets from the sale of the Nuclear Assets in order to expedite receipt of sale proceeds by CenterPoint Energy and the public stockholders of TGN. Only the final step of the Transaction – the Nuclear Assets Acquisition – transfers the control of TGN, and therefore, indirectly transfers control of Texas Genco and its interest in STP. Hence, this last step of the Transaction constitutes an indirect transfer of control of Texas Genco's interest in the STP licenses under 10 CFR 50.80. This Application seeks NRC consent to such indirect transfer.

III. GENERAL CORPORATE INFORMATION

A. Texas Genco Entities

Detailed information regarding the business and management of the Texas Genco Entities is provided in the 2003 Annual Report for TGN (Form 10-K). See Attachment 2. However, certain key information is provided below.

1. Names of Texas Genco Entities

Texas Genco Holdings, Inc.
Texas Genco GP, LLC
Texas Genco LP, LLC
Texas Genco, LP

2. Address

1111 Louisiana Street, Houston, TX 77002

3. Description of Business or Occupation

The Texas Genco Entities constitute one of the largest wholesale electric generating companies in the United States. Through its subsidiaries, TGN owns 62 generating units at 12 electric power generation facilities located in Texas, including a 30.8% interest in STP today and an additional 13.2% interest to be purchased pursuant to the ROFR Acquisition. TGN sells electric generation capacity, energy, and ancillary services within the ERCOT market, which consists of the majority of the population centers in Texas and facilitates reliable grid operations for approximately 85% of the demand for power in the state.

4. Organization and Management

a. States of Establishment and Place of Business

TGN was incorporated in Texas in August 2001 and maintains its principal place of business in Texas. Texas Genco is a Texas limited partnership that is wholly-owned indirectly by TGN. Texas Genco LP, LLC is a Delaware limited liability company, which directly owns a 99% limited partnership interest in Texas Genco. Texas Genco GP, LLC is a Texas limited liability company, which directly owns a 1% general partnership interest in Texas Genco.

b. Anticipated Changes in Directors and Executive Officers

Texas Genco does not have any officers or directors. Control of Texas Genco is exercised by its General Partner, Texas Genco GP, LLC, by and through its Manager, President and Chief Executive Officer. It is expected that the officers and directors of the Texas Genco Entities will remain in their respective positions subsequent to the Fossil Assets Acquisition and until NRC approves the indirect transfer of Texas Genco's interest in the STP licenses.

Replacements will be named by GC Power prior to NRC approval of the indirect transfer of Texas Genco's interest in the STP licenses and will assume their roles in the management of TGN and Texas Genco upon the closing of the Nuclear Assets Acquisition.

B. GC Power Acquisition LLC

1. Name

GC Power Acquisition LLC

2. Address

12301 Kurland Drive, 4th Floor
Houston, TX 77034

3. Description of Business or Occupation

a. Ownership Structure

GC Power is a Delaware limited liability company that was formed by its members for the purpose of acquiring the electric generation business of Texas Genco as described in this Application. The current ownership structure of GC Power is illustrated in Figure 1. The members of GC Power, each of which owns 25% of GC Power, are: Blackstone Funds, investment vehicles affiliated with The Blackstone Group (Blackstone); Hellman & Friedman Funds, investments vehicles affiliated with Hellman & Friedman LLC (Hellman & Friedman); KKR Funds, investment vehicles affiliated with Kohlberg Kravis Roberts & Co. L.P. (KKR); and TPG Funds, investment vehicles affiliated with Texas Pacific Group (TPG). Each of the members of GC Power are investment vehicles organized as limited partnerships, which are owned predominantly by their respective limited partners, but controlled solely by their respective general partners.

The Blackstone Funds are Delaware limited partnerships that are controlled by their general partner, Blackstone Management Associates IV L.L.C., a Delaware limited liability

company. Blackstone Management Associates IV L.L.C. controls the investment decisions of Blackstone Funds, including their investment in GC Power. Blackstone Management Associates IV L.L.C. is in turn owned and controlled by the Founding Members and Senior Managing Directors of Blackstone.

The Hellman & Friedman Funds are California limited partnerships that are controlled by a common general partner, H&F Investors IV, LLC, a California limited liability company. H&F Investors IV, LLC controls the investment decisions of all of the Hellman & Friedman Funds, including its investment in GC Power. H&F Investors IV, LLC is in turn owned and controlled by the Managing Directors of Hellman & Friedman.

The KKR Funds are Delaware limited partnerships that are controlled by their respective general partners, each of which is in turn owned and controlled by the members of KKR.

The TPG Funds are Delaware limited partnerships that are controlled by their general partners, TPG GenPar III, L.P. and TPG GenPar IV, L.P., as applicable, both Delaware limited partnerships. TPG GenPar III, L.P. and TPG GenPar IV, L.P., as applicable, control the investment decisions of the TPG Funds, including their investment in GC Power. TPG GenPar III, L.P. and TPG GenPar IV, L.P. are owned and controlled by TPG Advisors III, Inc. and TPG Advisors IV, Inc., respectively, both Delaware corporations. TPG Advisors III, Inc. and TPG Advisors IV, Inc. are controlled by the principals of TPG.

b. Background of Members

Blackstone, founded in 1985, is a private investment and advisory firm with offices in New York City, Atlanta, Boston, London and Hamburg. Blackstone has raised a total of approximately $32 billion for alternative asset investing since its formation. Over $14 billion of that has been for private equity investing, including Blackstone Capital Partners IV, the largest

institutional private equity fund at $6.45 billion. Blackstone has made private equity investments throughout the energy sector including petroleum refining, oil and gas exploration, and coal mining. In addition to Private Equity Investing, Blackstone's core businesses are Private Real Estate Investing, Corporate Debt Investing, Marketable Alternative Asset Management, Corporate Advisory, and Restructuring and Reorganization Advisory.

Hellman & Friedman is a San Francisco-based private equity investment firm with additional offices in New York City and London. Since its founding in 1984, Hellman & Friedman, through its affiliated investment funds, has raised and managed over $8 billion of committed capital and invested in almost 50 companies. Representative investments include Axel Springer AG, ProSieben Sat. 1 AG, Formula One Holdings, Ltd, Arch Capital Group Limited, the NASDAQ Stock Market, Inc., Blackbaud, Inc., Young & Rubicam, Inc., Western Wireless Corporation, and Franklin Resources, Inc.

KKR is one of the world's oldest and most experienced private equity firms specializing in management buyouts, with offices in New York City, Menlo Park, California, and London. KKR's investment approach is focused on acquiring attractive business franchises and working closely with management over the long-term to design and implement value-creating strategies. Over the past 28 years, KKR has raised approximately $25 billion in private equity funds and invested over $19 billion of equity in more than 110 transactions.

TPG, founded in 1993 and based in Fort Worth, San Francisco, and London, is a private investment partnership managing over $13 billion in assets. Over the past several years, TPG has built an industry practice focused on the energy and power sectors, including Denbury Resources and Portland General Electric, the licensee of the Trojan Nuclear Plant (pending regulatory approval and satisfaction of certain other conditions). Additionally, TPG has invested

in world-class franchises across a range of other industries, including airlines (Continental, America West), branded consumer franchises (Burger King, Del Monte, Ducati), leading retailers (Petco, J.Crew, Debenhams - UK), healthcare companies (Oxford Health Plans, Quintiles Transnational), and technology companies (ON Semiconductor, MEMC, Seagate).

4. Organization and Management

a. State of Establishment and Place of Business

GC Power is a Delaware limited liability company. The states of establishment of GC Power's members and their respective general partners are provided in the foregoing section.

b. Directors and Executive Officers

GC Power is expected to have an eleven (11) member Board of Managers, which will be comprised of two (2) members appointed by each of Blackstone Funds, the Hellman & Friedman Funds, KKR Funds and TPG Funds, two (2) independent members elected by a majority of the Board, and the CEO. Currently, GC Power's Board of Managers is comprised of the following individuals, all of whom are United States citizens:

Name	Affiliation
David Foley	Blackstone
Philip Hammarskjold	Hellman & Friedman
Marc Lipschultz	KKR
Michael MacDougall	TPG

Biographies of these individuals are contained in Attachment 3.

GC Power has appointed Jack A. Fusco, a United States citizen, as its Chief Executive Officer. Mr. Fusco's biography is contained in Attachment 3.

Sufficiently in advance of the closing of the Nuclear Assets Acquisition to allow NRC review, the seven (7) additional members of the Board of Managers will be named and GC Power will notify the NRC of their identities in a supplement to this Application. One additional manager will be appointed by each of Blackstone Funds, Hellman & Friedman Funds, KKR Funds and TPG Funds, two (2) independent members will be elected by a majority of the Board, and CEO Jack Fusco will join the Board.

IV. FOREIGN OWNERSHIP OR CONTROL

After the closing of the Nuclear Assets Acquisition, Texas Genco, which will own a minority interest in STP, will not be owned, controlled or dominated by any alien, foreign corporation, or foreign government. As described above, Texas Genco is owned by TGN, which will be acquired by GC Power. Texas Genco, TGN, and GC Power are all domiciled in the United States. In addition, all of the members of GC Power are domestic limited partnerships, which are controlled by their respective general partners, each of which is domiciled in the United States, and each of which is ultimately controlled by United States citizens.

A minority, non-controlling interest in each of the members of GC Power is held by foreign entities or other foreign persons as indicated in the table immediately below. As a result, a minority interest, not more than approximately 21%, of GC Power is indirectly held by foreign entities or other foreign persons. The foreign investment in GC Power is dispersed among a variety of investors, none of which represents more than 4% of the total investment in GC Power. As such, the investment by any individual foreign investor should be considered de minimis for NRC's purposes in evaluating the foreign investment involved in the indirect license transfer described in this application. Notwithstanding this limited foreign investment, each member's general partner will exercise 100% control over the governance of the member and

none of the members' general partners is, or is controlled by, a foreign person or entity. Therefore, irrespective of the foreign investment, none of the members of GC Power are, and therefore GC Power is not, controlled by foreign entities or other foreign persons. Hence, no foreign person or entity will have the power, direct or indirect, to control or decide matters affecting the management or operations of GC Power or Texas Genco. Accordingly, this foreign investment participation in the members of GC Power will not be inimical to the common defense and security of the United States.

GC Power Member	Foreign Interest (%)	Foreign Controlled (%)
Blackstone Funds	≤ 26.0	None
Hellman & Friedman Funds	≤ 21.7	None
KKR Funds	≤ 12.9	None
TPG Funds	≤ 24.3	None
TOTAL GC Power	≤ 21.2	None

In order to further negate any issue concerning foreign ownership or control, all of the executive officers and managers of GC Power and the officers of TGN will be United States citizens. See Sections III.A.4.b and III.B.4.b. Moreover, Texas Genco will not possess any operating authority over the plant or any nuclear materials. Indeed, under the STP Operating Agreement, STPNOC will continue to have full control over operations, and will continue to have sole authority to make all decisions to protect public health and safety as required by the operating licenses and applicable laws and regulations. Accordingly, the transfer of ownership of TGN by CenterPoint to GC Power will not result in any foreign ownership, control, or domination of Texas Genco's licenses within the meaning of Section 103(d) of the Atomic Energy Act of 1954, as amended.

V. TECHNICAL QUALIFICATIONS

The technical qualifications of STPNOC are not affected by the proposed indirect transfer of control of Texas Genco's minority ownership interest in STP. There will be no physical changes to STP and no changes in the day-to-day operations of STP in connection with the indirect transfer of control of Texas Genco's interest in STP. STPNOC will at all times remain the licensed operator of STP and there will be no change in the STPNOC senior management team resulting from the proposed indirect transfer.

VI. FINANCIAL QUALIFICATIONS

A. Projected Operating Revenues and Operating Costs

At all points during and after the completion of the Transaction described herein, Texas Genco will continue to possess, or have reasonable assurance of obtaining, the funds necessary to cover its pro rata share of the estimated operating and maintenance costs of STP, as described in the STP Operating Agreement and the STP Participation Agreement in accordance with 10 CFR 50.33(f)(2) and the Standard Review Plan on Power Reactor Licensee Financial Qualifications and Decommissioning Funding Assurance (NUREG-1577, Rev. 1). The demonstration of the financial qualifications of Texas Genco and GC Power in this Application and the relevant Attachments are presented on a free cash flow basis. Given that projected capital expenditures are materially lower than historical depreciation and amortization expenses, the Applicants believe that free cash flow is a more accurate measure than net income of the liquidity, and hence financial strength, of the Texas Genco and GC Power businesses.

1. Financial Qualifications between the Closing of the Fossil Assets Acquisition and the Nuclear Assets Acquisition.

As described above, the parties intend to close the Fossil Assets Acquisition in advance of the Nuclear Assets Acquisition, in order to provide CenterPoint Energy and TGN's public

stockholders with the proceeds of that transaction sooner than would otherwise be the case. During the interim period between the close of the Fossil Assets Acquisition and the close of the Nuclear Assets Acquisition, Texas Genco will continue to be an indirect subsidiary of CenterPoint Energy. Texas Genco will sell its pro rata share of the power generated from STP through (i) a "back-to-back" arrangement with Genco II, whereby Genco II will purchase a specified amount of Texas Genco's share of the power generation from STP on a unit contingent basis; (ii) Texas Commission mandated auctions; and (iii) other auctions or negotiated transactions with third parties. Texas Genco will contract with Genco II for energy services for effecting merchant sales and new auctions with third parties during this period. Texas Genco will receive 100% of the revenue derived from the sale of such power. Texas Genco expects these sales to produce cash flow sufficient to cover Texas Genco's pro rata share of the operating expenses of STP. Attached are a pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for TGN after the closing of the Fossil Assets Acquisition, but before the completion of the Nuclear Assets Acquisition. See Attachments 5 and 5A. Applicants request that Attachment 5A (proprietary version) be withheld from public disclosure, as described in the Affidavits provided in Attachment 4.

In addition, Texas Genco will maintain committed financing resources sufficient to fund its anticipated cash needs and operating costs prior to the completion of the Nuclear Assets Acquisition. In particular, it is currently expected that Texas Genco will have $269 million in cash on its balance sheet at the beginning this period. It is anticipated that approximately $174 million will be used in early 2005 for Texas Genco's acquisition of an additional 13.2% share of STP from AEP Texas Central Company in the ROFR Acquisition. Nevertheless, the remaining available cash will provide approximately $95 million of additional liquidity. This

level of funding is expected to substantially exceed the fixed operating costs that Texas Genco would expect to incur over a six-month outage as suggested by the Standard Review Plan (NUREG-1577, Rev. 1) and provides additional assurance that Texas Genco will continue to be financially qualified to own and maintain its interest in STP during the interim period after the Fossil Assets Acquisition and before completion of the Nuclear Assets Acquisition. Notably, the NRC has previously concluded that the anticipated revenues generated by STP "provide reasonable assurance of an adequate source of funds to meet Texas Genco's 30.80 percent share of STP's ongoing operating expenses." See Order Approving the Direct Transfer of Licenses from Reliant Energy Incorporated to Texas Genco, LP, Approving Conforming Amendments, and Approving Indirect Transfers, TAC Nos. MB2140 and MB2141, Safety Evaluation Report at pg. 5 (Dec. 20, 2001) (REI Transfer Order).

2. Financial Qualifications after the Nuclear Assets Acquisition.

After the completion of the Nuclear Assets Acquisition, Texas Genco and Genco II will resume operating as an integrated generation business, both under the ownership of GC Power albeit in separate subsidiaries. Texas Genco will continue to own its interest in STP and Genco II will own the Fossil Assets owned today by Texas Genco. After the closing of the Nuclear Assets Acquisition, 100% of Texas Genco's share of the power generated from STP will be marketed by Genco II pursuant to an agreement under which Genco II will sell the output of STP through forward power sales agreements, Texas Commission auctions, and bilateral sales. Texas Genco will receive 100 % of the revenue derived from the sales of such power.

In accordance with NRC guidance, a June 30, 2004 Balance Sheet, and Projected Income and Cash Flow Statements for a five year period, pro forma for the closing of both the Fossil Assets Acquisition and the Nuclear Assets Acquisition, for both GC Power's consolidated

business (Attachments 6 and 6A) and its Texas Genco subsidiary (Attachments 7 and 7A) are attached hereto. The projections of income and cash flow include the additional 13.2% interest in STP expected to be acquired in the ROFR Acquisition. Similarly, the balance sheet is pro forma for both the Transaction and the ROFR Acquisition. Applicants request that Attachments 6A and 7A (proprietary versions) be withheld from public disclosure, as described in the Affidavits provided in Attachment 4. These financial statements show that the anticipated cash flow from the sale of the power output of STP by Texas Genco will provide reasonable assurance of an adequate source of funds to meet Texas Genco's pro rata share of STP's ongoing operating expenses.

In addition, these cash flows of Texas Genco are largely insulated from commodity price movements. For the period from 2005 through 2008, the bulk of Texas Genco's share of the power output of STP has already been sold through fixed-price forward power sales agreements locking in today's relatively favorable current market prices for power sold in the ERCOT market. See Attachments 6, 6A, 7 and 7A. The counter-party to the largest of these forward power sales agreements is J. Aron & Company (J.Aron), an affiliate of Goldman, Sachs & Co. Goldman, Sachs & Co. (with ratings of Aa3 and A+ by Moody's and Standard and Poor's, respectively) has provided a guarantee with respect to the complete payment of all obligations of J. Aron under the power sales agreement. Genco II will commence deliveries to J. Aron under this agreement in January 2005 and will utilize the output of both STP (initially under the back-to-back arrangement described above) and the baseload output of the Fossil Assets of Genco II as sources of supply. During this period covered by the projected income and cash flow statements, Genco II will sell the remainder of Texas Genco's share of the output of STP pursuant to other forward power sales agreements or at auction in the ERCOT market. The

prices and volumes of power under the various existing forward power sales agreements and the projected prices and volumes for projected merchant sales are illustrated in Attachments 6 and 6A.

While the cash flow from the sale of Texas Genco's portion of STP power should be sufficient to cover all of Texas Genco's portion of STP's operating expenses, GC Power will provide additional assurance that Texas Genco will be financially qualified to own and maintain its interest in STP. Specifically, GC Power will enter into a Support Agreement with Texas Genco pursuant to which GC Power will commit to provide up to $120 million to satisfy any need for additional funding with respect to Texas Genco's pro rata share of STP operating and maintenance expenses. The commitment under the Support Agreement represents the projected average yearly operation and maintenance expenses estimated over the next five years and hence should more than satisfy the requirement in NRC guidance that Texas Genco have access to a source of funds with which to pay its pro rata portion of STP's fixed operating costs for up to six months in the event of an extended outage. Texas Genco's pro rata share of fixed operating costs for a six-month period are estimated to be no more than $60 million, well within the protection afforded by the Support Agreement.

GC Power will have ample resources from which to support its obligations under the Support Agreement. The cash flow from the sale of power from the Fossil Assets, which will also be sold through the above referenced power sales agreement with J. Aron and power sales agreements with other counter-parties through 2008, will support Texas Genco's operation of STP by contributing to the financial strength and stability of GC Power, Texas Genco's parent. In addition to the cash flow derived from the sale of power from the Fossil Assets, GC Power

anticipates maintaining additional liquidity in the form of a $325 million revolving credit facility being provided to GC Power by certain financial institutions.

Accordingly, this Application and the attached supporting material demonstrate that Texas Genco's financial obligations under the STP Operating Agreement and the NRC's requirements regarding financial qualifications of licensees can be satisfied through its operating earnings, available cash, and the Support Agreement provided by GC Power.

B. Decommissioning Funding

The financial qualifications of Texas Genco to continue to own its undivided ownership interest in STP are further demonstrated by the fact that Texas Genco will continue to provide financial assurance for decommissioning funding in accordance with 10 CFR 50.75. Texas Genco currently maintains and will continue to maintain throughout each stage of the Transaction and after completion of the Transaction decommissioning trust funds that have been established to provide funding for decontamination and decommissioning of its undivided ownership interest in STP. Texas Genco will continue to maintain these external sinking funds segregated from its assets and outside its administrative control in accordance with the requirements of 10 CFR 50.75(e)(l)(i) and (ii). See Attachment 1, section 6.19.

In addition, CenterPoint Energy has agreed to cause CenterPoint Houston Electric, LLC (CenterPoint Houston),[5] its wholly-owned regulated electric transmission and distribution company, or its successor to continue to collect from its electric utility ratepayers costs associated with the decommissioning of Texas Genco's 30.8% interest in STP. Id. Specifically, pursuant to section 39.205 of PURA, CenterPoint Houston will maintain in its tariffed rates for

[5] CenterPoint Houston provides electric transmission and distribution services to approximately 1.8 million metered customers in a 5,000-square-mile area of the Texas Gulf Coast that has a population of approximately 4.7 million people and includes Houston, Texas.

the delivery of electricity a non-bypassable charge for STP decommissioning funding (within the meaning of 10 CFR 50.75(e)(1)(ii)(B)), with such changes to the decommissioning funding charge as may be ordered by the Texas Commission from time to time. All such funds collected by CenterPoint Houston will be transferred to the decommissioning trust maintained by and for the benefit of Texas Genco. These decommissioning funding arrangements were specifically approved by the Texas Commission. See Texas Commission Order, Docket 21956 (March 15, 2001). CenterPoint Energy has further agreed to cause CenterPoint Houston to cooperate with Texas Genco in supporting any necessary future changes to the decommissioning funding charge, including providing information and filing conforming tariffs to implement a change in the decommissioning funding charge as may be ordered by the Texas Commission.

For the 13.2% interest in STP being acquired by Texas Genco in the ROFR Transaction, AEP Texas Central Company, pursuant to section 39.205 of PURA, will maintain in its tariffed rates for the delivery of electricity the non-bypassable STP decommissioning funding charge. These arrangements will be described in more detail in the ROFR Application, which will be filed by STPNOC. Together, these arrangements assure that Texas Genco will have the total amount of funds estimated to be needed for its decommissioning funding obligations pursuant to 10 CFR 50.75(c), 50.75(f), and 50.82.

On October 6, 2004, the Texas Commission issued a final order adopting new Substantive Rule section 25.303. The new rule codifies the continuing responsibility of the electric transmission and distribution companies whose predecessors owned nuclear power plants prior to the restructuring of the Texas electricity industry, to collect funds necessary for the decommissioning of those facilities for the benefit of the transferee company. The rule provides that the annual decommissioning costs must be stated as a separate non-bypassable charge in the

individual transmission and distribution company's rates, and provides for the periodic adjustment of the non-bypassable charge based on the most current estimate of the costs of decommissioning the nuclear plant in question. Accordingly, CenterPoint Houston and AEP Texas Central's obligation to continue to collect the cost of decommissioning Texas Genco's 44% share of STP is codified in the Texas Commission regulations. Order Adopting New Section 25.303 as Approved at the September 30, 2004 Open Meeting, Project No. 29169 (October 6, 2004).

In 2001, in its order consenting to the transfer of the licenses from REI to Texas Genco, the NRC found these arrangements to be adequate. See REI Transfer Order, Safety Evaluation Report at pgs. 7-8. The NRC stated "[a]n external sinking fund is an allowable method to provide reasonable assurance for decommissioning funding by a licensee that recovers, either directly or indirectly, the estimated total cost of decommissioning through rates established by . . . a licensee whose source of revenue for the external sinking fund is a non-bypassable charge if the total amount will provide the funds needed for decommissioning [10 CFR 50.75(e)(1)(ii)(B)]." Id. Pursuant to 10 CFR 50.2, non-bypassable charges are "charges imposed over an established time period by a Government authority that affected persons or entities are required to pay to cover costs associated with the decommissioning of a nuclear power plant. Such charges include, but are not limited to, wire charges, stranded cost charges, transition charges, exit fees, other similar charges, or the securitized proceeds of a revenue stream." Id.

Moreover, the status of Texas Genco's decommissioning funding as of December 31, 2003 was reported to NRC in Attachment 1 to STPNOC letter NOC-AE-04001699 dated March 29, 2004, which confirms that the level of decommissioning funding

assurance provided by Texas Genco satisfies NRC regulatory requirements under 10 CFR 50.75. See Attachment 8. Additional information regarding the decommissioning trusts is provided on page 60 of the Texas Genco Holdings, Inc. 2003 Annual Report (Form 10-K). See Attachment 2. In the coming months, the Texas Commission may issue one or more orders or rules affecting the administration of the decommissioning trusts, and Texas Genco anticipates that the actions of the Texas Commission may require amendments to the Texas Genco Nuclear Decommissioning Master Trust Fund Agreement in connection with the proposed indirect transfer of control of its interest in STP. If any amendments are to be made to the trust agreement, the existing trust agreement requires prior written notice be made to the NRC and such notice will be provided to the NRC.

As is demonstrated above, in accordance with 10 CFR 50.75, there is reasonable assurance that Texas Genco will obtain the funds necessary to cover its share of the estimated decommissioning costs of STP at the time permanent termination of licensed operation is expected.

VII. ANTITRUST INFORMATION

This Application post-dates the issuance of the STP operating licenses and therefore no antitrust review is required or authorized. Based upon the NRC's decision in *Kansas Gas and Electric Co., et al.* (Wolf Creek Generating Station, Unit 1), CLI-99-19, 49 NRC 441 (1999), the Atomic Energy Act of 1954, as amended, does not require or authorize antitrust reviews of post-operating license transfer applications.

VIII. RESTRICTED DATA AND CLASSIFIED NATIONAL SECURITY INFORMATION

The proposed transfers do not involve any Restricted Data or other Classified National Security Information or result in any change in access to Restricted Data or Classified National

Security Information. STPNOC's existing restrictions on access to Restricted Data and Classified National Security Information are unaffected by the proposed transfers.

IX. ENVIRONMENTAL CONSIDERATIONS

The requested consent to the indirect transfer of control of Texas Genco's interest in the STP licenses is exempt from environmental review because it falls within the categorical exclusion contained in 10 CFR 51.22(c)(21), for which neither an Environmental Assessment nor an Environmental Impact Statement is required. Moreover, the proposed indirect transfer does not involve any amendment to the facility operating licenses and it will not affect the actual operation of STP in any substantive way. The proposed transfer does not involve an increase in the amounts, or a change in the types, of any radiological effluents that may be allowed to be released off-site, and involves no increase in the amounts or change in the types of non-radiological effluents that may be released off-site. Further, there is no increase in the individual or cumulative operational radiation exposure. For these reasons, the proposed transfer has no environmental impact.

X. PRICE-ANDERSON INDEMNITY AND NUCLEAR INSURANCE

The proposed indirect transfer of control of Texas Genco's interest in STP does not affect the existing Price-Anderson indemnity agreement for STP, under which Texas Genco is covered, as licensee, and does not affect the required nuclear property damage insurance pursuant to 10 CFR 50.54(w) and nuclear energy liability insurance pursuant to Section 170 of the Act and 10 CFR Part 140. Moreover, the information provided above in Section VI.A regarding Texas Genco's ongoing financial qualifications provides adequate assurance that Texas Genco will be able to pay its pro rata share of the total retrospective premium of $10 million per STP unit ($20 million total), pursuant to 10 CFR 140.21(e).

XI. MISCELLANEOUS

On behalf of the participants to the STP Participation Agreement, STPNOC interfaces with the Transmission Providers (defined below) under the terms of the South Texas Project Interconnection Agreement dated August 15, 2002, by and between Reliant Energy, Incorporated (now CenterPoint Houston), Central Power and Light Company (now AEP Texas Central Company), City of San Antonio, Texas, and City of Austin, Texas, (collectively, Transmission Providers). STPNOC will remain a party to, and retain all of its rights under, the Interconnection Agreement during and after the proposed indirect transfer of control of Texas Genco. Accordingly, STPNOC's ability to ensure proper maintenance of the switchyard and other transmission assets in accordance with NRC requirements and guidelines will not be affected by the proposed indirect transfer of control.

The proposed indirect transfer of control of Texas Genco's interest in STP will not affect the ability of STPNOC to obtain access to, and interconnect with, the ERCOT transmission grid in order to deliver the power generated by STP. The Transmission Providers will continue to provide STP with access to their related transmission facilities in accordance with the Interconnection Agreement. Currently offsite power is provided to STP by the participants to the STP Participation Agreement, which will not be changed or transferred as the result of the Transaction. Accordingly, STP's ability to obtain offsite power will not be affected by the Transaction.

XII. EFFECTIVE DATES

The actual date for the indirect transfer of control of Texas Genco and its interest in STP and its related interest in STPNOC will be dependent upon the actual date of all required regulatory approvals and rulings, as well as satisfaction of all conditions precedent under the

Transaction Agreement. Regulatory approvals and rulings related to the Fossil Assets Acquisition are expected by late October 2004. In addition to NRC consent under 10 CFR 50.80, the Nuclear Assets Acquisition is subject to review by the Texas Commission, SEC, and U.S. Department of Justice. Texas Genco requests that NRC review this Application on a schedule that will permit the issuance of NRC consent to the indirect transfer of control by February 28, 2005. Such consent should be immediately effective upon issuance and should permit the indirect transfer of control at any time until one year after the date of the NRC Order consenting to the indirect transfers. STPNOC will inform the NRC if there are any significant developments that have an impact on the schedule.

XIII. CONCLUSION

Based upon the forgoing information, STPNOC, on behalf of Texas Genco and CenterPoint Energy, and GC Power, respectfully requests that the NRC issue an Order consenting to the indirect transfer of control of Texas Genco's undivided ownership interest in STP including its interest in Facility Operating License Nos. NPF-76 and NPF-80, as well as its related interest in STPNOC to the extent NRC's consent is required.

Attachment 1

Transaction Agreement

[Execution Copy]

TRANSACTION AGREEMENT

among

CENTERPOINT ENERGY, INC.,

UTILITY HOLDING, LLC,

NN HOUSTON SUB, INC.,

TEXAS GENCO HOLDINGS, INC.,

HPC MERGER SUB, INC.

and

GC POWER ACQUISITION LLC

Dated as of July 21, 2004

Table of Contents

TRANSACTION AGREEMENT

TRANSACTION AGREEMENT, dated as of July 21, 2004 (this "**Agreement**"), by and among CenterPoint Energy, Inc., a Texas corporation ("**CenterPoint**"), Utility Holding, LLC, a Delaware limited liability company and wholly-owned subsidiary of CenterPoint ("**Utility Holding**" and, together with CenterPoint, sometimes collectively referred to as "**Parents**" and, individually, a "**Parent**"), NN Houston Sub, Inc., a Texas corporation and a direct wholly-owned subsidiary of Utility Holding ("**Merger Sub**"), Texas Genco Holdings, Inc., a Texas corporation ("**Genco Holdings**"), GC Power Acquisition LLC, a Delaware limited liability company ("**Buyer**"), and HPC Merger Sub, Inc., a Texas corporation and a wholly-owned subsidiary of Buyer ("**STP Merger Sub**"). Parents, Merger Sub, Genco Holdings, Buyer and STP Merger Sub are hereinafter collectively referred to as the "parties" and each individually as a "party."

WHEREAS, Utility Holding owns 64,764,240 shares (the "**Shares**") of common stock, par value $.001 per share ("**Common Stock**"), of Genco Holdings; and

WHEREAS, the Shares represent approximately 80.96% of the total outstanding shares of Common Stock of Genco Holdings; and

WHEREAS, Genco Holdings, through its direct and indirect subsidiaries identified in Section 4.3(a) of the Companies Disclosure Letter (as defined below) (Genco Holdings and such direct and indirect subsidiaries and any direct or indirect subsidiaries of Genco Holdings formed after the date hereof are collectively referred to herein as the "**Companies**," and, individually, each as a "**Company**"), (a) owns 11 electric power generation facilities, and a 30.8% (subject to potential increase pursuant to the exercise of a right of first refusal) interest in South Texas Project Nuclear Electric Generating Station (the "**South Texas Project**" or "**STP**"), all of which are located in Texas, and (b) sells wholesale electric generation capacity, energy and ancillary services in the Electric Reliability Council of Texas, Inc. market (the "**ERCOT Market**") (such business referred to herein as the "**Genco Business**"); and

WHEREAS, the respective Boards of Directors of CenterPoint, Genco Holdings and Merger Sub, and the sole manager of Utility Holding, have approved, and deem it advisable to consummate, the merger of Merger Sub with and into Genco Holdings (the "**Public Company Merger**"), with Genco Holdings surviving as the Surviving Corporation (as defined below), on terms and subject to the conditions set forth in this Agreement; and

WHEREAS, concurrently with the execution and delivery of this Agreement and as a condition to Buyer's willingness to enter into this Agreement, Utility Holding will deliver its written consent in the form attached hereto as Exhibit A (the "**Parent Written Consent**"), pursuant to which Utility Holding will approve this Agreement and the transactions contemplated hereby (including the Public Company Merger); and

WHEREAS, concurrently with the execution and delivery of this Agreement and as a condition to Buyer's willingness to enter into this Agreement, Texas Genco, LP, a Texas limited partnership and an indirect wholly-owned subsidiary of Genco Holdings ("**Genco LP**"), has entered into a Master Power Purchase and Sale Agreement between Genco LP and J. Aron & Company, dated the date hereof (the "**Power Purchase Agreement**"); and

WHEREAS, concurrently with the execution and delivery of this Agreement and as a condition to Parents' and Genco Holdings' willingness to enter into this Agreement, Buyer has entered into a commitment letter (the "**Debt Financing Letter**") with financing sources with respect to the debt financing (the "**Debt Financing**") for the transactions contemplated hereby other than the Public Company Merger, which financing will include (a) a $775.0 million senior first prior secured term loan facility, (b) a $475.0 million delayed draw term loan facility (the "**Delayed Draw Term Facility**"), (c) a $200.0 million senior first priority secured revolving credit facility, (d) a $200.0 million senior first priority secured letter of credit facility, (e) a $425.0 million senior first priority secured letter of credit facility, and (f) the issuance of $1,250.0 million of senior second priority secured notes or, alternatively, $1,250.0 million under senior second priority secured increasing rate bridge loans; and

WHEREAS, Annex E to the Debt Financing Letter (the "**Public Company Merger Debt Term Sheet**") provides for debt financing to Genco Holdings for the Public Company Merger, which financing will consist of a $717.0 million overnight bridge loan (the "**Overnight Bridge Loan**"); and

WHEREAS, prior to the Public Company Merger Closing Date (as defined below), upon the terms and subject to the conditions set forth in this Agreement, a Texas limited partnership to be formed by Genco Holdings as a wholly-owned indirect subsidiary of Genco Holdings ("**Genco II LP**"), will merge with Genco LP, and as a result of that merger be allocated all of the Non-STP Assets and Liabilities (as defined below) other than those held by Texas Genco Services, LP, a Texas limited partnership wholly-owned by Genco Holdings ("**Genco Services**") (such transaction, the "**Genco LP Division**"); and

WHEREAS, on the first business day following consummation of the Public Company Merger or as soon as possible thereafter, upon the terms and subject to the conditions set forth in this Agreement, (1) a Texas limited partnership to be formed by Buyer as a wholly-owned indirect subsidiary of Buyer ("**Newco**"), will merge with and into Genco II LP (such merger, the "**Genco II LP Acquisition**"), with Genco II LP being the surviving entity in the Genco II LP Acquisition as an indirect wholly-owned subsidiary of Buyer, and (2) a Texas limited partnership to be formed by Buyer as a wholly-owned indirect subsidiary of Buyer ("**Newco2**") will merge with and into Genco Services (such merger, the "**Genco Services Acquisition**"), with Genco Services being the surviving entity in the Genco Services Acquisition as an indirect wholly-owned subsidiary of Buyer (the Genco II LP Acquisition and the Genco Services Acquisition, collectively, the "**Non-STP Acquisition**"); and

WHEREAS, following consummation of the Public Company Merger and the Non-STP Acquisition, upon the terms and subject to the conditions set forth in this Agreement, STP Merger Sub will merge with and into Genco Holdings (the "**STP Acquisition**"), with Genco Holdings being the surviving corporation in the STP Acquisition as a direct wholly-owned subsidiary of Buyer; and

WHEREAS, Buyer is owned by Blackstone Capital Partners IV L.P., Hellman & Friedman Capital Partners IV, L.P., KKR Millennium Fund, L.P., TPG Partners IV, L.P. and their respective affiliates (collectively, the "**Investors**");

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the parties agree as follows:

ARTICLE I

PUBLIC COMPANY MERGER

Section 1.1 *The Public Company Merger.* On the terms and subject to the conditions of this Agreement and in accordance with the Texas Business Corporation Act ("**TBCA**"), at the Public Company Merger Effective Time (as defined in Section 1.3), Merger Sub shall be merged with and into Genco Holdings. As a result of the Public Company Merger, the separate corporate existence of Merger Sub shall cease and Genco Holdings shall survive the Public Company Merger (sometimes hereinafter referred to as the "**Surviving Corporation**"). From and after the Public Company Merger Effective Time, the Public Company Merger shall have the effects provided in Article 5.06A of the TBCA. All rights, titles and interests to all properties owned by Genco Holdings and Merger Sub shall be allocated to and vested in the Surviving Corporation without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing Liens thereon. All liabilities and obligations of Genco Holdings and Merger Sub shall become liabilities and obligations of the Surviving Corporation.

Section 1.2 *Time and Place of Public Company Merger Closing.* Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 10.1 and subject to the satisfaction or waiver of the conditions set forth in Article VII, the closing of the Public Company Merger (the "**Public Company Merger Closing**") will take place at the offices of Baker Botts L.L.P., One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002-4995 at 9:00 a.m. (local time) on the first business day (that is a day that is followed by three consecutive days that are all business days) following the date on which all of the conditions set forth in Article VII (other than those that by their nature are intended to be satisfied at the Public Company Merger Closing) have been satisfied or waived, or at such other date, place or time as the parties may agree. The date on which the Public Company Merger Closing occurs and the transactions contemplated by the Public Company Merger become effective is referred to as the "**Public Company Merger Closing Date.**"

Section 1.3 *Effective Time of the Public Company Merger.* On the Public Company Merger Closing Date, the parties shall cause the Public Company Merger to be consummated by filing the articles of merger (the "**Articles of Merger**") with the Secretary of State of the State of Texas (the "**Texas Secretary of State**") in such form as is required by, and executed in accordance with, the relevant provisions of the TBCA and shall make any other filings or recordings required under the TBCA (the date and time of the issuance of a certificate of merger by the Texas Secretary of State pursuant to Article 5.05 of the TBCA (or such later time as is specified in the Articles of Merger) on the Public Company Merger Closing Date, being the "**Public Company Merger Effective Time**").

Section 1.4 *Directors and Officers.* The directors of Merger Sub immediately prior to the Public Company Merger Effective Time shall be the initial directors of the Surviving Corporation following the Public Company Merger, and the officers of Genco Holdings immediately prior to the Public Company Merger Effective Time shall be the initial officers of the Surviving Corporation following the Public Company Merger, in each case until their respective successors are duly elected or appointed or until their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of the Surviving Corporation.

Section 1.5 *Articles of Incorporation and Bylaws.* Following the Public Company Merger Effective Time, the articles of incorporation of Genco Holdings shall be the articles of incorporation of the Surviving Corporation until thereafter changed or amended in accordance with the provisions thereof and applicable Law. Following the Public Company Merger Effective Time, the bylaws of Genco Holdings shall be the bylaws of the Surviving Corporation until thereafter changed or amended in accordance with the provisions thereof and applicable Law.

Section 1.6 *Effect of Public Company Merger on Capital Stock.* As of the Public Company Merger Effective Time, by virtue of the Public Company Merger and without any action on the part of Genco Holdings, Merger Sub or any holder of any shares of capital stock of Genco Holdings or any shares of capital stock of Merger Sub:

(a) Common Stock of Merger Sub. Each share of common stock of Merger Sub issued and outstanding immediately prior to the Public Company Merger Effective Time shall be converted into one validly issued, fully paid and non-assessable share of common stock, par value $.001 per share, of the Surviving Corporation (such shares, the "**Surviving Corporation Shares**").

(b) Cancellation of Certain Common Stock. Each share of Common Stock that is owned by CenterPoint or any of its subsidiaries (including Utility Holding, Genco Holdings or Merger Sub), in each case immediately prior to the Public Company Merger Effective Time shall automatically be cancelled and retired and shall cease to exist, and no cash or other consideration shall be delivered or deliverable in exchange therefor.

(c) Conversion of Common Stock. Subject to the provisions of this Section 1.6, each share of Common Stock, other than Dissent Shares and shares cancelled pursuant to Section 1.6(b), issued and outstanding immediately prior to the Public Company Merger Effective Time shall, by virtue of the Public Company Merger and without any action on the part of the holder thereof, be converted into the right to receive $47.00 in cash payable without interest (the "**Public Company Merger Consideration**") deliverable, in each case, to the holder of such share, upon surrender, in the manner provided in Section 1.7, of a certificate formerly evidencing such share (a "**Certificate**").

(d) Dissenters' Rights. Notwithstanding anything in this Agreement to the contrary, shares of Common Stock that are issued and outstanding immediately prior to the Public Company Merger Effective Time and that are held by any person who is entitled to dissent from and properly dissents from this Agreement pursuant to, and who complies in all respects with, Articles 5.11, 5.12 and 5.13 of the TBCA (the "**Dissenters' Statute**"), in each case to the extent applicable ("**Dissent Shares**"), shall not be converted into a right to receive the Public Company Merger Consideration as provided in Section 1.6(c), but rather the holders of Dissent Shares shall be entitled to the right to receive payment of the fair value of such Dissent Shares in accordance with the Dissenters' Statute upon surrender of the certificate or certificates duly endorsed representing such Dissent Shares; provided, however, that if any such holder shall fail to perfect or otherwise shall effectively waive, withdraw or lose the right to receive payment of the fair value under the Dissenters' Statute, then the right of such holder to be paid the fair value of such holder's Dissent Shares shall cease and such Dissent Shares shall be deemed to have been converted as of the Public Company Merger Effective Time into the right to receive the Public Company Merger Consideration as provided in Section 1.6(c). Genco Holdings shall give prompt notice to Buyer (and, until the STP Acquisition Closing (as defined in Section 2.6), CenterPoint) of any objections or demands received by Genco Holdings for payment of the fair value of Common Stock pursuant to the Dissenters' Statute, and Buyer (and, until the STP Acquisition Closing, CenterPoint) shall have the right to direct all negotiations and proceedings with respect to such objections or demands. Genco Holdings shall not, without the prior written consent of Buyer (and until the STP Acquisition Closing, CenterPoint), make any payment with respect to, or settle or offer to settle, any such objections or demands, or agree to do any of the foregoing.

Section 1.7 *Exchange of Certificates.*

(a) Deposit with Payment Agent. Prior to the Public Company Merger Effective Time, CenterPoint shall appoint a bank or trust company reasonably acceptable to Buyer and Genco Holdings to act as agent (the "**Paying Agent**") for the delivery of the Public Company Merger Consideration upon surrender of the Certificates in accordance with this Article I. At or promptly after the Public Company Merger Effective Time, the Surviving Corporation shall deposit with the Paying Agent an amount of cash required for the payment of the Public Company Merger Consideration upon surrender of Certificates in accordance with this Article I. Such funds shall be invested by the Paying Agent as directed by the Surviving Corporation, provided that such investments shall be in obligations of or guaranteed by the United States of America or any agency or

instrumentality thereof, in commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Services, Inc. or Standard & Poor's Corporation, respectively, or in certificates of deposit, bank repurchase agreements or banker's acceptances of commercial banks with capital exceeding $500,000,000. Any net profit resulting from, or interest or income produced by, such investments will be payable to the Surviving Corporation.

(b) Exchange and Payment Procedures. As soon as reasonably practicable after the Public Company Merger Effective Time, the Paying Agent shall mail to each holder of record of a Certificate (i) a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates held by such person shall pass, only upon proper delivery of the Certificates to the Paying Agent and shall be in customary form and have such other provisions as the parties may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Public Company Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent or to such other agent or agents as may be appointed by the Surviving Corporation, together with such letter of transmittal, duly completed and validly executed, and such other documents as may reasonably be required by the Paying Agent, the holder of such Certificate shall be entitled to receive in exchange therefor the Public Company Merger Consideration in respect of the shares formerly represented by such Certificate pursuant to Section 1.6(c), and the Certificate so surrendered shall forthwith be cancelled. In the event of a transfer of ownership of Common Stock that is not registered in the share transfer books of Genco Holdings, the Public Company Merger Consideration may be paid and delivered in exchange therefor to a person other than the person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such Public Company Merger Consideration shall pay any transfer or other Taxes required by reason of the payment to a person other than the registered holder of such Certificate or establish to the reasonable satisfaction of the Surviving Corporation that such Tax has been paid or is not applicable. No interest shall be paid or shall accrue on the Public Company Merger Consideration payable upon surrender of any Certificate.

(c) No Further Ownership Rights in Common Stock. Until surrendered as contemplated by Section 1.7(b), each Certificate shall be deemed at any time after the Public Company Merger Effective Time to represent only the right to receive upon such surrender the Public Company Merger Consideration as contemplated by this Article I. The Public Company Merger Consideration delivered upon the surrender of a Certificate in accordance with the terms of this Article I shall be deemed to have been delivered at the Public Company Merger Effective Time in full satisfaction of all rights pertaining to the shares of Common Stock formerly represented by such Certificate. At the close of business on the date on which the Public Company Merger Effective Time occurs, the share transfer books of Genco Holdings shall be closed, and there shall be no further registration of transfers on the share transfer books of the Surviving Corporation of the shares of Common Stock that were outstanding immediately prior to the Public Company Merger Effective Time. If, after the close of business on the date on which the Public Company Merger Effective Time occurs,

Certificates are presented to the Surviving Corporation or the Paying Agent for transfer or any other reason, they shall be cancelled and exchanged as provided in this Article I.

(d) No Liability. None of the parties to this Agreement, the Surviving Corporation and the Paying Agent shall be liable to any person in respect of any cash or property delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law. Any portion of the Public Company Merger Consideration deposited with the Paying Agent pursuant to this Article I which remains undistributed to the holders of the Certificates for twelve months after the Public Company Merger Effective Time (or immediately prior to such earlier date on which any cash or property in respect of such Certificate would otherwise escheat to or become the property of any Governmental Authority) shall be delivered to the Surviving Corporation, upon demand. Any holders of Certificates who have not theretofore complied with this Article I shall thereafter look only to the Surviving Corporation and only as general creditors thereof for payment of their claim, if any, to which such holders may be entitled.

(e) Lost Certificates. If any Certificate shall have been lost, stolen, defaced or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen, defaced or destroyed and, if required by the Surviving Corporation, the posting by such person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Paying Agent shall pay in respect of such lost, stolen, defaced or destroyed Certificate the Public Company Merger Consideration.

(f) Withholding Rights. The Surviving Corporation or the Paying Agent shall be entitled to deduct and withhold any applicable Taxes from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Common Stock.

ARTICLE II

OTHER TRANSACTIONS

Section 2.1 *Genco LP Division.* Prior to the Public Company Merger Closing Date, CenterPoint and Genco Holdings shall cause the Genco LP Division to be consummated, as follows: Genco LP and Genco II LP shall execute and deliver a merger agreement substantially in the form attached hereto as Exhibit B and consummate the Genco LP Division on the terms and conditions set forth therein pursuant to a multiple survivor merger of Genco LP and Genco II LP pursuant to which (i) except for the STP Assets and Liabilities (as defined below), all of Genco LP's right, title and interest in and to any and all properties, assets, rights, claims, Contracts and Permits and all debts, liabilities and obligations shall be allocated to Genco II LP (the "**Genco LP Non-STP Assets and Liabilities**"), (ii) all of the properties, assets, rights, claims, Contracts and Permits set forth in Section 2.1(a) of the Companies Disclosure Letter (as defined herein) shall be allocated to Genco LP (the "**STP Assets**") and (iii) all of the debts, liabilities and obligations set forth in Section 2.1(b) of the Companies Disclosure Letter shall be allocated to Genco LP (the "**STP Liabilities**" and collectively with the STP Assets, the

"**STP Assets and Liabilities**"). CenterPoint and Genco Holdings agree that after the date of this Agreement Buyer shall have the right to review the items set forth on Sections 2.1(a) and 2.1(b) of the Companies Disclosure Letter and the parties agree that to the extent the parties in good faith determine that any such items are more properly characterized as Non-STP Assets and Liabilities, as applicable, such items shall be removed from such Sections. The Genco LP Non-STP Assets and Liabilities together with the assets, rights, claims, Contracts, Permits, debts, liabilities and obligations of Genco Services immediately prior to the effective time of the Genco Services Acquisition are referred to collectively as the "**Non-STP Assets and Liabilities**".

Section 2.2 *Merger Agreements.*

(a) On or prior to the Public Company Merger Date, Genco II LP and Newco shall execute and deliver a merger agreement substantially in the form of Exhibit C (the "**Genco II Merger Agreement**").

(b) On or prior to the Public Company Merger Date, Genco Services and Newco2 shall execute and deliver a merger agreement substantially in the form of Exhibit D (the "**Genco Services Merger Agreement**").

Section 2.3 *Non-STP Acquisition.* On the first business day after the Public Company Merger Closing Date or as soon as possible thereafter (the "**Non-STP Acquisition Closing Date**"), on the terms and subject to the conditions set forth in Article VIII, at the Non-STP Acquisition Closing (as defined below), Buyer shall cause Newco and Newco2, and CenterPoint and Genco Holdings shall cause Genco II LP and Genco Services, as applicable, to consummate the Non-STP Acquisition, as follows:

(a) Genco II LP and Newco shall consummate the Genco II LP Acquisition on the terms and conditions set forth in the Genco II Merger Agreement, with Genco II LP being the surviving entity in the Genco II LP Acquisition as an indirectly wholly owned subsidiary of Buyer.

(b) Genco Services and Newco2 shall consummate the Genco Services Acquisition on the terms and conditions set forth in the Genco Services Merger Agreement, with Genco Services being the surviving entity in the Genco Services Acquisition as an indirectly wholly owned subsidiary of Buyer.

(c) In the Non-STP Acquisition, (i) Buyer shall cause to be paid in the Genco II LP Acquisition to the partners of Genco II LP total consideration of $2,789 million in cash without interest (the "**Genco II LP Consideration**") by wire transfer of immediately available funds and (ii) Buyer shall cause to be paid in the Genco Services Acquisition to the partners of Genco Services total consideration of $24 million in cash without interest (together with the Genco II LP Consideration, the "**Non-STP Consideration**"), in each case to the accounts specified by Genco Holdings to Buyer in writing at least two business days prior to the Non-STP Acquisition Closing Date. To the extent Genco Holdings has received proceeds under the Overnight Bridge Loan prior to the Non-STP Acquisition Closing, a portion of the Non-STP Consideration shall be paid

directly by Buyer to the lenders thereof to repay such borrowings and interest thereon in full.

(d) The parties have agreed in Schedule 2.3 hereto to the proposed allocation of the Non-STP Consideration among the Non-STP Assets and Liabilities as of the date hereof in accordance with section 1060 of the Code and the regulations promulgated thereunder (the "**1060 Allocation**"). Such 1060 Allocation shall be amended by agreement of the parties on the Non-STP Acquisition Closing Date to reflect any changes required by Section 1060 of the Code and the regulations promulgated thereunder (such 1060 Allocation as amended, the "**Final 1060 Allocation**"). The Final 1060 Allocation shall be used by CenterPoint and Buyer in preparing Internal Revenue Service Form 8594, Asset Acquisition Statement (which Form 8594 shall be completed, executed and delivered by such parties as soon as practicable after the Non-STP Acquisition Closing Date but in no event later than 15 days prior to the date such form is required to be filed). CenterPoint and Buyer each shall file, or cause to be filed, Form 8594 prepared in accordance with this Section 2.3(d) with the U.S. federal income Tax Returns for the taxable period which includes the Non-STP Acquisition Closing Date. The Final 1060 Allocation shall be binding upon the parties hereto and upon each of their successors and assigns, and the parties hereto shall report for tax purposes the transactions contemplated by this Agreement in accordance with such allocations.

Section 2.4 *Time and Place of Non-STP Acquisition Closing.* Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 10.1 and subject to the satisfaction or waiver of the conditions set forth in Article VIII, the closing of the Non-STP Acquisition (the "**Non-STP Acquisition Closing**") will take place at the offices of Baker Botts L.L.P., One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002-4995 at 9:00 a.m. (local time) on the Non-STP Acquisition Closing Date, or at such other date, place or time as CenterPoint and the Buyer may agree.

Section 2.5 *STP Acquisition.* On the terms and subject to the conditions set forth in Article IX, and in accordance with the TBCA, at the STP Acquisition Closing (as defined below), the parties hereto shall cause the STP Acquisition to be consummated as follows:

(a) STP Merger Sub shall be merged with and into Genco Holdings. As a result of the STP Acquisition, the separate corporate existence of STP Merger Sub shall cease and Genco Holdings shall survive the merger (sometimes hereinafter referred to as the "**STP Survivor**"). From and after the STP Acquisition Effective Time (as defined below), the STP Acquisition shall have the effects provided in Article 5.06A of the TBCA. All rights, titles and interests to all properties owned by Genco Holdings and STP Merger Sub shall be allocated to and vested in STP Survivor without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing Liens thereon. All liabilities and obligations of Genco Holdings and STP Merger Sub shall become liabilities and obligations of STP Survivor.

(b) As soon as practicable after the STP Acquisition Closing, the parties shall cause the STP Acquisition to be consummated by filing articles of merger (the "**STP Articles of Merger**") with the Texas Secretary of State in such form as is required by, and executed in accordance with, the relevant provisions of the TBCA and shall make all other filings or recordings required under the TBCA (the date and time of the issuance of a certificate of merger by the Texas Secretary of State pursuant to Article 5.05 of the TBCA (or such later time as is specified in the STP Articles of Merger) on the STP Acquisition Closing Date, being the "**STP Acquisition Effective Time**").

(c) Following the STP Acquisition Effective Time, the articles of incorporation of Genco Holdings shall be the articles of incorporation of the STP Survivor until thereafter changed or amended in accordance with the provisions thereof and applicable Law. Following the STP Acquisition Effective Time, the bylaws of Genco Holdings shall be the bylaws of the STP Survivor until thereafter changed or amended in accordance with the provisions thereof and applicable Law.

(d) As of the STP Acquisition Effective Time, by virtue of the STP Acquisition and without any action on the part of Genco Holdings, STP Merger Sub or any holder of any shares of capital stock of Genco Holdings or any shares of capital stock of STP Merger Sub:

(i) Each share of common stock of STP Merger Sub issued and outstanding immediately prior to the STP Acquisition Effective Time shall be converted into one validly issued, fully paid and non-assessable share of common stock, par value $.001 per share, of the STP Survivor.

(ii) The shares of capital stock in Genco Holdings issued and outstanding immediately prior to the STP Acquisition Effective Time shall, by virtue of the STP Acquisition and without any action on the part of the holder thereof, be converted into the right to receive total aggregate merger consideration of $700 million in cash without interest (the "**STP Consideration**") by wire transfer of immediately available funds to an account specified by Utility Holding to Buyer in writing at least two business days prior to the STP Acquisition Closing Date.

Section 2.6 *Time and Place of STP Acquisition Closing.* Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 10.1 and subject to the satisfaction or waiver of the conditions set forth in Article IX, the closing of the STP Acquisition (the "**STP Acquisition Closing**") will take place at the offices of Baker Botts L.L.P., One Shell Plaza, 910 Louisiana Street, Houston, Texas 77002-4995 at 9:00 a.m. (local time) on the fifth business day following the date on which all of the conditions to each party's obligations set forth in Article IX (other than those that by their nature are intended to be satisfied at the STP Acquisition Closing) have been satisfied or waived, or at such other date, place or time as CenterPoint and Buyer may agree. The date on which the STP Acquisition Closing occurs, which shall be the date of the STP Acquisition Effective Time, is referred to as the "**STP Acquisition Closing Date.**"

Section 2.7 *FIRPTA Certificate.* At each of the STP Acquisition Closing and the Non-STP Acquisition Closing, Parents shall deliver (or in the case of the Non-STP Acquisition, shall cause Genco Holdings to deliver) a duly executed and acknowledged certificate, in form and substance reasonably acceptable to Buyer and in accordance with the Code and Treasury Regulations, certifying Parents' non-foreign status as provided under Treasury regulation Section 1.1445-2(b)(2).

Section 2.8 *Director and Officer Resignations.* At or prior to the STP Acquisition Closing, all the directors of Genco Holdings and its subsidiaries shall deliver to Genco Holdings written resignations and all of the officers of Genco Holdings and its subsidiaries shall deliver to Genco Holdings written resignation, or CenterPoint shall cause such officers to be removed, in each case, from their positions as directors or officers of Genco Holdings and its subsidiaries, effective as of the STP Acquisition Closing.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF CENTERPOINT

CenterPoint represents and warrants to Buyer as follows:

Section 3.1 *Organization; Etc.* Each of the Parents and Merger Sub (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (b) has all requisite corporate or limited liability company power and authority, as applicable, to execute and deliver this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto (including the Parent Written Consent), to perform its obligations hereunder and to consummate the transactions contemplated by this Agreement and (c) is duly qualified or licensed to do business, and is in good standing in each jurisdiction in which the nature of its business or the ownership, operation or leasing of its properties makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect.

Section 3.2 *Authority Relative to this Agreement.* The execution, delivery and performance of this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto (including the Parent Written Consent) by the Parents and Merger Sub and the consummation of the transactions contemplated by this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto have been duly and validly authorized by all requisite corporate or limited liability company action, as applicable, on the part of each of the Parents and Merger Sub and no other corporate or similar actions or proceedings on the part of either Parent is necessary to authorize the execution, delivery and performance of this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto by each of the Parents and Merger Sub or for the Parents or Merger Sub to consummate the transactions so contemplated. This Agreement and all other agreements and instruments executed in

connection herewith or delivered pursuant hereto (including the Parent Written Consent) have been, or will be, duly and validly executed and delivered by each of the Parents and Merger Sub and, with respect to this Agreement and any other such agreement, assuming it has been duly authorized, executed and delivered by any other party (other than Parents, Merger Sub and any of their affiliates other than Genco Holdings and its controlled affiliates), constitutes, or will constitute when executed, a valid and binding agreement of such Parent and Merger Sub, enforceable against such Parent and Merger Sub in accordance with its terms, except that (a) enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally, and (b) enforcement of this Agreement, including, among other things, the remedy of specific performance and injunctive and other forms of equitable relief, may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. Merger Sub was formed solely for the purpose of engaging in the transactions contemplated hereby and has not engaged in any business or conducted any operations other than in connection with the transaction contemplated hereby.

Section 3.3 *Ownership of Shares*

(a) Except as set forth in Section 3.3(a) of the disclosure letter delivered by Parents to Buyer concurrently with the execution hereof (the "**Parents Disclosure Letter**"), (i) all the Shares are owned beneficially and of record by Utility Holding free and clear of all Liens and (ii) all of the membership interests of Utility Holding are owned beneficially and of record by CenterPoint free and clear of all Liens. The Shares represent approximately 80.96% of the issued and outstanding Common Stock on a primary and fully diluted basis.

(b) Except as set forth in Section 3.3(b) of the Parents Disclosure Letter, after giving effect to the Public Company Merger, Utility Holding will own 100% of the outstanding capital stock of the Surviving Corporation, free and clear of all Liens. After giving effect to the merger contemplated by the STP Acquisition in Section 2.5(a), Buyer will own 100% of the outstanding capital stock of the STP Survivor, free and clear of all Liens, other than Liens granted by Buyer. After giving effect to the merger contemplated by the Non-STP Acquisition in Section 2.3, Buyer will own 100% of the interests in Genco II LP and 100% of the interests in Genco Services, in each case, free and clear of all Liens, other than Liens granted by Buyer.

Section 3.4 *Consents and Approvals; No Violations.* Except for the Required Approvals (as defined in Section 4.5) or as set forth in Section 3.4 of the Parents Disclosure Letter, none of the execution, delivery and performance of this Agreement and any other agreements and instruments executed in connection herewith or delivered pursuant hereto (including the Parent Written Consent) by Parents, nor the consummation by Parents of the transactions contemplated by this Agreement, will (a) conflict with, violate or result in any breach of any provision of the certificate of formation, articles of incorporation, regulations, bylaws or similar documents, as applicable, of Parents, (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination,

amendment, cancellation or acceleration or any right or obligation to purchase or sell securities or assets) under, or require any consent or result in a material loss of a material benefit to Parents under, any contract (written or oral), obligation, plan, undertaking, arrangement, commitment, note, bond, mortgage, indenture, agreement, lease, other instrument or Approval (as defined below) (collectively, "**Contracts**" and individually, a "**Contract**") to which either Parent is a party or by which any of them or any of their respective businesses, properties or assets are bound, (c) violate any Permit that is currently in effect applicable to either Parent or its business, properties or assets, or (d) require any permit, license, authorization, certification, tariff, consent, approval, concession or franchise from, action by, filing with or notification to (collectively, "**Approvals**" and, individually, an "**Approval**"), any foreign, Federal, state, or local government or regulator or any court, arbitrator, administrative agency, regional transmission organization, the ERCOT Market independent system operator, or commission or other governmental, quasi-governmental, taxing or regulatory (including a stock exchange or other self-regulatory body) authority, official or agency (including a public utility commission, public services commission or similar regulatory body), domestic, foreign or supranational (a "**Governmental Authority**"), except in the case of clauses (b), (c) and (d) of this Section 3.4, those which would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect, or which become applicable solely as a result of the business or activities in which Buyer is engaged.

Section 3.5 *Affiliate Transactions.* Except as set forth in Section 3.5 of the Parents Disclosure Letter or as disclosed in Genco Holding's proxy statement relating to the election of directors dated April 23, 2004, there are no Contracts or transactions between any Company, on the one hand, and any (A) Parent or its controlled affiliates (other than the Companies), on the other hand, other than any Contract or transaction entered into in the ordinary course of business and on terms no less favorable than would have been reached on an arm's-length basis that is not material to the Company, or (B) (i) officer or director of any Parent or its affiliates or (ii) affiliate of any such officer or director, on the other hand, in each case in this clause (B) other than any Contract or transaction entered into in the ordinary course of business and on terms no less favorable than would have been reached on an arm's-length basis or that is not material to the Company (all Contracts and transactions, whether entered into before or after the date hereof, referred to in clauses (A) or (B), "**Parent Affiliate Contracts**"). True and complete copies of the Parent Affiliate Contracts have been made available to Buyer.

Section 3.6 *Separation Transactions*

(a) The transactions contemplated by the Separation Agreement (the "**Spin-off Separation Agreement**") between CenterPoint and Genco Holdings dated August 31, 2002, including the contribution and transfer by Parents and their respective affiliates to the Companies of substantially all of the assets and related liabilities associated with the Genco Business on such date (the "**Separation Transactions**") have been consummated in all material respects as described in the Spin-off Separation Agreement. Parents have made available to Buyer a true and complete copy of the Spin-off Separation Agreement and all other Contracts among Parents or their affiliates or any

of their respective predecessors (other than any Company) and any Company in connection with the transactions contemplated by the Spin-off Separation Agreement (collectively, the "**Separation Documents**"). Parents have made available to Buyer a true and complete copy of the Master Separation Agreement (the "**Master Separation Agreement**") between Reliant Energy, Incorporated and Reliant Resources, Inc. ("**RRI**") dated December 31, 2000.

(b) The execution, delivery and performance of the Separation Documents by any of Parents and their respective affiliates (including the Companies) party thereto, and the consummation of the transactions contemplated thereby, were duly and validly authorized by all requisite action. Each of the Separation Documents was duly and validly executed and delivered by Parents and their respective affiliates (including the Companies) party thereto and constitutes a valid and binding agreement of such parties, enforceable against such persons in accordance with its terms, except that (a) enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally, and (b) enforcement, including, among other things, the remedy of specific performance and injunctive and other forms of equitable relief, may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 3.7 *Brokers; Finders and Fees.* Except for Citigroup Global Markets Inc., whose fees will be paid by CenterPoint, neither of the Parents or their respective affiliates (other than the Companies) has employed, engaged or entered into a Contract with any investment banker, broker, finder, other intermediary or any other person or incurred any liability for any investment banking, financial advisory or brokerage fees, commissions, finders' fees or any other fee in connection with this Agreement or the transactions contemplated by this Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF GENCO HOLDINGS

Genco Holdings represents and warrants to Buyer as follows.

Section 4.1 *Organization; Etc.* Each Company (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (b) has all requisite corporate, partnership or limited liability company power and authority, as applicable, to own, lease and operate all of its properties and assets and to carry on its business substantially as it is now being conducted, and (c) is duly qualified or licensed to do business, and is in good standing in each jurisdiction in which the nature of its business or the ownership, operation or leasing of its properties makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect. As used in this Agreement, the term "**Companies Material Adverse Effect**" means any state of facts, change, development, event, effect, condition or occurrence materially adverse to the business, assets, properties, liabilities,

condition (financial or otherwise) or results of operations of the Companies taken as a whole or that, directly or indirectly, prevents or materially impairs or delays the ability of any of the Parents or Genco Holdings to perform its obligations hereunder; provided, however, that (a) any adoption, implementation, promulgation, repeal, modification, reinterpretation or proposal of any rule, regulation, ordinance, order, protocol or any other Law of or by any national, state or regional Governmental Authority (including, for the avoidance of doubt, the ERCOT Market), (b) changes or developments in national, regional or state wholesale or retail markets for fuel, including, without limitation, changes in commodity prices, or related products, (c) changes or developments in national, regional or state wholesale or retail electric power prices, (d) system-wide changes or developments in national, regional or state electric transmission or distribution systems, other than changes or developments involving physical damage or destruction thereto, and (e) changes or developments in financial or securities markets or the economy in general shall, in each case, be excluded from such determination to the extent any such Laws, changes and developments do not have a disproportionate effect on the Companies as compared to other entities engaged in the power generation business in any of the relevant geographic areas with respect to such Laws, changes or developments, as applicable. In interpreting the definition of "Companies Material Adverse Effect" with respect to plant outages, the parties agree that the effect of the unplanned plant outages at the Companies from August 31, 2002 to March 31, 2004 did not in and of themselves have a Companies Material Adverse Effect after taking into account all relevant facts and circumstances. Genco Holdings has made available to Buyer a true and complete copy of the certificates of incorporation and the bylaws (or similar organizational documents) of each of the Companies, in each case as currently in effect. Genco Holdings has made available to Buyer true and complete copies of the minutes of all meetings or written consents of the shareholders (or other equityholders) and the boards of directors (or similar body) and any committee thereof of each of the Companies (and, to the extent applicable to the Genco Business, any affiliate of Parent engaged in the Genco Business that transferred, directly or indirectly, assets or liabilities to any Company in the Separation Transactions), in each case, since January 1, 2001.

Section 4.2 *Authority Relative to this Agreement.* The execution, delivery and performance of this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto, by the Companies and the consummation of the transactions contemplated by this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto have been duly and validly authorized by all requisite corporate, partnership or limited liability company action, as applicable, on the part of the applicable Company and no other actions or proceedings on the part of any Company is necessary to authorize the execution, delivery and performance of this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto by any Company or, upon delivery of the Parent Written Consent, to consummate the transactions so contemplated. With the receipt of the Parent Written Consent, no vote of the holders of any class or series of the capital stock of Genco Holdings is necessary to approve this Agreement or to consummate the transactions contemplated hereby (including the Public Company Merger). This Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto have been, or

will be, duly and validly executed and delivered by the applicable Company and, with respect to this Agreement and any other such agreement, assuming it has been duly authorized, executed and delivered by any other party (other than an affiliate of Genco Holdings other than Parents), constitutes, or will constitute when executed, a valid and binding agreement of such Company, enforceable against such Company in accordance with its terms, except that a enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally, and (b) enforcement of this Agreement, including, among other things, the remedy of specific performance and injunctive and other forms of equitable relief, may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 4.3 *Capitalization.*

(a) The authorized capital stock of Genco Holdings consists of 160,000,000 shares of Common Stock and no preferred stock. Section 4.3(a) of the disclosure letter delivered by Genco Holdings to Buyer concurrently with the execution hereof (**the "Companies Disclosure Letter"**) sets forth the name, jurisdiction of incorporation or organization and capitalization of each Company. As of the date hereof, Genco Holdings has (i) 80,000,000 shares of Common Stock issued and outstanding and no other issued or outstanding shares of capital stock and (ii) no shares of Common Stock are held in the treasury of Genco Holdings. All outstanding shares of capital stock of or interests in each Company are validly issued, fully paid and nonassessable, and owned by a Company (except in the case of shares of Genco Holdings) free of preemptive (or similar) rights and free and clear of any security interests, liens, claims, pledges, Contracts, limitations in voting, dividend or transfer rights, charges or other encumbrances of any nature whatsoever (**"Liens"**), except as set forth in Section 4.3(a) of the Companies Disclosure Letter. As of the date hereof, except as set forth in Section 4.3(a) of the Companies Disclosure Letter, there are not (A) any capital stock or other equity interests or voting securities, in any Company issued or outstanding, (B) any securities convertible into or exchangeable or exercisable for shares of any capital stock or equity interests or voting securities in any Company, (C) any subscriptions, options, warrants, calls, rights, convertible securities or other Contracts or commitments of any character obligating any Company to issue, transfer or sell any of its capital stock or other equity interests or voting securities, or (D) equity equivalents, interests in the ownership or earnings or similar rights, or any agreements, arrangements or understandings granting any person any rights in any Company similar to capital stock or other equity interests or voting securities (the items in clauses (A), (B), (C) or (D), collectively, **"Company Securities"**). Except as set forth in Section 4.3(a) of the Companies Disclosure Letter, none of the Parents and their respective affiliates (other than the Companies) owns any Company Securities. There are no (1) outstanding obligations of any Company to repurchase, redeem or otherwise acquire any Company Securities, (2) voting trusts, proxies, registration rights agreements or other agreements or understandings with respect to the voting, disposition, dividends or otherwise or concerning any Company Securities to which the Companies or Parents are a party or (3) outstanding obligations of any Company to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any other Company or any other person, including as a

result of the transactions contemplated by this Agreement. All dividends on the Common Stock that have been declared or have accrued prior to the date of this Agreement have been paid in full, and, as of the date of this Agreement, no dividends have been declared since May 13, 2004.

(b) No Company has any direct or indirect equity interest in any person, other than another Company. None of the Companies own any capital stock of Genco Holdings.

(c) Section 4.3(c) of the Companies Disclosure Letter sets forth a true and complete list of each Contract in effect on the date of this Agreement pursuant to which any Indebtedness (as defined below) of any Company in excess of $1,000,000 is outstanding or may be incurred, together with the amount outstanding thereunder as of the date of this Agreement. No Contract pursuant to which any Indebtedness of any Company is outstanding or may be incurred provides for the right to vote (or is convertible into, or exchangeable for, securities having the right to vote) on any matters on which the shareholders of any Company may vote. "**Indebtedness**" means (A) indebtedness for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), including indebtedness evidenced by a note, bond, debenture or similar instrument, (B) obligations required to be classified and accounted for as capital leases on a balance sheet under GAAP, (C) obligations in respect of outstanding letters of credit, acceptances and similar obligations created for the account of such person, (D) obligations under interest rate cap agreements, interest rate swap agreements, foreign currency exchange agreements and other hedging or similar agreements, (E) to the extent not otherwise included in the foregoing, any financing of accounts receivable or inventory and (F) guarantees of any of the foregoing of another person. No event has occurred which either entitles, or could entitle (with or without notice or lapse of time or both) the holder of any Indebtedness described in Section 4.3(c) of the Companies Disclosure Letter to accelerate, or which does accelerate, the maturity of any such Indebtedness.

(d) No Company has in effect any stockholder rights plan or similar device or arrangement, commonly or colloquially known as a "poison pill" or "anti-takeover" plan, or any similar plan, device or arrangement (a "**Rights Plan**"), and the board of directors of Genco Holdings has not adopted or authorized the adoption of such a plan, device or arrangement.

Section 4.4 *Ownership of Shares, Company Securities.* Except as set forth in Section 4.4 of the Companies Disclosure Letter, all the Shares are owned beneficially and of record by Utility Holding and beneficially by CenterPoint free and clear of all Liens. The Shares represent approximately 80.96% of the issued and outstanding Common Stock on a primary and fully diluted basis.

Section 4.5 *Consents and Approvals; No Violations.* Except for applicable requirements of the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (the "**HSR Act**"), the filing with the SEC of the Information Statement and a

Rule 13e-3 Transaction Statement pursuant to the applicable requirements of the Exchange Act and the filing of applications for de-listing of the Common Stock with the New York Stock Exchange (the "**NYSE**"), approval from the Nuclear Regulatory Commission (the "**NRC**") of any indirect license transfer deemed to be created by the STP Acquisition (the "**NRC Approval**"), certification that Genco II LP is an "exempt wholesale generator" ("**EWG**") as defined in Section 32 of the Public Utility Holding Company Act of 1935 ("**PUHCA**") by the Federal Energy Regulatory Commission ("**FERC**"), the filing of articles or certificates of merger, as applicable, with the Secretary of State of the State of Texas with respect to the Genco LP Division, the Genco II LP Acquisition, the Genco Services Acquisition and the STP Acquisition or as set forth in Section 4.5 of the Companies Disclosure Letter (collectively, the "**Required Approvals**"), none of the execution, delivery and performance of this Agreement by Genco Holdings, nor the consummation by Genco Holdings of the transactions contemplated by this Agreement, will (a) conflict with, violate or result in any breach of any provision of the certificate of formation, articles of incorporation, regulations, bylaws or similar documents, as applicable, of any Company, (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or any right or obligation to purchase or sell securities or assets) under, or require any consent or result in a material loss of a material benefit to the Companies under, any Contract to which any Company is a party or by which any Company or its businesses, properties or assets are bound, (c) violate any Order, writ, injunction, decree, statute, rule or regulation (collectively, "**Laws**," and individually, a "**Law**") or Permit applicable to any Company or any of its businesses properties or assets, or (d) require any Approval from, by or to any Governmental Authority, except in the case of clauses (b), (c) and (d) of this Section 4.5 for those which would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect, or which become applicable solely as a result of the business or activities in which Buyer is engaged.

Section 4.6 *Reports and Financial Statements.*

(a) Since the date Genco Holdings' registration statement on Form 10 was declared effective by the Securities and Exchange Commission (the "**SEC**") (December 11, 2002), Genco Holdings and, to the extent applicable, each of the other Companies, has timely filed (i) with the SEC all forms, reports, schedules, statements, registration statements and definitive proxy statements (all such filings, including such registration statement on Form 10, the "**Genco SEC Reports**") required to be filed by the Companies under each of the Securities Act of 1933, as amended, and the respective rules and regulations thereunder (the "**Securities Act**") and the Securities Exchange Act of 1934, as amended, and the respective rules and regulations thereunder (the "**Exchange Act**"), and (ii) with the SEC, the NRC, the Public Utility Commission of Texas (the "**PUC**") and any other Governmental Authority with jurisdiction all material forms, reports, schedules, registrations, declarations and other filings required to be filed by it under all applicable Laws, including PUHCA, the Atomic Energy Act of 1954 ("**AEA**") and the Texas Public Utility Regulatory Act, and the respective rules and regulations thereunder ("**PURA**"), all of which, as amended if applicable, complied in all material respects with all applicable requirements of the appropriate act and the rules and

regulations promulgated thereunder. As of their respective dates the Genco SEC Reports (including exhibits and all other information incorporated by reference thereto) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated or incorporated by reference therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each of the audited and unaudited consolidated financial statements (including any related notes) of Genco Holdings included in the Genco SEC Reports (including exhibits and all other information incorporated by reference thereto), including its Annual Report on Form 10-K for the year ended December 31, 2003 (the "**Genco Holdings 10-K**") when filed, complied in all material respects with all applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, was prepared from, and is in accordance with, the books and records of the Companies, which books and records have been maintained, and which financial statements were prepared, in accordance with United States generally accepted accounting principles ("**GAAP**") (except, in the case of unaudited quarterly statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis throughout the periods involved (except as may be indicated therein or in the notes thereto) and fairly presented in all material respects the financial position of Genco Holdings and its subsidiaries as of the dates thereof and the results of their operations, cash flows and changes in financial position for the periods reported (subject, in the case of unaudited quarterly statements, to normal year-end audit adjustments that are immaterial to the Companies as a whole). All of the Companies are consolidated for accounting purposes.

(b) Section 4.6(b) of the Companies Disclosure Letter contains true and complete copies of the audited balance sheet for South Texas Project, as of December 31, 2003, December 31, 2002 and December 31, 2001, and the audited statement of income of South Texas Project for the fiscal years ended December 31, 2003, December 31, 2002 and December 31, 2001 (collectively, the "**STP Financial Statements**"). Each of the STP Financial Statements was prepared from, and is in accordance with, the books and records of South Texas Project, which books and records have been maintained, and which financial statements were prepared, in accordance with GAAP applied on a consistent basis throughout the periods involved (except as may be indicated therein or in the notes thereto) and, as of their respective dates, fairly presented in all material respects the financial position of South Texas Project as of the dates thereof and the results of their operations, cash flows and changes in financial position for the periods reported.

(c) The management of Genco Holdings has (i) implemented disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) intended to ensure that material information relating to the Companies is timely made known to the management of Genco Holdings by others within those entities, and (ii) has disclosed, based on its most recent evaluation, to Genco Holdings' outside auditors and the audit committee of board of directors of Genco Holdings (A) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which could adversely affect Genco Holdings' ability to record, process, summarize and report financial information on a timely basis and (B) any fraud, whether or not material, that

involves management or other employees who have a significant role in Genco Holdings' internal control over financial reporting. A summary of any such disclosure made by management to Genco Holdings' auditors and audit committee has been made available to Buyer.

Section 4.7 *Absence of Undisclosed Liabilities.* Except (a) for liabilities and obligations incurred in the ordinary course of business and consistent with past practice since March 31, 2004, or (b) as otherwise disclosed in the audited financial statements included in the Genco Holdings 10-K or reflected in the notes thereto, in the unaudited interim financial statements included in Genco Holding's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 or reflected in the notes thereto, or in Section 4.7 of the Companies Disclosure Letter, no Company has incurred any liabilities, debts or obligations of any nature (whether direct, indirect, accrued, asserted, unasserted, contingent, known or unknown, determined or determinable, matured or unmatured or otherwise) in excess of $10,000,000, individually or in the aggregate, that would be required to be reflected or reserved against in the consolidated balance sheet of Genco Holdings, or in the notes thereto, prepared in accordance with GAAP as used in preparing the December 31, 2003 balance sheet included in the audited financial statements in the Genco Holdings 10-K.

Section 4.8 *Absence of Certain Changes.* Except as set forth in Section 4.8 of the Companies Disclosure Letter or disclosed in the Genco SEC Reports filed and publicly available prior to the date of this Agreement, since December 31, 2003 and until the date of this Agreement, the Companies have conducted their businesses only in the ordinary course and in a manner consistent with past practice, and since such date there has not been any state of facts, change, development, event, effect, condition or occurrence that has or would reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect. Since December 31, 2003, except as (i) specifically contemplated by this Agreement, (ii) disclosed in the Genco SEC Reports filed and publicly available prior to the date of this Agreement or (iii) set forth in Section 4.8 of the Companies Disclosure Letter, there has not occurred any action, development, event or occurrence or failure to act that, if it had occurred after the date of this Agreement, would have required the consent of Buyer under Section 6.1.

Section 4.9 *Litigation.* Except as set forth in Section 4.9 of the Companies Disclosure Letter, there is no litigation, suit, claim, action, administrative, arbitral or other proceeding, inquiry, audit, hearing petition, grievance, complaint or governmental or regulatory investigation (each an "**Action**") pending or, to the knowledge of the Companies, threatened against any Company, nor are there any outstanding Orders that affect or bind any Company or its businesses, properties or assets that would reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect.

Section 4.10 *Compliance with Law.*

(a) Each Company is, and since December 31, 2001, each Company (and to the extent related to the Genco Business, any affiliate of a Parent previously

engaged in the Genco Business that transferred directly or indirectly, assets or liabilities to any Company in the Separation Transaction) has been in compliance with all applicable Law and none of the Companies has received any notice (including through any Action), and there has been no Action filed, commenced or, to the knowledge of the Companies, threatened against any Company, alleging any violation of Law, except for any noncompliance or violation that would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect.

(b) Except as would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect, (1) the Companies hold all Approvals, authorizations, certificates, licenses, consents and permits of Governmental Authorities ("**Permits**") necessary for the Companies to own, lease and operate their respective properties and assets and to carry on their respective businesses as currently conducted, and (2) all such Permits are in full force and effect. Except as would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect, (1) there has occurred no breach of or default under (with or without notice or lapse of time or both) any such Permit, and none of the Companies has received any notice (including through any Action), and (2) to the knowledge of any Company, there has been no Action filed, commenced or threatened against it, alleging any such breach or default or otherwise seeking to revoke, terminate, suspend or modify any Permit or impose any fine, penalty or other sanctions for violation of any Laws relating to any Permit.

Section 4.11 *Employee Benefit Plans*

(a) Section 4.11(a)(i) of the Companies Disclosure Letter sets forth, a true and complete list of all "employee benefit plans" (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), including multi-employer plans within the meaning of Section 3(37) of ERISA, and all stock purchase, stock option, employment, change-in-control, collective bargaining, incentive, employee loan, deferred compensation, pension, profit-sharing, retirement, bonus, retention bonus, severance and other employee benefit or fringe benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transaction contemplated by this Agreement or otherwise), whether formal or informal, oral or written, legally binding or not, under which (i) any current or former employee, director or consultant of any Company (the "**Company Employees**") has any present or future right to benefits and which are maintained or sponsored by or with respect to which contributions are made by any Company, Parent or any subsidiary of a Parent, in any such case, for the benefit of Company Employees, or (ii) any Company has had or has any present or future liability (collectively, the "**Plans**" and individually, the "**Plan**"). Section 4.11(a)(ii) of the Companies Disclosure Letter identifies each Plan that is sponsored, established, maintained or contributed to solely by any Company, or to which solely the Companies are required to contribute or under which any of the Companies has any liability (collectively, the "**Company Plans**" and individually, the "**Company Plan**"). With respect to each Plan, Genco Holdings has made available to Buyer true and complete copies of (i) the most recent Plan documents and any

amendments thereto, (ii) the most recent summary plan description and all related summaries of material modifications, and (iii) for any Plan intended to be qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "**Code**"), other than the TGN Retirement Plan and the TGN Savings Plan, as defined in Section 6.8(e) of this Agreement, a copy of the most recent favorable determination letter received from the Internal Revenue Service (the "**IRS**"), and (iv) for the three most recent years (A) the annual report on Form 5500 filed with the IRS, (B) audited financial statements, and (C) actuarial valuation reports (and, with respect to any Plan other than a Company Plan, such actuarial valuation separately indicates the valuation of the Plan liabilities to the Company Employees and a current statement of assets underlying such liabilities).

(b) All Plans and their related trusts have been and are, in all material respects, maintained in accordance with each such Plan's terms and in operation in compliance with applicable requirements of ERISA, the Code, and all other applicable Law. Each Plan intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified and, other than the TGN Retirement Plan and the TGN Savings Plan, as defined in Section 6.8(e) of this Agreement, has been determined to be so qualified by the IRS and, to the knowledge of the Companies, there are no facts which would adversely affect the qualified status of any such Plan. Except as would not reasonably be expected, individually or in the aggregate, to have a Companies Material Adverse Effect, no event has occurred and no condition exists that would subject any of the Companies, the Parents or Buyer, either directly or by reason of the Companies' or the Parents' affiliation with any ERISA Affiliate (as defined below), to any tax, fine, Lien, penalty or other liability imposed by ERISA, the Code or other applicable Law. For each Plan with respect to which a Form 5500 has been filed, no material change has occurred with respect to the matters covered by the most recent Form since the date thereof. Except as otherwise contemplated by this Agreement, there is no present intention that any Plan be materially amended, suspended or terminated, or otherwise modified to adversely change benefits (or the levels thereof) under any Plan at any time within the 12 months immediately following the date of this Agreement.

(c) No Plan or employee pension plan within the meaning of Section 3(2) of ERISA ("**Employee Pension Benefit Plan**") maintained by any of the Companies, Parents, or any entity that is required to be treated as a single employer together with the Companies or Parents under Section 414 of the Code ("**ERISA Affiliate**") that is subject to Section 412 of the Code has had an "accumulated funding deficiency" (as such term is defined in Section 412 of the Code and in Section 303 of ERISA), that remains unsatisfied, whether or not waived, and no unsatisfied liability to the Pension Benefit Guaranty Corporation ("**PBGC**") has been incurred with respect to any such plan by any Company.

(d) None of the Companies, Parents or any ERISA Affiliate contributes to, has at any time within the last ten years had an obligation to contribute to, or has or had any liability (including withdrawal liability as defined in Section 4201 of ERISA) under, or with respect to, any multiemployer plan within the meaning of Section 3(37) of ERISA that remains unsatisfied.

(e) The requirements of Part 6 of Subtitle B of Title I of ERISA and Code Section 4980B ("**COBRA**") have been complied with in all material respects by each such Plan that is an employee welfare benefit plan, within the meaning set forth in Section 3(1) of ERISA ("**Employee Welfare Benefit Plan**"), subject to COBRA. Except as set forth in Section 4.11(e) of the Companies Disclosure Letter, none of the Companies or Parents has incurred any current or projected liability in respect of post-employment or post-retirement health, medical or life insurance benefits for current, former or retired employees of any of the Companies, except as required to avoid an excise tax under Section 4980B of the Code or otherwise except as may be required pursuant to any other applicable Law.

(f) Except as set forth in Section 4.11(f) of the Companies Disclosure Letter, (i) no such Plan that is an Employee Pension Benefit Plan has been completely or partially terminated or been the subject of a Reportable Event within the meaning of Section 4043 of ERISA during the six years preceding the Non-STP Acquisition Closing Date, and (ii) no proceeding by the PBGC to terminate any such Employee Pension Benefit Plan has been instituted or threatened and (iii) no administrative investigation, audit or other administrative proceeding by the Department of Labor, the PBGC, the IRS or other governmental agencies are pending, threatened or in progress (including any routine requests for information from the PBGC).

(g) With respect to each Plan (i) there has been no prohibited transaction within the meaning of Section 406 of ERISA and Section 4975 of the Code, and no fiduciary within the meaning of Section 3(21) of ERISA has any material liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such Plan, and (ii) except as set forth in Section 4.11(g) of the Companies Disclosure Letter, no Action involving any Plan (other than routine claims for benefits) is pending or threatened, and, to the knowledge of the Companies or employees of the Companies with responsibility for employee benefits matters, there is no basis for any such Action.

(h) Except as set forth in Section 4.11(h) of the Companies Disclosure Letter, no Plan is a split-dollar life insurance program or provides for loans to executive officers of the Companies (within the meaning of the Sarbanes-Oxley Act of 2002).

(i) Except as set forth in Section 4.11(i) of the Companies Disclosure Letter, no Plan exists that, as a result of the execution of this Agreement, shareholder approval of this Agreement or the transactions contemplated by this Agreement (whether alone or in connection with any subsequent event(s)), could (i) entitle any Company Employee to severance pay or any increase in severance pay upon any termination of employment after the date of this Agreement, (ii) accelerate the time of payment or vesting or result in any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or result in any other material obligation pursuant to, any of the Plans, (iii) limit or restrict the right of any Company to merge, amend or terminate any of the Plans, (iv) cause any Company to record additional compensation expense on its income statement with respect to any

outstanding stock option or other equity-based award, or (v) result in payments under any of the Plans which would not be deductible under Section 280G of the Code.

Section 4.12 *Labor and Employment Matters.* Except as set forth in Section 4.12 of the Companies Disclosure Letter, as of the date of this Agreement there are no collective bargaining agreements or other labor Contracts relating to any Company or covering any Company Employee to which any Company is a party or by which it is bound, and, except as would not reasonably be expected, individually or in the aggregate, to have a Companies Material Adverse Effect, there are no (a) Actions or Orders pending or, to the knowledge of any Company, threatened, in each case relating to Company Employees or employment practices or asserting that any Company has committed an unfair labor practice or is seeking to compel any Company to bargain with any labor union or labor organization, (b) pending or, to the knowledge of any Company, threatened labor strikes or other labor troubles affecting any Company, (c) labor strikes, disputes, walk-outs, work stoppages, slow-downs, lockouts, arbitrations or grievances involving any Company (and there has been none with respect to any Company or the Genco Business in the last five years), (d) representation questions respecting any of the Company Employees (and there has been none with respect to any Company or the Genco Business in the last five years), (e) to the knowledge of any Company, campaigns conducted to solicit cards from Company Employees to authorize representation by a labor organization or (f) unfair labor practices committed by the Companies or their employees. Except as would not reasonably be expected, individually or in the aggregate, to have a Companies Material Adverse Effect, each Company is in compliance in all respects with all collective bargaining agreements and all applicable Laws regarding employment and employment practices, terms and conditions of employment, wages and hours and occupational safety and health.

Section 4.13 *Taxes.* Except as set forth in Section 4.13 of the Companies Disclosure Letter:

(a) With respect to each Company, (i) all material Tax Returns required to be filed have been or will be timely filed in accordance with any applicable Laws and all such Tax Returns are or will be true and complete in all material respects, and (ii) all Taxes due have been or will be paid (whether or not such Taxes are shown as being due on any Tax Returns).

(b) With respect to each Company, (i) there is no material action, suit, proceeding, audit, written claim or assessment pending or proposed with respect to Taxes or with respect to any Tax Return, (ii) there are no waivers or extensions of any applicable statute of limitations for the assessment or collection of Taxes with respect to any Tax Return which remain in effect, and (iii) there are no material Liens for Taxes upon the assets of any Company, except for Liens for Taxes not yet due and payable or Liens for Taxes being contested in good faith through appropriate proceedings and for which adequate reserves have been maintained in accordance with GAAP.

(c) Genco Holdings is and will be a member of an affiliated group filing a consolidated federal income tax return of which CenterPoint is the common

parent. None of the Companies (i) is currently or has ever been a member of an affiliated group (other than a group the common parent of which is CenterPoint or any Company) filing a consolidated federal income Tax Return or (ii) has any liability for the Taxes of any person (other than the affiliated group of which CenterPoint is the common parent) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign Laws), or as a transferee or successor, by contract or otherwise.

(d) None of the Companies is a party to, bound by or has any obligation under, any Tax sharing, Tax indemnity or similar contract with a party that is not a member of the affiliated group of which CenterPoint is the common parent.

(e) Each Company has withheld and paid over all Taxes required to have been withheld and paid over, and complied in all respects with all information reporting requirements, in connection with amounts paid or owing to any employee, creditor, independent contractor or other third party.

(f) No property of any Company is property that any Company or any party to this transaction is or will be required to treat as being owned by another person pursuant to the provisions of Code Section 168(f)(8) (as in effect prior to its amendment by the Tax Reform Act of 1986) or is "tax exempt use property" within the meaning of Code Section 168(h).

(g) None of the Companies has been a party to any distribution occurring during the last two years in which the parties to such distribution treated the distribution as one to which Section 355 of the Code is applicable.

(h) No actions have been taken by Parents or any of their affiliates that would reasonably be expected to, individually or in the aggregate, have jeopardized the qualification of the interest as tax-exempt on any tax-exempt bonds that relate to any assets of the Companies.

(i) None of the Companies is required to include amounts in income, or exclude items of deduction, in a taxable period beginning after the STP Acquisition Closing Date (a "**Post-Closing Tax Period**") as a result of (i) a change in method of accounting, (ii) a closing agreement as described in section 7121 of the Code (or corresponding or similar provision of state, local or foreign Tax Laws), (iii) an installment sale or open transaction arising in a taxable period ending on or before the STP Acquisition Closing Date (a "**Pre-Closing Tax Period**"), (iv) a prepaid amount received, or paid, in a Pre-Closing Tax Period or (v) deferred gains that could be recognized in a Post-Closing Tax Period.

(j) None of the Companies has engaged in any "reportable transactions" within the meaning of Treas. Reg. § 1.6011-4(b).

(k) All assets that are owned by each Company and required to be listed on the property tax rolls have been properly listed and described on the property tax rolls for 2004 and all Pre-Closing Tax Periods and no portion of each Company's assets constitutes omitted property for property tax purposes.

(l) Genco Holdings does not hold an interest in any entity treated as a corporation or partnership for federal income tax purposes and all of the Companies (other than Genco Holdings) are treated as disregarded entities for federal income tax purposes.

Section 4.14 *Title, Ownership and Related Matters.* Each Company has good title to, or rights by license, lease or other agreement to use, all properties and assets (or rights thereto) (other than cash, cash equivalents and securities and except as contemplated in this Agreement) necessary to permit each Company to conduct its business as currently conducted, except as set forth in Section 4.14 of the Companies Disclosure Letter or otherwise where the failure to have such title or rights would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect. Without limiting the generality of the foregoing:

(a) Section 4.14(a)(i) of the Companies Disclosure Letter lists and identifies the owner of all material real property and material interests in real property owned by each Company (such real property and interests in real property, together with (A) all the buildings, improvements, structures and fixtures now or subsequently located on the fee property owned by each Company (excluding those structures and fixtures for which title was retained by RRI in the vesting deeds ("**RRI Retained Structures**"), and (B) such buildings, improvements, structures and fixtures now or subsequently located on the property a non-fee interest in which is owned by each Company that were either (i) conveyed to such Company by RRI in the vesting deed or easement or (ii) built by or for such Company or its predecessors (excluding RRI Retained Structures) (collectively, the "**Owned Real Property**"). For purposes of this Section 4.14(a) only, each Company's "predecessors" shall include Genco Holdings, CenterPoint, Reliant Energy, Incorporated, Houston Lighting & Power Company and all other predecessors in title of each such entity with respect to the Real Property. The "**Energy Development Center**" means the tract of land identified in paragraph (Q) of Section 4.14(a)(i) of the Companies Disclosure Letter and all the buildings, improvements, structures and fixtures now or subsequently located thereon. Section 4.14(a)(ii) of the Companies Disclosure Letter lists all agreements other than easements or rights of way (together with any amendments, modifications or supplements thereto, the "**Leases**") pursuant to which any Company leases, subleases, licenses or otherwise occupies (whether as landlord, tenant, subtenant or other occupancy arrangement) any real property or interest in real property that is material to the Genco Business taken as a whole (collectively, the "**Leased Real Property**", together with the Owned Real Property, the "**Real Property**") and identifies the Company party thereto. With respect to each of the Real Property and except as would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect:

(i) the identified owner of each parcel of Owned Real Property has good, valid and indefeasible fee simple title to the Owned Real Property that consists of fee property as contrasted with some lesser estate therein, and the identified owner of each parcel of Owned Real Property that does not consist of fee property has good title to such Owned Real Property, free and clear of all Liens other than (A) Liens for current taxes and assessments not yet due and

payable, (B) inchoate mechanics' and materialmen's Liens for construction in progress, (C) workmen's, repairmen's, warehousemen's and carriers' Liens arising in the ordinary course of business of the Companies consistent with past practice, and (D) all Liens and other imperfections of title and encumbrances which would not reasonably be expected to materially interfere with the conduct of the Genco Business, taken as a whole (collectively, "**Permitted Liens**");

(ii) each Leased Real Property is held subject to a Lease that is a valid and subsisting agreement in full force and effect and constitutes a valid and binding obligation of, and is legally enforceable against, the respective parties thereto and each Company, as applicable, has good and valid title to the leasehold estate in the Leased Real Property, free and clear of any Liens other than Permitted Liens;

(iii) there are no pending or, to the knowledge of the Companies, threatened condemnation, expropriation or taking proceedings against the Real Property; and

(iv) there are no outstanding options or rights of first refusal to purchase or lease the Real Property, or any portion thereof or interest therein.

(b) Section 4.14(b) of the Companies Disclosure Letter sets forth a true and complete list of all material real property or material interests in real property sold, leased, transferred or disposed of since August 31, 2002.

(c) Except as would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect, (1) all of the Companies' properties, rights and assets are in good operating condition and repair, subject to continued repair and replacement consistent with past practice, and (2) there are no structural defects in any such properties, rights and assets.

Section 4.15 *Environmental.* Except as set forth in Section 4.15 of the Companies Disclosure Letter, or as would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect:

(a) The Companies are in compliance with all applicable Environmental Laws, and no Company or Parent has received any written communication from any Governmental Authority that alleges that any of the Companies (or, to the extent applicable to the Genco Business, any affiliate of Parents previously engaged in the Genco Business that transferred, directly or indirectly, assets or liabilities to any Company in the Separation Transactions) is not in compliance with applicable Environmental Laws;

(b) Each Company has obtained and possesses all environmental, health and safety Permits, including all air emissions allowances and water rights (collectively, the "**Environmental Permits**") necessary for the construction and operation of its facilities or the conduct of its business, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely

filed and is pending approval by any Governmental Authority, and the Companies are in compliance with all terms and conditions of the Environmental Permits.

(c) There is no Environmental Claim (as defined below) (i) pending or, to the knowledge of the Companies, threatened against any Company or (ii) to the knowledge of the Companies, pending or threatened against any real or personal property or operations that any Company owns, leases or uses, in whole or in part, including any off-site facility used by any Company for the treatment, storage and disposal of any Hazardous Substance.

(d) To the knowledge of the Companies, there has been no Release (as defined below) of any Hazardous Substance (as defined below) that has formed or would reasonably be expected to form the basis of (i) any Environmental Claim against any Company or against any person (including any predecessor of the Companies) whose liability for such claim the Companies has or may have retained or assumed, either by operation of Law or by Contract, or (ii) any requirement on the part of any Company to undertake Remedial Action.

(e) To the knowledge of the Companies, each Company has disclosed to Buyer all facts which such Company reasonably believes forms the basis of (i) any Environmental Claim against any such Company or (ii) any obligation of any such Company currently required, or known to be required in the future, to incur costs for pollution control equipment or environmental remediation under, or otherwise to comply with, applicable Environmental Laws.

For purposes of this Agreement:

"**Environmental Claim**" means any and all Actions, demands, demand letters, directives, Liens or notices of noncompliance or violation by any person (including any Governmental Authority) alleging potential liability (including potential responsibility for or liability for enforcement costs, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural-resources damages, property damages, personal injuries, fines or penalties) arising out of, based on or resulting from (A) the presence, or Release or threatened Release into the environment, of any Hazardous Substances at any location, whether or not owned, operated, leased or managed by the Companies or joint ventures; (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or (C) any and all Actions by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Substances;

"**Environmental Law**" means all Laws relating to pollution, the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health and safety as it relates to the environment, including Laws relating to Releases or threatened Releases of any Hazardous Substance, or otherwise relating to the manufacture, processing,

distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Substance including the Comprehensive Environmental Response, Compensation, and Liability Act ("**CERCLA**") (42 U.S.C. Section 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. Section 1801 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. Section 6901 et seq.), the Clean Water Act (33 U.S.C. Section 1251 et seq.), the Clean Air Act (33 U.S.C. Section 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. Section 7401 et seq.), the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. Section 136 et seq.), and the Occupational Safety and Health Act (29 U.S.C. Section 651 et seq.) ("**OSHA**") and the regulations promulgated pursuant thereto, and any such applicable state or local statutes, and the regulations promulgated pursuant thereto, as such Laws have been and may be amended or supplemented to the date of this Agreement;

"**Hazardous Substance**" means any substance listed, defined or classified as hazardous, toxic or radioactive pursuant to any applicable Environmental Law, including petroleum and any derivative or by-product thereof, and any other substance regulated pursuant to, or the presence or exposure to which may form the basis for liability under, any applicable Environmental Law;

"**Release**" means any spilling, emitting, leaking, pumping, pouring, emptying, injecting, escaping, dumping, disposing, discharging, or leaching into the environment, or into or out of any property owned, operated or leased by the applicable party; and

"**Remedial Action**" means all actions, including any capital expenditures, required by a governmental entity or required under any Environmental Law, or voluntarily undertaken to (a) clean up, remove, treat, or in any other way ameliorate or address any Hazardous Substance in the environment; (b) prevent the Release or threat of Release, or minimize the further Release of any Hazardous Substance so it does not endanger or threaten to endanger the public health or welfare of the indoor or outdoor environment; (c) perform pre-remedial studies and investigations or post-remedial monitoring and care pertaining or relating to a Release; or (d) bring the applicable party into compliance with any Environmental Law.

Section 4.16 *Brokers; Finders and Fees*

(a) Except for RBC Capital Markets Corporation, whose fees will be paid by Genco Holdings, none of the Companies and their respective controlled affiliates has employed, engaged or entered into a Contract with any investment banker, broker, finder, other intermediary or any other person or incurred any liability for any investment banking, financial advisory or brokerage fees, commissions, finders' fees or any other fee in connection with this Agreement or the transactions contemplated by this Agreement.

(b) Set forth in Section 4.16(b) of the Companies Disclosure Letter is the Genco Holdings' reasonable estimate of the fees and expenses incurred or payable, or

to be incurred or payable, by any Company in connection with this Agreement and the consummation of the transactions contemplated hereby.

Section 4.17 *Texas Business Combination Law.* Genco Holdings validly elected in its original bylaws not to be governed by Part Thirteen of the TBCA such that Part Thirteen of the TBCA would not apply to the Public Company Merger and the other transactions contemplated hereby.

Section 4.18 *Intellectual Property.* Except as set forth in Section 4.18 of the Companies Disclosure Letter, or as would not reasonably be expected to, individually or in the aggregate, have a Companies Material Adverse Effect: (i) the Companies own or have the valid right to use all the Intellectual Property necessary or desirable to conduct their businesses as currently conducted and consistent with past practice free and clear of all Liens; (ii) the Company IP is valid, enforceable and unexpired, has not been abandoned, and does not infringe, impair, misappropriate, dilute, make unauthorized use of, or otherwise violate ("**Infringe**") the Intellectual Property of any third party and is not being Infringed by any third party; (iii) no Action or Order is outstanding or pending, or to the knowledge of the Companies, threatened that seeks to cancel, limit or challenge the ownership, use, value, validity or enforceability of any Company IP, and to the knowledge of the Companies, there is no valid basis for same; (iv) each Company has taken all necessary steps (including executing non-disclosure and intellectual property assignment agreements and filing for statutory protections) to protect, preserve, police, maintain and safeguard the value, validity and their ownership of its Company IP, including any confidential Company IP; and (v) each Company has executed all appropriate agreements with current and past employees, contractors and agents to assign to the Companies all of their right, title and interest in any Company IP.

Section 4.19 *Contracts.* Section 4.19 of the Companies Disclosure Letter contains a true and complete list of the following Contracts to which any Company is a party or by which any Company properties are bound or affected as of the date of this Agreement:

(a) Contracts containing covenants restricting the payment of dividends or limiting the freedom in any material respect of any Company or any of their respective affiliates to engage in any line of business or compete with any person or operate at any location;

(b) Joint venture agreements, limited liability company agreements, partnership agreements or similar agreements;

(c) the Transition Services Agreement, dated as of August 31, 2002, between CenterPoint and Genco Holdings (the "**Current Transition Services Agreement**"), the Technical Services Agreement (the "**Technical Services Agreement**") between Genco Holdings and RRI dated as of December 31, 2000, and the Contract (the "**Pipeline Services Agreement**"), effective April 1, 2002 between Genco Holdings and CenterPoint Energy Pipeline Services;

(d) Contracts (other than employment agreements) involving expenditures which are reasonably expected to be in excess of $1,000,000 per annum pursuant to which any person is engaged to perform services replacing, or similar in nature to, any services provided since July 1, 2003 by any of Parent, RRI and their respective affiliates in connection with any of the Current Transition Services Agreement, the Technical Services Agreement and the Pipeline Services Agreement;

(e) Contracts involving expenditures (capital or otherwise), liabilities or revenues to the Companies which are reasonably expected to be in excess of $5,000,000 per annum or $25,000,000 in the aggregate;

(f) Contracts with terms of one year or longer, unless expenditures, liabilities or revenues thereunder are not reasonably expected to be in excess of $1,000,000 per annum;

(g) Each lease of personal property (i) requiring lease payments equal to or exceeding $250,000 per annum or (ii) the loss of which would reasonably be expected to, individually or in the aggregate with other such losses, have a Companies Material Adverse Effect;

(h) The Second Amended and Restated Decommissioning Master Trust Agreement for the South Texas Project (the "Decommissioning Trust Agreement") made August 31, 2002, by and between Genco Holdings and Mellon Bank, N.A. and all Contracts related thereto; and

(i) Contracts otherwise material to the Companies.

True and complete copies of the written Contracts required to be identified in Sections 4.3(c), 4.11(a), 4.12, 4.19, 4.20, 4.22 and 4.23 of the Companies Disclosure Letter (all such Contracts, whether now or hereafter existing, collectively, the "**Company Contracts**") (and true and complete written summaries of any such oral Contracts) have been made available to Buyer, except as set forth in Section 4.19 of the Companies Disclosure Letter.

Except as would not reasonably be expected, individually or in the aggregate, to have a Companies Material Adverse Effect, no Company is and, to the knowledge of the Companies, no other party is in default under, or in breach or violation of, any Company Contract and, to the knowledge of the Companies, no event has occurred which would result in any breach or violation of, constitute a default, require consent or result in the loss of a material benefit under, give rise to a right to permit or require the purchase or sale of assets or securities under, give rise to any right of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any of the properties or assets of any Company (in each case, with or without notice or lapse of time or both) a connection with to, any Company Contract, and each Company Contract is valid, binding and enforceable in accordance with its terms and is in full force and effect.

Section 4.20 *Insurance.* Section 4.20 of the Companies Disclosure Letter contains a true and complete list of the insurance policies and fidelity bonds of or

for the benefit of any Company or its assets, businesses, operations, employees, officers or directors (the "**Company Insurance Policies**"). Each of the Company Insurance Policies is valid, enforceable, existing and binding, and the premiums due thereon have been timely paid. There are no outstanding unpaid claims under any of the Company Insurance Policies with respect to any Company, except in the ordinary course of business consistent with past practice. No Company has received notice of cancellation, termination or non-renewal of any Company Insurance Policy or has been denied insurance coverage. The Company Insurance Policies are sufficient for compliance with applicable Law and all Contracts to which any of the Companies is a party or by which it or any of its assets are bound, and are in such amounts, against such risks and losses, and on such terms and conditions as are consistent with industry practice in the business of each Company.

Section 4.21 *Regulatory Matters*

(a) PUHCA and Utility Regulation. Each of the Companies is subject to regulation under PUHCA as a "subsidiary" of CenterPoint, which is a "registered holding company" (as such terms are defined under PUHCA). Genco LP is subject to regulation (i) under the AEA as a licensee or the owner of licensee, (ii) under Texas utility Law as a "power generation company" (as such term is defined under PURA), and (iii) under the ERCOT protocols as a "resource entity" (as such term is defined in the ERCOT protocols). Except as set forth in the immediately preceding sentences, the Companies are not subject to regulation as a public utility, public utility holding company or public service company (or similar designation) by any Governmental Authority.

(b) STP Compliance. Except as set forth in Section 4.21(b) of the Companies Disclosure Letter, the operation of the South Texas Project is and has since January 1, 1999 been conducted in compliance in all material respects with applicable health, safety, regulatory and other legal requirements. Such legal requirements include, but are not limited to, the NRC Facility Operating Licenses for the South Texas Project issued pursuant to 10 C.F.R. Chapter I, and all regulations, requirements and orders related in any way thereto; and all obligations of the owners of South Texas Project pursuant to contracts with the United States Department of Energy for the disposal of spent nuclear fuel and high-level radioactive waste, and any Laws of the State of Texas or any agency thereof. The operations of the South Texas Project are not the subject of any outstanding notice of violation or material request for information from the NRC or any other agency with jurisdiction over such facility. The South Texas Project maintains, and is in compliance in all material respects with, emergency plans designed to protect the health and safety of the public in the event of an unplanned release of radioactive materials, and the NRC has determined that such plans are in compliance with its requirements.

(c) Exempt Wholesale Generator Status. Genco LP is, and has been determined by order of the FERC to be, an EWG, and neither such order nor Genco LP's status as an EWG under PUHCA is the subject of any pending or, to the knowledge of the Companies, threatened judicial or administrative proceeding to revoke or modify such

status. To the knowledge of the Companies, there are no facts that are reasonably likely to cause Genco LP to lose its status as an EWG under PUHCA.

(d) Qualified Decommissioning Fund. Except as set forth in Section 4.21(d) of the Companies Disclosure Letter:

(i) With respect to all periods prior to the STP Acquisition Closing Date: (i) Genco Holding's Qualified Decommissioning Fund consists of one or more trusts that are validly existing and in good standing under the laws of its jurisdiction of formation with all requisite authority to conduct its affairs as it now does; (ii) Genco Holding's Qualified Decommissioning Fund satisfies the requirements necessary for such fund to be treated as a "Nuclear Decommissioning Reserve Fund" within the meaning of Code Section 468A(a) and as a "Nuclear Decommissioning Fund" and a "Qualified Nuclear Decommissioning Fund" within the meaning of Treas. Reg. Section 1.468A-1(b)(3); (iii) Genco Holdings' Qualified Decommissioning Fund is in compliance in all material respects with all applicable rules and regulations of any Governmental Authority having jurisdiction, including the NRC, the PUC and the IRS, (iv) Genco Holdings' Qualified Decommissioning Fund has not engaged in any acts of "self-dealing" as defined in Treas. Reg. Section 1.468A-5(b)(2); (v) no "excess contribution," as defined in Treas. Reg. Section 1.468A-5(c)(2)(ii), has been made to Genco Holdings' Qualified Decommissioning Fund which has not been withdrawn within the period provided under Treas. Reg. Section 1.468A-5(c)(2)(i); and (vi) except as set forth in Section 4.21(d) of the Companies Disclosure Letter, Genco Holdings has made timely and valid elections to make annual contributions to Genco Holding's Qualified Decommissioning Fund since its inception and Genco Holdings has heretofore delivered copies of such elections to Buyer. As used in this Agreement, the term "**Qualified Decommissioning Fund**" means all amounts contributed to qualified funds for administrative costs and costs incurred in connection with the entombment, dismantlement, removal and disposal of the structures, systems and components of a unit of common facilities, including all costs incurred in connection with the preparation for decommissioning, such as engineering and other planning expenses incurred with respect to the unit of common facilities after actual decommissioning occurs, such as physical security and radiation monitoring expenses, as part of Genco LP's cost of service required by PURA or as approved by the PUC.

(ii) Genco Holdings has heretofore delivered to Buyer a copy of Genco Holdings' Decommissioning Trust Agreement as in effect on the date of this Agreement.

(iii) With respect to all periods prior to the STP Acquisition Closing Date, (i) Genco Holdings and/or Mellon Bank, N.A. (the "**Trustee**") of Genco Holdings' Qualified Decommissioning Fund has/have filed or caused to be filed with the NRC, the IRS and any other Governmental Authority all material forms, statements, reports, documents (including all exhibits, amendments and

supplements thereto) required to be filed by Genco Holdings and/or the Trustee of Genco Holdings' Qualified Decommissioning Fund; and (ii) there are no interim rate orders that may be retroactively adjusted or retroactive adjustments to interim rate orders that may affect amounts that Buyer may contribute to Genco Holdings' Qualified Decommissioning Fund or may require distributions to be made from Genco Holdings' Qualified Decommissioning Fund. Genco Holdings has delivered to Buyer a copy of the schedule of ruling amounts most recently issued by the IRS for Genco Holdings' Qualified Decommissioning Fund and a complete copy of the request that was filed with the IRS to obtain such schedule of ruling amounts and a copy of any pending request for revised ruling amounts, in each case together with all exhibits, amendments and supplements thereto. Any amounts contributed to Genco Holdings' Qualified Decommissioning Fund while such request is pending before the IRS and which turn out to exceed the applicable amounts provided in the schedule of ruling amounts issued by the IRS will be withdrawn from Genco Holdings' Qualified Decommissioning Fund within the period provided under Treas. Reg. Section 1.468A-5(c)(2)(i).

(iv) Genco Holdings has made available to Buyer a statement of assets and liabilities prepared by the Trustee for Genco Holdings' Qualified Decommissioning Funds as of December 31, 2003 and as of June 30, 2004 and will make such a statement available as of the most recently available month end preceding the STP Acquisition Closing, and they fairly presented and will fairly present as of such dates the financial position of each of Genco Holdings' Qualified Decommissioning Funds. Genco Holdings has made available to Buyer information from which Buyer can determine the Tax Basis of all assets in Genco Holdings' Qualified Decommissioning Fund and will make such a statement available as of the most recently available month end preceding the STP Acquisition Closing.

(v) Genco Holdings has made available to Buyer all material contracts and agreements to which the Trustee of Genco Holdings' Qualified Decommissioning Fund, in its capacity as such, is a party.

(vi) With respect to all taxable periods prior to the STP Acquisition Closing Date, Genco Holdings' Qualified Decommissioning Fund has filed all material Tax Returns required to be filed, including but not limited to returns for estimated Income Taxes, such Tax Returns are true and complete in all material respects, and all Taxes have been paid in full. No notice of deficiency or assessment has been received from any taxing authority with respect to any liability for Taxes of Genco Holdings' Qualified Decommissioning Fund which have not been fully paid or finally settled. There are no outstanding agreements or waivers extending the applicable statutory periods of limitations for any Taxes associated with Genco Holdings' Qualified Decommissioning Fund for any period.

(e) Nonqualified Decommissioning Funds. Except as set forth in Section 4.21(e) of the Companies Disclosure Letter:

(i) With respect to all periods prior to the STP Acquisition Closing Date, Genco Holdings' Nonqualified Decommissioning Funds is a trust validly existing and in good standing under the laws of its jurisdiction of formation with all requisite authority to conduct its affairs as it now does. Genco Holdings' Nonqualified Decommissioning Funds are in full compliance in all material respects with all applicable rules and regulations of any Governmental Authority, including the NRC and the PUC. Company's Nonqualified Decommissioning Funds are, and since their inception have been, classified as a grantor trust owned by the Parents under Section 671 to 677 of the Code. As used in this Agreement, the term "**Nonqualified Decommissioning Funds**" means the nonqualified funds, as determined by the Trustee and Texas Genco, LP, established and maintained under the Decommissioning Trust Agreement for decommissioning South Texas Project Unit No. 1, South Texas Project Unit No. 2 and the common facilities to which monies are contributed, which nonqualified funds are not subject to the conditions and limitations of Section 468A of the Code.

(ii) With respect to all periods prior to the STP Acquisition Closing Date, Genco Holdings and the Trustee of Genco Holdings' Nonqualified Decommissioning Funds have filed or caused to be filed with the NRC and any other Governmental Authority all material forms, statements, reports, documents (including all exhibits, amendments and supplements thereto) required to be filed by either of them.

(iii) Genco Holdings has made available to Buyer a statement of assets and liabilities prepared by the Trustee for Genco Holdings' Nonqualified Decommissioning Funds as of December 31, 2003 and as of June 30, 2004 and will make such a statement available as of the end of the most recently available month end preceding the STP Acquisition Closing, and they fairly presented and will fairly present as of such dates the financial position of each of Genco Holdings' Nonqualified Decommissioning Funds. Genco Holdings has made available to Buyer all contracts and agreements to which the Trustee of Genco Holdings' Nonqualified Decommissioning Funds, in its capacity as such, is a party.

(iv) Genco Holdings has made available to Buyer all material contracts and agreements to which the Trustee of Genco Holdings' Nonqualified Decommissioning Funds, in its capacity as such, is a party.

Section 4.22 *Affiliate Transactions.* Except as set forth in Section 4.22 of the Companies Disclosure Letter or as disclosed in Genco Holding's proxy statement relating to the election of directors dated April 23, 2004, there are no Contracts or transactions between any Company, on the one hand, and any (A) Parent or its affiliates (other than the Companies), on the other hand, other than any Contract or transaction entered into in the ordinary course of business and on terms no less favorable than would have been reached on an arms-length basis that is not material to the Company, or (B) (i) officer or director of any Company or Parent or its affiliates, or (ii) affiliate of any such

officer or director, on the other hand, in each case in this clause (B) except those of a type available to Company Employees generally and other than any Contract or transaction entered into in the ordinary course of business and on terms no less favorable than would have been reached on an arm's-length basis or that is not material to the Company (all Contracts and transactions referred to in clauses (A) or (B), whether entered into before or after the date hereof, "**Company Affiliate Contracts**").

Section 4.23 *Derivative Products.*

(a) All Derivative Products entered into for the account of any Company were entered into in accordance with (i) established risk parameters, limits and guidelines and in compliance with the risk management policies approved by the board of directors of Genco Holdings (the "**Trading Policies**"), in each case both as in effect at the time such Derivative Products were entered into and as in effect on the date of this Agreement, to restrict the level of risk that any Company is authorized to take, individually and in the aggregate, with respect to Derivative Products and monitor compliance with such risk parameters and (ii) applicable Law and policies of any Governmental Authority.

(b) Genco Holdings has made available Buyer a true and complete copy of the Trading Policies, and the Trading Policies contain a true and complete description of the practice of the Companies with respect to Derivative Products, as of the date of this Agreement.

(c) At no time has any Company engaged in any "round trip," "sale/buyback" or "wash" trading or any similar transaction.

(d) For purposes of this Agreement, "**Derivative Product**" means (i) any swap, cap, floor, collar, futures contract, forward contract, option and any other derivative financial instrument or Contract, based on any commodity, security, instrument, asset, rate or index of any kind or nature whatsoever, whether tangible or intangible, including electricity, natural gas, crude oil and other commodities, emissions allowances, currencies, interest rates and indices and (ii) forward contracts for physical delivery, physical output of assets, and physical load obligations.

Section 4.24 *Fairness Opinion.* Genco Holdings has received the written opinion of RBC Capital Markets Corporation to the effect that, as of the date of this Agreement, the consideration to be received in the Public Company Merger by Genco Holdings' shareholders (other than CenterPoint) is fair to such shareholders from a financial point of view. An executed copy of such opinion has been delivered to Buyer.

Section 4.25 *Board Recommendation.* The board of directors of Genco Holdings, upon the unanimous recommendation of a special committee thereof, has unanimously (i) adopted resolutions approving this Agreement and the transactions contemplated hereby, including the Public Company Merger, in accordance with the TBCA, (ii) determined that this Agreement and the transactions contemplated hereby, including the Public Company Merger, are advisable and fair to and in the best interests

of the shareholders of Genco Holdings, (iii) resolved to recommend approval of this Agreement and the transactions contemplated hereby, including the Public Company Merger, to the shareholders of Genco Holdings and (iv) directed that approval of this Agreement be submitted to Genco Holdings' shareholders.

Section 4.26 *Ownership of Assets.* Except as set forth in Section 4.26 of the Companies Disclosure Letter, none of Genco Holdings or any of its subsidiaries (other than Genco LP, Genco Services and, after the Genco LP Division, Genco II LP) (i) owns, leases or has any other right, title or interest in any assets or properties, (ii) is a party to, or is otherwise bound by or subject to, any Contract, (iii) owns or holds any Permits, or (iv) has any Company Employees.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Parents and Genco Holdings as follows:

Section 5.1 *Organization; Etc.* Buyer (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (b) has all requisite limited liability company power and authority to execute and deliver this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto, to perform its obligations hereunder and to consummate the transactions contemplated by this Agreement and (c) is duly qualified or licensed to do business, and is in good standing in each jurisdiction in which the nature of its business or the ownership, operation or leasing of its properties makes such qualification or licensing necessary, except where the failure to be so qualified or licensed would not reasonably be expected to, individually or in the aggregate, have a Buyer Material Adverse Effect. As used in this Agreement, the term **"Buyer Material Adverse Effect"** means an event, change or circumstance which would materially adversely affect the ability of Buyer to consummate the transactions contemplated by this Agreement or directly or indirectly prevent or materially impair or delay the ability of Buyer to perform its obligations hereunder.

Section 5.2 *Authority Relative to this Agreement.* The execution, delivery and performance of this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto, by Buyer and the consummation of the transactions contemplated by this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto have been duly and validly authorized by all requisite corporate or limited liability company action, as applicable, on the part of Buyer and no other corporate actions or proceedings on the part of Buyer is necessary to authorize the execution, delivery and performance of this Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto by Buyer or to consummate the transactions so contemplated. This Agreement and all other agreements and instruments executed in connection herewith or delivered pursuant hereto have been, or will be, duly

and validly executed and delivered by Buyer and, with respect to this Agreement and any other such agreement, assuming it has been duly authorized, executed and delivered by any other party (other than an affiliate of Buyer), constitutes, or will constitute when executed, a valid and binding agreement of Buyer, enforceable against Buyer in accordance with its terms, except that (a) enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally, and (b) enforcement of this Agreement, including, among other things, the remedy of specific performance and injunctive and other forms of equitable relief, may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 5.3 *Consents and Approvals; No Violations.* Except for the Required Approvals, none of the execution, delivery and performance of this Agreement by Buyer, nor the consummation by Buyer of the transactions contemplated by this Agreement, will (a) conflict with, violate or result in any breach of any provision of the certificate of formation, articles of incorporation, regulations, bylaws or similar documents, as applicable, of Buyer, (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration or any right or obligation to purchase or sell securities or assets) under, or require any consent or result in a material loss of a material benefit to Buyer under, any Contract to which Buyer is a party or by which any of its businesses, properties or assets are bound, (c) violate any Law or Permit applicable to Buyer or its business, properties or assets, or (d) require any Approval from, by or to any Governmental Authority, except in the case of clauses (b), (c) and (d) of this Section 5.3 for those which would not reasonably be expected to, individually or in the aggregate, have a Buyer Material Adverse Effect.

Section 5.4 *Debt Financing.* As of the date hereof, Buyer has delivered to Genco Holdings true and complete copies of (a) the Debt Financing Letter on Section 5.4(a) of the disclosure letter delivered by Buyer to Parents and Genco Holdings concurrently with the execution hereof (the **"Buyer Disclosure Letter"**) hereto, and (b) the equity letter on Section 5.4(b) of the Buyer Disclosure Letter.

Section 5.5 *Litigation.* There is no Action pending or, to the knowledge of Buyer, threatened against Buyer by or before any Governmental Authority, nor are there any Orders that affect or bind any of them or any of their respective businesses, properties or assets which would not reasonably be expected to, individually or in the aggregate, have a Buyer Material Adverse Effect.

Section 5.6 *Investigation by Buyer.* Buyer has conducted its own independent review and analysis of the business, operations, assets, liabilities, results of operations, financial condition, technology and prospects of the Genco Business and acknowledges that Buyer has been provided access to personnel, properties, premises and records of the Genco Business for such purpose. In entering into this Agreement, Buyer has relied upon, among other things, its due diligence investigation and analysis of the Companies and the Genco Business, and Buyer:

(a) acknowledges and agrees that it has not been induced by and has not relied upon any representations or warranties, whether express or implied, made by Parents or any of their respective directors, officers, shareholders, employees, affiliates, controlling persons, agents, advisors or representatives (in each case other than Genco Holdings) that are not expressly set forth in Article III of this Agreement, whether or not any such representations, warranties or statements were made in writing or orally, and acknowledges and agrees that all representations and warranties made in Article III are made by CenterPoint and not Genco Holdings;

(b) acknowledges and agrees that it has not been induced by and has not relied upon any representations or warranties, whether express or implied, made by the Companies or any of their respective directors, officers, shareholders, employees, affiliates, controlling persons, agents, advisors or representatives (in each case other than Parents) that are not expressly set forth in Article IV of this Agreement, whether or not any such representations, warranties or statements were made in writing or orally, and acknowledges and agrees that all representations and warranties made in Article IV are made by Genco Holdings and not CenterPoint;

(c) acknowledges and agrees that none of Parents and the Companies or any of their respective directors, officers, shareholders, employees, affiliates, controlling persons, agents, advisors or representatives makes or has made any representation or warranty, either express or implied, as to the accuracy or completeness of any of the information provided or made available to Buyer or its directors, officers, employees, affiliates, controlling persons, agents or representatives, including without limitation, any information included in the Confidential Information Memorandum dated February 2004, as supplemented to the date of this Agreement, and any information, document, or material provided or made available, or statements made, to Buyer (including its directors, officers, employees, affiliates, controlling persons, advisors, agents or representatives) during site or office visits, in any "data rooms," management presentations or supplemental due diligence information provided to Buyer (including its directors, officers, employees, affiliates, controlling persons, advisors, agents or representatives) in connection with discussions or access to management of the Genco Business or in any other form in expectation of the transactions contemplated by this Agreement, in each case except, with respect to Parents and Genco Holdings, as applicable, to the extent reflected in the respective representations and warranties of CenterPoint in Article III or Genco Holdings in Article IV (collectively, "**Due Diligence Information**");

(d) acknowledges and agrees that (i) the Due Diligence Information includes certain projections, estimates and other forecasts, and certain business plan information, (ii) there are uncertainties inherent in attempting to make such projections, estimates and other forecasts and plans and Buyer is familiar with such uncertainties, and (iii) Buyer is taking full responsibility for making its own evaluation of the adequacy and accuracy of all projections, estimates and other forecasts and plans so furnished to it and any use of or reliance by Buyer on such projections, estimates and other forecasts and plans shall be at its sole risk; and

(e) agrees, to the fullest extent permitted by Law, that none of Parents, the Companies or any of their respective directors, officers, shareholders, employees, affiliates, controlling persons, agents, advisors or representatives shall have any liability or responsibility whatsoever to Buyer or its directors, officers, shareholders, employees, affiliates, controlling persons, agents, advisors or representatives on any basis (including, without limitation, in contract or tort, under federal or state securities laws or otherwise) resulting from the furnishing to Buyer, or Buyer's use of, any Due Diligence Information, except for fraud or intentional misrepresentation.

Section 5.7 *Brokers; Finders and Fees.* No broker, finder, investment banker or other person whose fees or expenses would be payable by the Parents or, prior to the STP Acquisition Closing, the Companies may be entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer.

Section 5.8 *Buyer's ERCOT Generation.* Buyer and its affiliates do not directly or indirectly own, control or have under construction any generating assets located in or capable of delivering electricity to the ERCOT Market. Neither Buyer nor its controlled affiliates have a present intention to acquire or construct any generating assets located in or capable of delivering electricity to the ERCOT Market except through the Companies.

Section 5.9 *Ownership of Genco Holding Stock.* Except as set forth in Section 5.9 of Buyer Disclosure Letter, as of the date of this Agreement, neither Buyer nor any of its "affiliates" or "associates" (as those terms are defined under Rule 12b-2 under the Exchange Act) beneficially owns any shares of Common Stock or any other security of Genco Holdings.

ARTICLE VI

COVENANTS OF THE PARTIES

Section 6.1 *Covenants of Genco Holdings.* During the period from the date of this Agreement to the STP Acquisition Closing, unless otherwise expressly contemplated by this Agreement, as set forth in Section 6.1 of the Companies Disclosure Letter or required by applicable Law or unless Buyer gives its prior written consent, which consent shall not be unreasonably withheld or delayed, Genco Holdings shall, and shall cause each other Company to, (1) conduct its businesses only in, and not to take any action except in, the ordinary course of business, in a manner consistent with past practice, in compliance with applicable Laws and in accordance with good utility practices and (2) preserve substantially intact its business organization, to preserve its assets and properties in good repair and condition and to preserve its present relationships with Governmental Authorities, customers, suppliers and other persons with which it has business relations. By way of amplification and not limitation, during the period from the date of this Agreement to the STP Acquisition Closing, Genco Holdings agrees that no Company shall directly or indirectly do, or propose, authorize or commit to do, any of the following, in each case unless otherwise expressly contemplated by this Agreement, as

set forth in Section 6.1 of the Companies Disclosure Letter or without the prior written consent of Buyer, which consent shall not be unreasonably withheld or delayed:

(a) amend or otherwise change any Company's articles of incorporation or bylaws (or similar organizational documents);

(b) except as required under a Contract in force as of the date of this Agreement, issue, deliver, sell, lease, sell and leaseback, pledge, license, transfer, mortgage, encumber, dispose of or otherwise subject to any Lien (i) any Company Securities or (ii) any property or assets, whether tangible or intangible, of any Company, other than assets sold, leased, pledged, licensed, transferred, disposed of or encumbered in the ordinary course of business and in a manner consistent with past practice;

(c) declare, set aside, make or pay any dividend or other distribution, payable in cash, stock or other equity interests, property or otherwise, with respect to any of Company Securities other than (i) dividends by a direct or indirect wholly-owned subsidiary of Genco Holdings to its parent to the extent required to fund the dividends referred to in clause (ii) or (iii) below, (ii) prior to the Public Company Merger Closing Date, regular quarterly cash dividends with respect to the Common Stock, not in excess of $0.25 per share per quarter, in each case with usual declaration, record and payment dates and otherwise in accordance with Genco Holdings' past dividend policy and (iii) following the Non-STP Acquisition Closing and the repayment of all principal and interest under the Overnight Bridge Loan, if any, distribution by Genco Holdings of up to $2,231 million in the aggregate of Non-STP Consideration or other cash;

(d) reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of the Company Securities;

(e) repurchase, repay or incur any Indebtedness or issue any securities in respect of Indebtedness or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations or Indebtedness of any person, other than repayments in the ordinary course of business and in a manner consistent with past practice under the revolving credit line under the Credit Agreement dated as of December 23, 2003 among Genco Holdings, Texas Genco GP, LLC, Texas Genco LP, LLC, Genco Services, Genco LP, various lenders and Deutsche Bank AG New York Branch, as Administrative and Collateral Agent (as amended, modified or supplemented prior to the date of this Agreement or as contemplated by Section 6.7(d), which amendments, modifications and supplements have been furnished to Buyer, the "**Credit Agreement**") and other than borrowings under the Overnight Bridge Loan, if any;

(f) (i) make aggregate payments pursuant to the Company Affiliate Contracts set forth in Section 4.22 of the Companies Disclosure Letter, other than any such payments prior to the Non-STP Acquisition Closing Date, not in excess of $3,000,000 per month, (ii) forgive any liabilities, debts or obligations under any Company Affiliate Contract set forth in Section 4.22 of the Companies Disclosure Letter; (iii) take any action outside the ordinary course of business consistent with past practice pursuant to any Company Affiliate Contracts set forth in Section 4.22 of the Companies

Disclosure Letter; or (iv) engage in or enter into any Company Affiliate Contract which would be required to be set forth in Section 4.22 of the Companies Disclosure Letter if in effect on the date of this Agreement;

(g) (i) amend in any material respect, terminate, cancel or renew any Company Contract or enter into any Contract that would be a Company Contract if in effect on the date of this Agreement, provided that, for the avoidance of doubt, to the extent any such Contract is entered into after the date of this Agreement in accordance with this Agreement, such Contract shall be deemed to be a Company Contract for purposes of this Agreement, (ii) acquire (including by merger, consolidation or acquisition of stock or assets) any assets (other than in the ordinary course of business), business or any corporation, partnership, limited liability company, association or business organization or division thereof (other than acquisitions prior to the Non-STP Acquisition Closing having an aggregate consideration of not more than $5,000,000) other than fuel, supplies, maintenance materials and other inventory items in the ordinary course of business consistent with past practice, or (iii) except as set forth in Section 6.1(g) of the Companies Disclosure Letter, authorize or make any capital expenditures, except such expenditures made prior to the Non-STP Acquisition Closing Date in an amount not in excess of $5,000,000 individually or $25,000,000 in the aggregate;

(h) amend, terminate, cancel or renew the Power Purchase Agreement or the agreements referred to in Section 6.18;

(i) except as required by applicable Law (including, for the avoidance of doubt, ERCOT Market regulation), reactivate or enter into any "reliability must run" Contract with respect to any generating plant that, as of the date of this Agreement, is shutdown or "mothballed";

(j) except to the extent required under applicable Law or the terms of any Company Plan existing as of the date of this Agreement, (i) increase or otherwise amend the compensation or fringe benefits of any present or former director, officer or employee of any Company (except for increases in salary or hourly wage rates, in the ordinary course of business consistent with past practice), (ii) grant any retention, severance or termination pay to, or enter into, or amend, any employment, consulting or severance Contract with any present or former director, officer or employee of any Company, (iii) loan or advance any money or other property to any present or former director, officer or employee of any Company; (iv) establish, enter into, adopt, amend or terminate any Company Plan, any collective bargaining agreements identified on Section 4.12 of the Companies Disclosure Letter or any plan, agreement, program, policy, trust, fund or other arrangement that would be a Company Plan if it were in existence as of the date of this Agreement; or (v) hire any new employees;

(k) fail to maintain its books and records in accordance with GAAP in any material respect or, except as may be required as a result of a change in Law or in GAAP, and subject to the establishment of the TGN Retirement Plan pursuant to Section 6.8(e) of this Agreement, change material Tax, pension, regulatory or financial accounting policies, procedures, practices or principles used by it;

(l) make, change or rescind any material Tax election; fail to duly and timely file all material Tax Returns and other documents required to be filed with any Governmental Authority, subject to timely extensions permitted by applicable Law; extend the statute of limitations with respect to any Tax; or, except in the ordinary course of business, settle or compromise any material federal, state, local or foreign Tax liability;

(m) waive, release, assign, settle or compromise any pending or threatened Action which is material, which relates to the transactions contemplated hereby or which is brought by any current, former or purported holder of any Company Securities in such capacity;

(n) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of any Company;

(o) pay, discharge or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction when due or otherwise in the ordinary course of business and consistent with past practice of liabilities reflected or reserved against in the balance sheet or incurred in the ordinary course of business after March 31, 2004 and consistent with past practice;

(p) make any loans, advances or capital contributions (including any "keep well" or other Contract to maintain any financial statement condition of another person) to, or investments in, any other person, except for loans, advances and capital contributions to Companies that are wholly-owned by Genco Holdings and are in existence on the date of this Agreement (other than any loan by Genco LP or Genco Services);

(q) other than in the ordinary course of business and in a manner consistent with past practice or as required by applicable Law, (i) modify in any material respect the Trading Policies or any similar policy, other than modifications which are more restrictive to any Company, or (ii) enter into any Contract or transaction related to any Derivative Product or any similar transaction (other than as permitted by the Trading Policies);

(r) enter into, amend, terminate, cancel or renew any Contract or other transaction other than in the ordinary course of business and in a manner consistent with past practice, as required by applicable Law, or otherwise that, individually or in the aggregate with all other Contracts or transactions, would conflict with, violate or otherwise would not be permitted under the Trading Policies or any similar purchasing policy;

(s) fail to maintain in full force and effect insurance policies covering the Companies and their respective properties, assets and businesses in a form and amount consistent with good utility practice, including the Company Insurance Policies

(except in the ordinary course of business to the extent any such policies expire in accordance with their term and they are replaced with policies consistent with good utility practice) and to promptly and diligently prosecute claims under such policies;

(t) except to the extent required by applicable Law, take any action that would reasonably be expected to result in (i) any representation and warranty of the Companies set forth in this Agreement (A) that is qualified as to materiality or Companies Material Adverse Effect becoming untrue or (B) that is not so qualified becoming untrue in any material respect or (ii) any condition to the Public Company Merger set forth in Article VII not being satisfied;

(u) fail to take any action that would reasonably be expected to, directly or indirectly, prevent or materially impair or delay the consummation of the transactions contemplated hereby (except to the extent specifically permitted by Section 10.1); or

(v) take, offer, propose to take or enter into or amend any Contract to take, offer or propose any of the actions described above in Sections 6.1(a) through 6.1(u).

Section 6.2 *Access to Information.*

(a) From the date of this Agreement to the STP Acquisition Closing, Genco Holdings will, and will cause each other Company and its and their respective officers, directors, employees, accountants, auditors, counsel, financial advisors and other agents and representatives (collectively, "**Representatives**") to (i) give Buyer and its Representatives and potential financing sources for the transactions contemplated by this Agreement reasonable access during normal business hours to the officers, employees, agents, properties (including the South Texas Project), offices, plants and other facilities and to the books, personnel, Contracts and records of Genco Holdings or any Company, (ii) permit Buyer to make such copies and inspections thereof as Buyer may reasonably request, and (iii) furnish Buyer with such financial, trading, marketing and operating data and other information concerning the business, properties (including the South Texas Project), Contracts, assets, liabilities, personnel and other aspects of any Company, as Buyer and its Representatives and potential financing sources may from time to time reasonably request, provided, however, that any access to properties of the Companies shall be conducted at Buyer's expense, at a reasonable time, under the reasonable supervision of the Companies' personnel and in such a manner as to not interfere unreasonably with the operation of the businesses of Genco Holdings or the Companies; provided, further, that Genco Holdings shall not be required to provide access to any information (i) that is subject to attorney-client privilege to the extent doing so would reasonably be expected to cause such privilege to be waived or (ii) that is subject to contractual prohibition against disclosure to the extent doing so would violate such prohibition, it being agreed that Genco Holdings shall use its commercially reasonable efforts to seek to furnish any such information in a manner that does not result in any such waiver or violation, including entering into joint defense agreements and obtaining requisite consents.

(b) All such information and access shall be subject to the terms and conditions of the letter agreements (collectively, the "**Confidentiality Agreement**") between the Investors and CenterPoint, until the STP Acquisition Closing Date, with respect to the STP Assets and Liabilities, and until the Non-STP Acquisition Closing Date with respect to the Non-STP Assets and Liabilities. Notwithstanding anything to the contrary contained in this Agreement, none of Parents, the Companies or any of their affiliates will have any obligation to make available or provide to Buyer or its representatives a copy of any consolidated, combined or unitary Tax Return filed by Genco Holdings, or any of their affiliates, or any related material other than any portions of such Tax Returns that relate to the Companies.

Section 6.3 *Consents; Cooperation.*

(a) Each of Parents and Buyer shall cooperate, and use commercially reasonable efforts, to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other party in doing, all things necessary, proper or advisable to consummate and make effective the transactions contemplated hereby as promptly as practicable, including, but not limited to making all filings and obtaining all Approvals and third party consents necessary to consummate the transactions contemplated by this Agreement, provided, however, that, with respect to the foregoing, (i) such efforts shall not require Parents, Merger Sub, the Companies, Buyer or any of their respective subsidiaries to make any payment to obtain any such Approval or third-party consent, other than nominal transfer fees or filing fees and/or the costs and expenses of third parties pursuant to the terms of any Contract, (ii) Parents, Merger Sub and the Companies shall not be permitted to consent to any action or to make or offer to make any substantive commitment or undertaking or incur any liability or obligation with respect to the Companies without the consent of Buyer, which shall not be unreasonably withheld and (iii) that, notwithstanding the foregoing, the actions of Parents, Merger Sub, the Companies and Buyer with respect to filings, approvals and other matters (A) pursuant to the HSR Act and any local, state, federal (other than the HSR Act) or foreign antitrust statute, antitrust law, antitrust regulation or antitrust rule applicable to Parents, the Companies or Buyer (**"Other Antitrust Regulations"**) shall be governed by subsections (b), (c), (d) and (e) of this Section 6.3 and (B) related to the NRC Approval shall be governed by Section 6.12 hereof.

(b) CenterPoint and Buyer shall file with (i) the United States Federal Trade Commission (the "**FTC**") and the United States Department of Justice (the "**DOJ**"), the notification and report form required for the transactions contemplated by this Agreement and any supplemental information requested in connection with such notification and report form pursuant to the HSR Act, and (ii) any other applicable Governmental Authority, all filings, reports, information and documentation required for the consummation of the transactions contemplated by this Agreement pursuant to the Other Antitrust Regulations. Each of CenterPoint and Buyer shall furnish to each other's counsel such necessary information and reasonable assistance as the other party may reasonably request in connection with its preparation of any filing or submission that is necessary under the HSR Act and Other Antitrust Regulations. Each of CenterPoint and Buyer shall consult with each other as to the appropriate time of making such filings and

submissions and shall use commercially reasonable efforts to make such filings and submissions at the agreed upon time.

(c) Each of Parents, the Companies and Buyer shall keep each other apprised of the status of any communications with, and any inquiries or requests for additional information from, the FTC and the DOJ and other governmental or regulatory entities and shall comply promptly by responding to any such inquiry or request.

(d) Each of Parents, the Companies and Buyer shall use commercially reasonable efforts to vigorously defend, lift, mitigate and rescind the effect of any Action materially and adversely affecting this Agreement or the ability of the parties to consummate the transactions contemplated by this Agreement, including promptly appealing any adverse Order.

(e) Prior to the date specified in Section 10.1(b) (as it may be extended pursuant thereto), each of Genco Holdings and Buyer shall take any and all steps necessary to avoid or eliminate each and every impediment under the HSR Act and any Other Antitrust Regulations that may be asserted by any Governmental Authority with respect to the transactions contemplated by this Agreement so as to enable the Public Company Merger Closing, the Non-STP Acquisition Closing and the STP Acquisition Closing to occur as soon as reasonably possible, including proposing, negotiating, committing to and effecting, by consent decree, hold separate order or otherwise, the sale, divestiture or disposition of such assets or businesses of Buyer or any of its subsidiaries or otherwise take or commit to take any action that limits its freedom of action with respect to, or its ability to retain, any of the businesses, product lines or assets of Buyer or its subsidiaries, as may be required in order to avoid the entry of, or to the effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding, which would otherwise have the effect of preventing or delaying the Public Company Merger Closing, the Non-STP Acquisition Closing or the STP Acquisition Closing. At the request of CenterPoint, Buyer shall agree to divest, hold separate or otherwise take or commit to take any action that limits its freedom of action with respect to, or its ability to retain, any of the businesses or assets of Buyer or any of its subsidiaries, provided that (i) any such action may be conditioned upon the consummation of the transactions contemplated by this Agreement and (ii) any such actions do not and would not reasonably be expected to have, individually or in the aggregate, a Companies Material Adverse Effect.

(f) With respect to any agreements for which any required Approval or third-party consent is not obtained prior to the Public Company Merger Closing Date, the Non-STP Acquisition Closing or the STP Acquisition Closing Date, as applicable, Parents, the Companies and Buyer will each use commercially reasonable efforts to obtain any such consent or approval after such date until such consent or approval has been obtained and Parents will provide Buyer or, after the STP Acquisition Closing Date, any Company, with the same benefits arising under such agreements, including performance by either Parent as agent, if legally and commercially feasible, provided that Buyer will provide Parents with such access to the premises, books and records and personnel as is necessary to enable Parents to perform their obligations under such

agreements and Buyer shall pay or satisfy the corresponding liabilities for the enjoyment of such benefits to the extent Buyer would have been responsible therefor if such consent or approval had been obtained.

(g) Parents and Genco Holdings shall keep Buyer reasonably apprised of the status of matters relating to the completion of the transactions contemplated hereby and shall promptly furnish Buyer with copies of all notices or other communications received by Parents or by any Company or its or their Representatives from any third party and/or any Governmental Authorities with respect to the transactions contemplated hereby. Parents and Genco Holdings shall promptly furnish to Buyer such necessary information and reasonable assistance as Buyer may request in connection with the foregoing and shall promptly provide counsel for Buyer with copies of all filings made by Parents or the Companies, and all correspondence between Parents or the Companies (and their respective Representatives) with any Governmental Authority and any other information supplied by Parents and any Company (and their respective Representatives) to a Governmental Authority in connection herewith and the transactions contemplated hereby. Parents and Genco Holdings shall, subject to applicable Law, permit counsel for Buyer reasonable opportunity to review in advance, and consider in good faith the views of Buyer in connection with, any proposed written communication by Parents or the Companies to any Governmental Authority. Parents, Merger Sub and Genco Holdings agree not to participate, or to permit any Company to participate, in any substantive meeting or discussion, either in person or by telephone, with any Governmental Authority in connection herewith and the transactions contemplated hereby unless it consults with Buyer in advance and, to the extent not prohibited by such Governmental Authority, gives Buyer and its counsel the opportunity to attend and participate.

(h) Buyer shall keep CenterPoint and Genco Holdings reasonably apprised of the status of matters relating to the completion of the transactions contemplated hereby and shall promptly furnish CenterPoint and Genco Holdings with copies of all notices or other communications received by Buyer or its Representatives from any third party and/or any Governmental Authorities with respect to the transactions contemplated hereby, other than with respect to the Debt Financing for which Buyer's obligations shall be governed by Section 6.7(a). Buyer shall promptly furnish to CenterPoint and Genco Holdings such necessary information and reasonable assistance as CenterPoint and Genco Holdings may request in connection with the foregoing and shall promptly provide counsel for CenterPoint and Genco Holdings with copies of all filings made by Buyer, and all correspondence between Buyer (and its Representatives) with any Governmental Authority and any other information supplied by Buyer (and its Representatives) to a Governmental Authority in connection herewith and the transactions contemplated hereby. Buyer shall, subject to applicable Law, permit counsel for CenterPoint and Genco Holdings reasonable opportunity to review in advance, and consider in good faith the views of CenterPoint and Genco Holdings in connection with, any proposed written communication by Buyer to any Governmental Authority. Buyer agrees not to participate in any substantive meeting or discussion, either in person or by telephone, with any Governmental Authority in connection herewith and the transactions contemplated hereby unless it consults with CenterPoint and Genco Holdings in advance

and, to the extent not prohibited by such Governmental Authority, gives CenterPoint and Genco Holdings and its respective counsel the opportunity to attend and participate.

(i) In the event and for so long as Buyer actively is prosecuting, contesting or defending any Action against a third party in connection with (i) any transactions contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction involving the Companies arising out of or related to facts or events, existing prior to the STP Acquisition Closing, the Parents shall, and shall cause their respective affiliates to, cooperate with Buyer and, after the STP Acquisition Closing, the Companies and their counsel in the prosecution, contest or defense, make available its personnel, and provide such testimony and access to its books and records and facilities as shall be reasonably necessary in connection with the prosecution, contest or defense, all at the sole control, cost and expense of the Companies.

(j) Genco Holdings shall use its reasonable best efforts to obtain from the IRS prior to the STP Acquisition Closing (i) a ruling that the indirect transfer of the assets of the Qualified Decommissioning Fund pursuant to this Agreement is not a taxable event and (ii) a ruling that Genco Holdings will continue to be entitled to make tax-deductible contributions to the Qualified Decommissioning Fund after the STP Acquisition Closing. Parent and Genco Holdings shall keep Buyer apprised of the status of any communications with, and any inquiries or requests for additional information from, the IRS with respect to such rulings and shall promptly respond to any such inquiry or request.

Section 6.4 *Commercially Reasonable Efforts.* Each of Parents, Genco Holdings and Buyer shall cooperate, and use commercially reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate the transactions contemplated by this Agreement. Without limiting the foregoing, after the Non-STP Acquisition Closing, each of the parties at the reasonable request of the other shall execute and deliver, or cause to be executed and delivered, such assignments, deeds, bills of sale and other instruments of transfer as any party reasonably may request as necessary, proper or advisable in order to effect or further evidence the Non-STP Acquisition and the other transactions contemplated thereby. In addition, at the STP Acquisition Closing, Parents shall deliver, or cause to be delivered, to Buyer all minute books, stock record books (or similar registries) and corporate (or similar) records and seals of the Companies held by Parents or their respective affiliates (other than the Companies) or otherwise not in the possession of the Companies, other than such items delivered in connection with the Non-STP Acquisition.

Section 6.5 *Public Announcements.* Prior to the STP Acquisition Closing, except as otherwise agreed to by the parties, the parties shall not issue any report, statement or press release or otherwise make any public statements with respect to this Agreement and the transactions contemplated by this Agreement, except as described in the following sentence and in the reasonable judgment of the party may be required by Law (including in connection with regulatory proceedings) or in connection with its

obligations as a publicly-held, exchange-listed or Nasdaq-quoted company, in which case the parties will use their commercially reasonable efforts to reach mutual agreement as to the language of any such report, statement or press release. Upon the execution of this Agreement and upon each of the Public Company Merger Closing, the Non-STP Acquisition Closing and the STP Acquisition Closing, the parties will consult with each other with respect to the issuance of a joint report, statement or press release with respect to this Agreement and the transactions contemplated by this Agreement.

Section 6.6 *Tax Matters.*

(a) *No Election Under Section 338(h)(10).* CenterPoint and Buyer agree that they will not make a joint election under Section 338(h)(10) of the Code or under any comparable provision of state or local Law (an "**Election**") with respect to the STP Acquisition.

(b) *Indemnification.*

(i) *Parents' Indemnification of Buyer.* Notwithstanding anything in the Spin-off Separation Agreement to the contrary, Parents shall indemnify Buyer and the Companies from, against and in respect of any (A) Taxes (as defined in Section 6.6(n) of this Agreement) with respect to the Non-STP Assets and Liabilities for any Taxable period ending on or prior to the Non-STP Acquisition Closing Date and the portion of any Straddle Period ending on the Non-STP Acquisition Closing Date (determined in accordance with the provisions of paragraph (c) below), (B) Taxes imposed on any Company (including, without limitation, any Taxes attributable to the Non-STP Acquisition or the Genco LP Division) for any Taxable period ending on or prior to the STP Acquisition Closing Date and the portion of any Straddle Period ending on the STP Acquisition Closing Date (determined in accordance with the provisions of paragraph (c) below), (C) Taxes for which any Company may be liable under Treasury Regulation Section 1.1502-6 (or any corresponding provision of state, local or foreign Law), as a member of an affiliated, consolidated or combined group, (D) Taxes of any other person for which any Company may be liable as a transferee or successor, by contract or otherwise, (E) Taxes resulting from any obligation under, any Tax sharing, Tax indemnity or similar contract and (F) any Transfer Taxes (as defined below) for which either Parent is liable under Section 6.6(f) of this Agreement.

(ii) *Buyer's Indemnification of Parents.* Buyer shall indemnify Parents from, against and in respect of any liability of Parents or their subsidiaries for any (A) Taxes with respect to the Non-STP Assets and Liabilities for any Taxable period beginning after the Non-STP Acquisition Closing Date and the portion of any Straddle Period beginning after the Non-STP Acquisition Closing Date (determined in accordance with the provisions of paragraph (c) below), (B) Taxes imposed on any Company for any Taxable period beginning after the STP Acquisition Closing Date and the portion of any Straddle Period beginning after the STP Acquisition Closing Date (determined in accordance with the provisions

of paragraph (c) below); and (C) Transfer Taxes for which Buyer is liable under Section 6.6(f) of this Agreement.

(c) *Computation of Tax Liabilities; Proration of Taxes and Earnings and Profits.* To the extent permitted by applicable Law or administrative practice, the taxable years of the Companies shall end on and include the Non-STP Acquisition Closing Date with respect to any Company acquired (directly or indirectly) by Buyer on such date or STP Acquisition Closing Date with respect to any Company acquired (directly or indirectly) by Buyer on such date. Whenever it is necessary to determine the liability for Taxes, or the earnings and profits, for a portion of a taxable year or period that begins before and ends after, as applicable, the Non-STP Acquisition Closing Date or the STP Acquisition Closing Date (the "**Applicable Closing Date**") (a "**Straddle Period**"), the determination of the Taxes or the earnings and profits for the portion of the year or period ending on, and the portion of the year or period beginning after, the Applicable Closing Date shall be determined by assuming that the taxable year or period ended on and included the Applicable Closing Date, except that exemptions, allowances or deductions that are calculated on an annual basis and annual property taxes shall be prorated on the basis of the number of days in the annual period elapsed through the Applicable Closing Date as compared to the number of days in the annual period elapsing after the Applicable Closing Date. Notwithstanding anything to the contrary herein, any franchise Tax paid or payable with respect to any Company shall be allocated to the taxable period during which the income, operations, assets or capital comprising the base of such Tax is measured, regardless of whether the right to do business for another taxable period is obtained by the payment of such franchise Tax.

(d) *Tax Returns.*

(i) Parents shall prepare, or cause to be prepared, in accordance with past practice unless otherwise required by applicable Law, and file or cause to be filed when due Tax Returns with respect to the Companies for any taxable period, or portion thereof, ending on or before the STP Acquisition Closing Date which are required or permitted by applicable Law or administrative practice to be filed with respect to a taxable period, or portion thereof, ending on or before the STP Acquisition Closing Date.

(ii) Buyer shall prepare, or cause to be prepared, and file or cause to be filed when due all other Tax Returns with respect to the Companies required to be filed with respect to a taxable period, or portion thereof, ending after the STP Acquisition Closing Date.

(iii) If either Buyer or Parents may be liable for any material portion of the Tax payable in connection with any Tax Return to be filed by the other (or any item reported on such Tax Return is likely to affect the Tax liability of such party), the party responsible under this Agreement for filing such return (the "**Preparer**") shall prepare and deliver to the other party (the "**Payor**") a copy of such return and any schedules, work papers and other documentation then available that are relevant to the preparation of the portion of such return for

which the Payor is or may be liable under this Agreement not later than 45 days before the Due Date (as defined in Section 6.6(n) of this Agreement). The Preparer shall not file such return until the earlier of either the receipt of written notice from the Payor indicating the Payor's consent thereto, or the Due Date.

The Payor shall have the option of providing to the Preparer, at any time at least 15 days prior to the Due Date, written instructions as to how the Payor wants any, or all, of the items for which it may be liable (or any item that is likely to affect the Tax liability of such party) reflected on such Tax Return. The Preparer shall, in preparing such return, cause the items for which the Payor is liable under this Agreement to be reflected in accordance with the Payor's instructions (unless, in the opinion of a partner of a nationally recognized law firm retained by the Preparer, complying with the Payor's instructions would likely subject the Preparer to any criminal penalty or to civil penalties under sections 6662 through 6664 of the Code or similar provisions of applicable state, local or foreign Law) and, in the absence of having received such instructions, in accordance with past practice.

If the Preparer fails to satisfy its obligations under this Section 6.6(d), the Payor shall have no obligation to indemnify the Preparer for any Taxes which are reflected on any such return or any related loss, and shall retain any and all remedies it may otherwise have which arise out of such failure.

(e) *Contest Provisions.*

(i) *Notification of Contests.* Each of Buyer, on the one hand, and Parents, on the other hand (the "**Recipient**"), shall notify the chief tax officer (or other appropriate person) of Parents or Buyer, as the case may be, in writing within 15 days of receipt by the Recipient of written notice of any pending or threatened audits, adjustments or assessments (a "**Tax Audit**") which are likely to affect the liability for Taxes of such other party. If the Recipient fails to give such prompt notice to the other party, it shall not be entitled to indemnification for any Taxes arising in connection with such Tax Audit to the extent that such failure to give notice adversely affects the other party's right to participate in the Tax Audit.

(ii) *Which Party Controls.*

(a) *Parents' Items.* If such Tax Audit relates to any taxable period, or portion thereof, ending on or before the Applicable Closing Date or for any Taxes for which Parents are liable in full under this Agreement, Parents shall, at their expense, control the defense and settlement of such Tax Audit.

(b) *Buyer's Items.* If such Tax Audit relates to any taxable period, or portion thereof, beginning on or after the Applicable Closing Date or for any Taxes for which Buyer is liable in full under this Agreement, Buyer shall, at its expense, control the defense and settlement of such Tax Audit.

(c) *Combined and Mixed Items.* If such Tax Audit relates to Taxes for which both Parents and Buyer are liable under this Agreement, to the extent practicable such Tax Items (as defined in Section 6.6(n) of this Agreement) will be distinguished and each party will control the defense and settlement of those Taxes for which it is so liable. If such Tax Audit relates to a taxable period, or portion thereof, beginning before and ending after the Applicable Closing Date and any Tax Item cannot be identified as being a liability of only one party or cannot be separated from a Tax Item for which the other party is liable, Parents, at their expense, shall control the defense and settlement of the Tax Audit, provided that such party defends the items as reported on the relevant Tax Return and provided further that no such matter shall be settled without the written consent of both parties, not to be unreasonably withheld.

(d) *Participation Rights.* Any party whose liability for Taxes may be affected by a Tax Audit shall be entitled to participate at its expense in such defense and to employ counsel of its choice at its expense and shall have the right to consent to any settlement of such Tax Audit, (such consent not to be unreasonably withheld) to the extent that such settlement would have an adverse effect for a period for which that party is liable for Taxes, under this Agreement or otherwise.

(f) *Transfer Taxes.* All excise, sales, use, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the Non-STP Acquisition or the STP Acquisition (the "**Transfer Taxes**"), shall be shared equally by Parents and Buyer. Notwithstanding Section 6.6(d) of this Agreement, which shall not apply to Tax Returns relating to Transfer Taxes, any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by the party primarily or customarily responsible under the applicable local Law for filing such Tax Returns, and such party will use its commercially reasonable efforts to provide such Tax Returns to the other party at least 10 days prior to the Due Date for such Tax Returns.

(g) *Buyer's Claiming, Receiving or Using of Refunds and Overpayments.* If, after the STP Acquisition Closing Date, Buyer or any Company (i) receives any refund or (ii) actually utilizes the benefit of any overpayment of Taxes which, in each case (i) and (ii), (A) relates to Taxes paid by Parents or any Company with respect to a taxable period, or portion thereof, ending on or before the STP Acquisition Closing Date, or (B) is the subject of indemnification by Parents under this Agreement, Buyer shall promptly transfer, or cause to be transferred, to Parents the entire amount of the refund or overpayment (including interest, if any, received from the Taxing Authority with respect to such refund) received or actually utilized by Buyer or any Company (net of any tax thereon), provided, however, that any refund or tax benefit related to the carryback of any Tax Item of any Company from a taxable period beginning after the STP Acquisition Closing Date to a taxable period ending on or before the STP Acquisition Closing Date to the extent permitted by Section 6.6(h) shall be for the

account of Buyer. Buyer agrees to notify Parents within 15 days following the receipt of any such refund or actual utilization of any such overpayment.

(h) Buyer shall make, and shall cause the Companies to make, elections under Section 172(b)(3) and any other applicable provision of the Code and the Treasury Regulations promulgated thereunder, and under any comparable provision of any state, local or foreign tax law in any state, locality or foreign jurisdiction in which any Company files a combined, consolidated or unitary return with Parents, to relinquish the entire carryback period with respect to any Tax Item of any Company arising in any taxable period beginning after the STP Acquisition Closing Date that could be carried back to a taxable year of such Company ending on or before the STP Acquisition Closing Date; provided, however, that with respect to any such item for which an election cannot be made under applicable Law, Parents shall be required to pay to Buyer or the applicable Company thereof any Tax refund received or credit utilized that results solely from such carryback net of any costs of Seller in procuring such Tax refund or credit. To the extent permitted by this Section 6.6(h), Parents shall permit Buyer or any Company to (or, with respect to consolidated, combined or unitary income taxes, Parents shall at Buyer's request) amend and file any Tax Return filed by or including any Company in order to carryback any Tax Item of any Company from a taxable period beginning after the STP Acquisition Closing Date to a taxable period ending on or before the STP Acquisition Closing Date.

(i) *Resolution of All Tax-Related Disputes.* In the event that Parents and Buyer cannot agree on the calculation of any amount relating to Taxes or the interpretation or application of any provision of this Agreement relating to Taxes, such dispute shall be resolved by a partner at a nationally recognized law firm or nationally recognized accounting firm mutually acceptable to Parents and Buyer, whose decision shall be final and binding upon all persons involved and whose expenses shall be shared equally by Parents and Buyer.

(j) *Post-Closing Actions Which Affect Liability for Taxes.*

(a) Buyer shall not permit any Company to take any action on or after the Applicable Closing Date which could materially increase Parents' liability for Taxes (including any liability of Parents to indemnify Buyer and the Companies for Taxes under this Agreement). Parents shall not take any action on or after the Applicable Closing Date which could materially increase Buyer's or any Company's liability for Taxes (including any liability of Buyer or any Company to indemnify Parents for Taxes under this Agreement).

(b) Except to the extent required by applicable Law, or as provided in Sections 6.6(g) and (h), neither Buyer, Parents, any Company nor any affiliate of any of them shall, without the prior written consent of the other party, amend any Tax Return (with respect to any Tax Item of any Company) filed by, or with respect to, any Company or any of

their subsidiaries for any taxable period, or portion thereof, beginning before the Applicable Closing Date.

(k) *Assistance and Cooperation.* The parties agree that, after the Applicable Closing Date:

(i) Each party shall assist (and cause their respective affiliates to assist) the other party in preparing any Tax Returns which such other party is responsible for preparing and filing;

(ii) The parties shall cooperate fully in preparing for any Tax Audits, or disputes with taxing authorities, relating to any Tax Returns or Taxes of any Company, including providing access to relevant books and records relating to Taxes at issue;

(iii) The parties shall make available to each other and to any taxing authority as reasonably requested all relevant books and records relating to Taxes;

(iv) Each party shall promptly furnish the other party with copies of all relevant correspondence received from any taxing authority in connection with any Tax Audit or information request relating to Taxes for which such other party may have an indemnification obligation under this Agreement; and

(v) Except as otherwise provided in this Agreement, the party requesting assistance or cooperation shall bear the other party's out-of-pocket expenses in complying with such request to the extent that those expenses are attributable to fees and other costs of unaffiliated third-party service providers.

(l) This Section 6.6 alone shall govern the procedure for all Tax indemnification claims.

(m) The Tax Allocation Agreement by and among CenterPoint Energy, Inc. and its Affiliated Companies and Texas Genco Holdings, Inc. and its Affiliated Companies dated as of August 31, 2002 (the "Tax Allocation Agreement"), shall remain in effect until (i) the Non-STP Acquisition Closing Date, with respect to any Company acquired (directly or indirectly) by Buyer on such date or (ii) the STP Acquisition Closing Date, with respect to any Company acquired (directly or indirectly) by Buyer on such date, at which time such agreement, and any other Tax sharing agreement or arrangements, written or unwritten, binding any Company shall terminate. Notwithstanding the foregoing, unless the transactions contemplated by this Agreement are terminated, no payments shall be made by Genco Holdings or any other Company under the Tax Allocation Agreement or any Tax sharing agreements or arrangements, other than payments with respect to current Taxes payable imposed in the ordinary course of business for the current taxable period (the "Permitted Payments")(for the avoidance of doubt, such Permitted Payments shall exclude (A) any Taxes relating to the Non-STP Acquisition or the Genco LP Division and (B) any adjustments which would otherwise be

made to Taxes paid under such Tax Allocation Agreement by Genco Holdings or any other Company for prior periods), and provided, however that any Permitted Payments that would not have been due under the terms of the Tax Allocation Agreement until after the Non-STP Acquisition Closing Date or STP Acquisition Closing Date, as applicable, shall be paid on the date set forth in such Tax Allocation Agreement (notwithstanding the fact that such Tax Allocation Agreement may have been previously terminated pursuant to this Section 6.6(m)).

(n) For purposes of this Agreement, "**Tax**" or "**Taxes**" shall mean taxes (other than the Transfer Taxes) of any kind, levies or other like assessments, customs, duties, imposts, charges or fees, including income taxes, gross receipts, ad valorem, value added, excise, real or personal property, asset, sales, use, license, payroll, transaction, capital, net worth, franchise, withholding, estimated, social security, utility, workers' compensation, severance, production, unemployment compensation, occupation, premium, windfall profits, transfer and gains taxes, unclaimed property and escheat obligations, franchise fees, street rentals, right-of-way fees and any other fees or impositions related to the use or occupancy of public rights of way or other governmental taxes imposed by or payable to the United States, or any state, county, local or foreign government or subdivision or agency thereof, together with any interest, penalties or additions with respect thereto and any interest in respect of such additions or penalties; "**Due Date**" shall mean, with respect to any Tax Return, the date such return is due to be filed (taking into account any valid extensions); "**Tax Item**" shall mean, with respect to Taxes, any item of income, gain, deduction, loss or credit or other tax attribute "**Tax Return**" shall mean any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

Section 6.7 *Debt Financing.*

(a) Parents and Genco Holdings agree to provide, and shall cause each Company and their respective Representatives to provide, all cooperation reasonably requested by Buyer and necessary in connection with the arrangement of the Debt Financing, including (i) participation in meetings, drafting sessions, due diligence sessions, management presentation sessions, "road shows" and sessions with rating agencies, (ii) preparation by Genco Holdings of business projections, financial statements, offering memoranda, private placement memoranda, prospectuses and similar documents and (iii) execution and delivery by the Companies of any underwriting or placement agreements, pledge and security documents, other definitive financing documents, including any indemnity agreements, or other requested certificates or documents, including a certificate of the chief financial officers of any Company with respect to solvency matters, comfort letters of accountants, consents of accountants for use of their reports in any materials relating to the financing to be used in connection with the transactions contemplated by this Agreement, legal opinions, engineering reports, environmental reports, surveys and title insurance as may be reasonably requested by Buyer, provided, however, that no such agreements or documents shall impose any monetary obligation or liability (i) on the Companies (excluding, for the avoidance of doubt, the Non-STP Assets and Liabilities in any Company acquired in the Non-STP

Acquisition) prior to the STP Acquisition Closing other than payment obligations under the Overnight Bridge Loan, or (ii) on CenterPoint or any of its affiliates other than the Companies. Parents and Genco Holdings shall use commercially reasonable efforts to cause Deloitte & Touche LLP, the independent auditors of the Companies, to provide any unqualified opinions, consents or customary comfort letters with respect to the financial statements needed in connection with the Debt Financing. Genco Holdings agrees to allow Buyer's accounting representatives the opportunity to review the financial statements in draft form and to allow such representatives access to each Company and supporting documentation with respect to the preparation of such financial statements and to use commercially reasonable efforts to cause its independent auditors to provide reasonable access to their working papers relating to procedures performed with respect to such financial statements. Buyer shall keep CenterPoint reasonably apprised of the status of all material matters relating to the arrangement of the Debt Financing and shall give CenterPoint and Genco Holdings prompt written notice of (i) any material breach by any party of the Debt Financing Letter (or any definitive agreements entered into pursuant thereto) or (ii) any termination of the Debt Financing Letter.

(b) Without limiting the generality of the provisions of Section 6.7(a), to the extent reasonably required in connection with the Debt Financing, Genco Holdings shall use commercially reasonable efforts to provide, or cause each of the Company and their respective Representatives to provide, the following:

(i) (1) for each tract of Real Property constituting a power generating site and the power generating assets located thereon owned by one of the Companies ("Plant Real Property"), and for the Energy Development Center, Texas standard form owner's (with respect to the portion thereof constituting Owned Real Property) and leasehold (with respect to the portion thereof constituting Leased Real Property) title insurance policies and, if applicable, a Texas standard form mortgagee's policy of title insurance reasonably satisfactory to Buyer's sources of Debt Financing ("**Buyer's Lender**") from one or more nationally recognized title companies satisfactory to Buyer, Genco Holdings and CenterPoint (the "**Title Company**"), with each such policy (A) dated as of the Public Company Merger Closing Date, (B) in an amount reasonably acceptable to Buyer, (C) accompanied by copies of all documents referenced as exceptions to title, (D) insuring good, valid and indefeasible fee simple title to the Owned Real Property and good, valid and indefeasible leasehold interest in the Leased Real Property in one of the Companies subject only to the Permitted Liens and such matters as may be reasonably requested by Buyer, (E) naming such Company as "insured" and (F) containing such other available endorsements (including, without limitation, non-imputation endorsements) and affirmative coverages as Buyer may reasonably request, and (2) duly executed affidavits and other documents executed by the Companies, consistent with local practice, as are necessary to induce the Title Company to issue the policies, endorsements and affirmative coverages described in the manner set forth above in subclause (1);

(ii) a new or recertified survey for each Plant Real Property and the Energy Development Center (a "**Survey**") of the type and with such detail as a

reasonably prudent financial institution making a project financing loan for existing electric power generating plants would require (the "**Survey Standard**"), prepared or recertified on or after the date of this Agreement by land surveyors licensed in the states in which the Owned Real Property is located, which Surveys have been certified or recertified by said surveyors to each Company, Buyer, Buyer's Lender and, to the extent necessary to satisfy the Survey Standard set forth above, show the following items: (A) no material violation of any setback or building line requirement (whether such requirements are imposed by Law or deed or plat), unless the Title Company is willing and able to insure over such violation; (B) no material encroachment by improvements located on adjoining properties onto any material portion of any Plant Real Property or the Energy Development Center, or by improvements located on any material portion of Plant Real Property or the Energy Development Center, onto adjoining properties, easements, utilities or rights of way, unless the Title Company is willing and able to insure over such encroachment; (C) adequate means of ingress and egress to and from each Plant Real Property or the Energy Development Center; and (D) the CEHE Land (if any) adjacent to each tract of Owned Real Property constituting Plant Real Property;

(iii) a current estoppel certificate, in form reasonably satisfactory to Buyer, for each Lease, from each lessor thereunder; and

(iv) for all Real Property other than Plant Real Property and the Energy Development Center, such evidence of title as a reasonably prudent financial institution making a project financing loan for an existing portfolio of electric power generating assets would require.

(c) Buyer shall use commercially reasonable efforts to arrange the Debt Financing on the terms and conditions described in the Debt Financing Letter, including using commercially reasonable efforts (i) to negotiate definitive agreements with respect thereto on the terms and conditions contained therein and (ii) to satisfy all conditions applicable to Buyer in such definitive agreements that are within its control. In the event any portion of the Debt Financing becomes unavailable in the manner or from the sources contemplated in the Debt Financing Letter, Buyer shall use commercially reasonable efforts to arrange any such portion from alternative sources on terms and conditions which are, in the reasonable judgment of Buyer, comparable or more favorable (to Buyer) in the aggregate thereto, and to the extent that any terms and conditions are not set forth in the Debt Financing Letter, on terms and conditions reasonably satisfactory to Buyer.

(d) CenterPoint and Genco Holdings shall use commercially reasonable efforts to obtain any waivers, amendments, modifications or supplements necessary in connection with the transactions contemplated by this Agreement to the Credit Agreement or the Credit Agreement, dated October 7, 2003, among CenterPoint, as Borrower, and JPMorgan Chase Bank, as Administrative Agent.

(e) All documented out-of-pocket costs and expenses reasonably incurred by Parents or the Companies in complying with Sections 6.7(a), (b) or (c) shall be paid by Buyer, unless this Agreement is terminated prior to the Public Company Merger Effective Time (i) under circumstances in which Buyer would have the right to terminate this Agreement under Section 10.1(c) or (ii) as a result of the failure of the conditions set forth in Section 8.3(a) or 8.3(b) to be satisfied. All documented out-of-pocket costs and expenses incurred reasonably by Genco Holdings in complying with Section 6.7(d) shall be paid by CenterPoint.

Section 6.8 *Employees; Employee Benefits.*

(a) On or as soon as reasonably practicable following the execution of this Agreement, Genco Holdings shall provide Buyer with a true and complete list (which shall be confirmed and adjusted as necessary five (5) days prior to the Non-STP Acquisition Closing Date or, in the case of the employees listed on Section 6.8(a) of the Companies Disclosure Letter (the "**Scheduled Employees**"), the STP Acquisition Closing Date) of (i) all individuals who are employed by the Companies on a full-time, permanent or part-time basis principally at or with respect to the business of the Companies immediately prior to the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date (such individuals hereinafter referred to as the "**Active Company Employees**"), which list shall include each Active Company Employee's name, position, hourly wage rate or salary, total compensation (including incentive and similar compensation), the Company by which such Active Company Employee is employed, and the vacation time to which each employee is entitled (for purposes of Section 6.8(b)), and (ii) all individuals who are employees of the Companies on a full-time, permanent or part-time basis and are on a leave of absence (due to sickness, disability or any other reason) immediately prior to the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date (such individuals hereinafter referred to as the "**Employees on Leave**"), which list shall include the same information provided in clause (i) for Active Company Employees. The parties agree that an Employee on Leave who returns to active employment with the Companies at his or her former work location not later than twelve (12) weeks from the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date (or such later date as required by Law) shall be considered an Active Company Employee as of the date such individual returns to active employment with a Company at his or her former work location. None of the Companies, Buyer or Buyer's affiliates shall have any obligation under this Agreement to continue the employment of any Active Company Employee or Employee on Leave following the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date. Parents shall retain all responsibility and liability for any wages, compensation or benefits for any individual employee while such individual is an Employee on Leave until (and if) such individual becomes an Active Company Employee.

(b) From and after the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, Buyer and its affiliates will honor in accordance with their terms and this Agreement the executive,

employment and other agreements and arrangements set forth in Section 6.8(b) of the Companies Disclosure Letter, as of the date of this Agreement, between a Company and certain employees and former employees thereof, and all of the Plans; *provided, however*, that nothing herein shall preclude any change in any Plan, including termination of any Plan, effective on a prospective basis, and consistent with applicable Law. Beginning immediately after the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, any Employee Welfare Benefit Plan or material fringe benefit including vacation pay or paid sick leave, that Buyer maintains, contributes to or participates in (collectively, "**Buyer Employee Benefit Plans**") shall be made available to each Active Company Employee when, and on the same terms and conditions, such Buyer Employee Benefit Plan would be made available to a new employee of Buyer or its controlled affiliates who is similarly situated to the Active Company Employee; provided, however, that, during the one-year period commencing on the Non-STP Acquisition Closing Date, and subject to Section 6.8(h) of this Agreement, health and welfare benefits provided under the Employee Welfare Benefit Plans of the Companies and Buyer or its affiliates for the Active Company Employees shall be substantially similar in the aggregate to such benefits provided to Active Company Employees immediately prior to the execution of this Agreement by the Companies and Parents, with such changes to such Plans, but only to the extent permitted under section 6.1(j) of this Agreement; and *provided, further*, that nothing in this Section 6.8(b) shall result in Buyer providing a duplication of benefits to any Company Employees or Active Company Employees. Buyer and Buyer Employee Benefit Plans shall recognize (i) all of each Active Company Employee's time of employment and service with Parents, their affiliates and the Companies, as applicable, from such Active Company Employee's initial date of hire through the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date for the purpose of determining vesting and eligibility (but not for purposes of benefit accruals) under Buyer Employee Benefit Plans, (ii) the amount of annual vacation time under Buyer's vacation policy to which an Active Company Employee shall be entitled, and (iii) all other purposes for which such service is either taken into account or recognized; *provided, however*, that such service need not be credited to the extent it would result in a duplication of benefits. On and after the Non-STP Acquisition Closing Date until (i) December 31, 2004, if the Non-STP Acquisition Closing occurs in 2004, or (ii) June 30, 2005, if the Non-STP Acquisition Closing occurs in 2005 (such period the "**Transition Period**"), each Active Company Employee shall continue to be covered under the Company vacation policy and sick leave policy in which such Active Company Employee participated immediately prior to the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date. During the year in which the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date occurs, in addition to vacation time earned or accrued with any Company, Buyer or its affiliate after the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, each Active Company Employee shall be entitled to receive any unused earned or accrued vacation time with the Company, Buyer or its affiliates that he or she may have accrued or earned immediately prior to the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, subject to management

approval for the specific days of vacation required by the Active Company Employee; *provided, however*, that, if Buyer deems it necessary to disallow such Active Company Employee from taking such earned or accrued vacation and such vacation cannot be rescheduled, Buyer shall be liable for and pay in cash to each such Active Company Employee an amount equal to the vacation time not taken as provided under the terms of the vacation policy. Any Active Company Employee whose employment is voluntarily or involuntarily terminated by Buyer during the Transition Period shall receive pay for earned or accrued and unused vacation time in accordance with such Company's vacation policy as in effect immediately prior to the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date.

(c) If the Non-STP Acquisition Closing occurs during 2004, then Buyer shall cause each Company (or its affiliates) to, or, Buyer shall, continue and maintain in effect and operation the Texas Genco Holdings, Inc. Short-Term Incentive Plan ("**TGN STI Plan**"), as in effect on the date of this Agreement, subject to such changes as permitted in Section 6.8(c) of the Companies Disclosure Letter, with the same performance goals and objectives as established for 2004, for the remainder of 2004, and, provided and to the extent such 2004 performance goals are met, bonuses earned for 2004 shall be paid under the TGN STI Plan to the Active Company Employees covered by such plan in 2005 in accordance with the terms of the TGN STI Plan. If the Non-STP Acquisition Closing occurs after June 30, 2005, then Buyer shall cause each Company (or its affiliates) or, Buyer shall, continue and maintain in effect and operation the TGN STI Plan, as in effect on the date of this Agreement, subject to such changes as are permitted in Section 6.8(c) of the Companies Disclosure Letter, with the same performance goals and objectives as established for 2005, and, provided and to the extent such 2005 performance goals are met, bonuses earned for 2005 shall be paid under the TGN STI Plan to the Active Company Employees covered by such plan in 2006 in accordance with the terms of the TGN STI Plan. From the date of this Agreement until the Non-STP Acquisition Closing Date, Parents shall, or shall cause the Companies to, accrue the target amounts payable under the TGN STI Plan in respect of the period prior to the Non-STP Acquisition Closing Date.

(d) Notwithstanding anything to the contrary in this Section 6.8, Parents shall be liable for any amounts to which any Company Employee becomes entitled under any benefit, retention or severance policy, plan, agreement arrangement or program which exists or arises or may be deemed to exist or arise, under any applicable Law or otherwise, as a result of, or in connection with, the transactions contemplated by this Agreement other than an Active Company Employee whose employment is terminated (following the Non-STP Acquisition Closing) on or after the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date. In the event that an Active Company Employee's employment is terminated, other than for cause (as defined in Section 6.8(f)), by Buyer, its affiliates or any Company (following the Non-STP Acquisition Closing) on or after the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, then Buyer shall be responsible for severance costs for such Active Company Employee, including any severance benefits due under Section 6.8(f) below. Buyer shall be responsible and assume all liability for all notices or payments due

to any Active Company Employees, and all notices, payments, fines or assessments due to any governmental authority, under any applicable foreign, federal, state or local Law with respect to the employment, discharge or layoff of employees by any Company after the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, including, but not limited to, the Worker Adjustment and Retraining Notification Act and any rules or regulations as have been issued in connection with the foregoing. On or promptly after the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, Parents (to the extent Parents have such information and the Companies do not have such information) and the Companies shall provide to Buyer a list of all Company Employees whose employment was terminated within 90 days prior to the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date and the date that each such Company Employee was terminated.

(e) Buyer and Parents agree that prior to the Non-STP Acquisition Closing Date Genco LP (or such other appropriate Company) may establish the Texas Genco Retirement Plan, and related trust ("**TGN Retirement Plan**"), Texas Genco Savings Plan, and related trust ("**TGN Savings Plan**"), and Texas Genco Benefit Restoration Plan ("**TGN BRP**") to provide benefits for eligible Company Employees; provided, however, that prior to the STP Acquisition Closing Date, the Scheduled Employees shall not be eligible to participate in any such plans. The TGN Retirement Plan shall be a pension plan, intended to be qualified under Section 401(a) of the Code, established to provide benefits for Company Employees that are substantially similar to the benefits provided for such employees under the CenterPoint Energy, Inc. Retirement Plan (the "**CNP Retirement Plan**"), as in effect as of the date of this Agreement. Notwithstanding the foregoing, if Genco LP (or such other appropriate Company) establishes the TGN Retirement Plan prior to the Non-STP Acquisition Closing Date, such Company and CenterPoint agree to (i) provide for the transfer of assets to the TGN Retirement Plan from the CNP Retirement Plan on terms that are consistent with applicable Law, and (ii) provide Buyer with a reasonable opportunity prior to such transfer to review the proposed transfer and, with respect to the Scheduled Employees, CenterPoint agrees to transfer the accrued benefits of the Scheduled Employees from the CNP Retirement Plan to the TGN Retirement Plan effective as of the STP Acquisition Closing Date, subject to clause (i) above; provided, however, that CenterPoint shall only have such obligation if the TGN Retirement Plan has not been terminated and no action has been taken by Buyer or the plan sponsor to terminate such plan as of such date. The TGN Savings Plan shall be a savings plan, intended to be qualified under Section 401(a) of the Code, established to provide benefits for Company Employees that are substantially similar to the benefits provided for such employees under the CenterPoint Energy, Inc. Savings Plan ("**CNP Savings Plan**"), as in effect as of the date of this Agreement, which shall include an employee stock ownership plan within the meaning of Section 4975 of the Code ("**ESOP**"); provided, however, that except as required by applicable Law, Buyer shall not be required to continue the ESOP on or after the Non-STP Acquisition Closing Date and, to the extent required by applicable federal securities law, Parents shall prepare and file a registration statement on Form S-8, along with a related prospectus, with respect to the ESOP securities on or before the effective date of such plan, and maintain the effectiveness of such registration statement through the Non-

STP Acquisition Closing Date to the extent required by applicable Law. CenterPoint agrees to take such action to cause any plan-to-plan transfer of the Scheduled Employees' account balances under the CNP Savings Plan to the TGN Savings Plan as of, or as soon as administratively practicable after, the STP Acquisition Closing Date; provided, however, that CenterPoint shall only have such obligation if such plan has not been terminated and no action has been taken by Buyer or the plan sponsor to terminate such plan as of such date. The TGN BRP shall be an excess benefits plan related to the TGN Retirement Plan established to provide benefits for Company Employees that are substantially similar to the excess benefits provided for such employees under the CenterPoint Energy, Inc. Benefit Restoration Plan, as in effect as of the date of this Agreement.

(f) Buyer and Parents agree that, prior to the Non-STP Acquisition Closing Date, Genco Holdings (or Genco II LP) may enter into a severance agreement with each of the Active Company Employees listed in Section 6.8(f) of the Companies Disclosure Letter (individually, "**TGN Severance Agreement**" and collectively, "**TGN Severance Agreements**") to provide the severance benefits described in Section 6.8(f) of the Companies Disclosure Letter to such Active Company Employees in the event of an eligible termination of employment during the two-year period commencing on the Non-STP Acquisition Closing Date, and Buyer and its affiliates will cause Genco Holdings and its successors to honor such agreements in accordance with their terms and this Agreement. Buyer and Parents agree that, prior to the STP Acquisition Date, Genco Holding (or Genco II LP) may establish the Texas Genco Severance Benefits Plan #2060 ("**TGN Severance Plan #2060**"), which shall provide (i) benefits that are identical to those provided under the Texas Genco Holdings, Inc. Severance Benefits Plan #2050 ("**TGN Severance Plan #2050**"), for the Scheduled Employees who were listed as "Employees" under the TGN Severance Plan #2050 as of such plan's effective date, and (ii) such Scheduled Employees severance benefits in the event of an eligible termination of employment during the two-year period commencing on the STP Acquisition Closing Date. With respect to an Active Company Employee (1) who is not eligible for benefits under the TGN Severance Plan #2050, the TGN Severance Plan #2060 or a TGN Severance Agreement and (2) whose employment is terminated, other than for Cause, by Buyer, its affiliates or any Company within one year after the Non-STP Acquisition Closing Date, or, in the case of a Scheduled Employee, the STP Acquisition Closing Date (each a "**Covered Employee**"), Buyer shall provide or cause the applicable Company to provide each such terminated Covered Employee with severance benefits which shall be no less favorable than the following benefits:

(i) a lump-sum cash severance payment in an amount equal to three weeks of the Covered Employee's base salary or annualized base rate of pay ("severance pay") multiplied by the number of full years of Service credited to the Covered Employee, with a minimum of 12 weeks and a maximum of 52 weeks of severance pay to be awarded to a Covered Employee;

(ii) an additional lump-sum cash severance payment in an amount equal to the Covered Employee's target award under the TGN STI Plan, if any, based upon the Covered Employee's actual eligible earnings for the period

commencing on January 1st of the year during which his or her termination occurs and ending on the Covered Employee's termination date;

(iii) for the applicable period required by COBRA for benefits provided to the Covered Employee under a group health plan, as defined in Section 5000(b)(1) of the Code, of the Buyer or its affiliates ("**Buyer Medical Plan**"), the Covered Employee shall pay the active employee rate with respect to coverage during the period of time commencing as of his or her termination date equal to the total number of weeks used to calculate his or her severance benefit in clause (i) above, and thereafter the full COBRA rate (which is equal to 102% of the full group rate, which includes the employee's and employer's share of the group coverage cost and a 2% administrative fee) with respect to such coverage for the remainder of the continuation coverage period required by COBRA, with such benefits governed by and subject to (a) the terms and conditions of the plan documents providing such benefits, including the reservation of the right to amend or terminate such benefits under those plan documents at any time, and (b) the provisions of COBRA, and such Covered Employee who, as of his or her termination date, has (1) attained age 50, but not age 55, and (B) completed at least 20 years of Service shall have the same access to the Company's or Buyer's retiree medical plan (if any) as such Covered Employee would have been eligible to access had the Covered Employee terminated his or her employment immediately after attaining age 55; *provided, however*, that such access shall not commence prior to the date the Covered Employee actually attains age 55;

(iv) in addition to any benefit the Covered Employee is otherwise entitled to under the TGN Retirement Plan, if the Covered Employee as of his or her termination date has (a) attained age 50, but not yet 55, and (b) completed at least 20 years of Service, then he or she shall be deemed eligible to receive a benefit equal to the early retirement benefit (payable in a form other than a lump-sum) under the TGN Retirement Plan that the Covered Employee would have been eligible to receive thereunder had he or she terminated his or her employment immediately after attaining age 55; *provided, however*, that such benefit shall not commence prior to the date the Covered Employee actually attains age 55 and, for benefit accrual purposes, that the Covered Employee's benefit under the TGN Retirement Plan shall be based on his actual Service as of his or her termination date; and

(v) the Covered Employee shall be offered outplacement services appropriate to his or her employment position on his or her termination date as provided in Section 6.8(f)(v) of the Companies Disclosure Letter.

For purpose of the severance benefits payable under Section 6.8(f)(i) above, (1) the term "**Cause**" shall mean termination from employment due to (i) gross negligence in the performance of duties; (ii) intentional and continued failure to perform duties; (iii) intentional engagement in conduct which is materially injurious to Genco Holdings or its affiliates, successors, employees or property (monetarily or otherwise) or Buyer; an intentional act of fraud, embezzlement or theft; an intentional wrongful disclosure of

confidential or proprietary information of the Company or an affiliate; or (iv) conviction of a felony or a misdemeanor involving moral turpitude; *provided, however*, that for this purpose, an act or failure to act on the part of an Active Company Employee will be deemed "intentional" only if done or omitted to be done by the Active Company Employee not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company, and no act or failure to act on the part of the Active Company Employee will be deemed "intentional" if it was due primarily to an error in judgment or negligence; and (2) the term "**Service**" shall be defined as in the TGN Retirement Plan, as in effect on the Non-STP Acquisition Closing Date or, in the case of a Scheduled Employee, the STP Acquisition Closing Date; *provided, however*, that (i) less than six months of Service shall not constitute a year of Service, and six months or more of Service shall constitute a full year of Service (except in the event a Covered Employee has a total of less than six months of Service, in which case the employee shall be deemed to have one year of Service); and (ii) to the extent not credited as Service under the TGN Retirement Plan, Service shall include the employee's employment with Genco Holdings or its affiliates during the period commencing on the Non-STP Acquisition Closing Date or, in the case of a Scheduled Employee, the STP Acquisition Closing Date and ending on the employee's termination date. The parties to this Agreement agree that any severance benefits payable pursuant to this Section 6.8(f) (including benefits payable under the TGN Severance Plan #2050 and TGN Severance Agreements) shall be in exchange for, subject to, and conditioned upon, a Covered Employee's execution of a valid and enforceable waiver and release that shall release Parents, Parents' affiliates, the Companies, the affiliates of the Companies, Buyer, Buyer's affiliates, Genco Holdings, Genco Holdings' affiliates and each of their directors, officers, employees and agents, employee benefit plans, and the fiduciaries and agents of said plans from liability and damages in any way related to the Covered Employee's employment with or separation from employment with Buyer, Parents, the Companies or any of their affiliates.

(g) Buyer agrees that upon the Non-STP Acquisition Closing Date, or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, each Active Company Employee shall be immediately eligible to participate, without any waiting time, in a group health plan, as defined in Section 5000(b)(1) of the Code of Buyer or its affiliates ("**Buyer Medical Plan**"). Buyer agrees that Buyer Medical Plan shall credit each Active Company Employee towards the deductibles, coinsurance and maximum out-of-pocket provisions imposed under such group health plan, for the calendar year during which the Non-STP Acquisition Closing Date occurs, with any applicable expenses already incurred during the portion of the year preceding the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, under the applicable group health plans of Parents.

(h) Following the Non-STP Acquisition Closing Date, to the extent applicable, Parents shall retain all liabilities, obligations and responsibilities to provide post-retirement medical, health and life insurance benefits ("**Retiree Medical Benefits**") to any Company Employee or Active Company Employee who (A) retired on or prior to the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, or (B) would have, had such Company Employee or

Active Company Employee retired prior to the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, been entitled to Retiree Medical Benefits pursuant to the terms of any Plan; *provided*, that such Company Employee or Active Company Employee shall be entitled to elect to receive such benefits upon their termination with Buyer. Notwithstanding anything to the contrary in this Agreement, including, without limitation, the provisions of Section 6.8(b) of this Agreement, Buyer shall have no obligation to continue, establish or maintain any Plan or Employee Welfare Benefit Plan that provides for Retiree Medical Benefits (except to the extent required by applicable Law).

(i) Except as otherwise provided in this Section 6.8 or under the Transition Services Agreement referenced in Section 8.3(f) of this Agreement, Buyer acknowledges that, on and after the Non-STP Acquisition Closing Date with respect to the Companies other than Genco Holdings and Genco LP, and on and after the STP Acquisition Closing Date with respect to Genco Holdings and Genco LP, the participation by the Companies in all Plans not sponsored or maintained solely by any of the Companies shall terminate as of the applicable date, and Buyer shall be solely responsible for providing any successor or alternate plans; provided, however, that nothing in this Section 6.8 shall require Buyer to provide such plans for the benefit of the Scheduled Employees on or prior to the STP Acquisition Closing Date.

(j) Buyer shall comply with any obligations under any collective bargaining agreements identified on Section 4.12 of the Companies Disclosure Letter, to the extent required by applicable Law.

(k) After the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date, Buyer shall be responsible for, and shall indemnify and hold harmless, Parents, the Companies and their respective officers, directors, employees, affiliates and agents and the fiduciaries (including plan administrators) of the Plans, from and against, any and all claims, losses, damages, costs and expenses (including attorneys' fees and expenses) and other liabilities and obligations relating to or arising out of (i) all salaries, commissions and vacation entitlements accrued but unpaid as of the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date and post-closing bonuses (with respect to the Non-STP Acquisition Closing Date or the STP Acquisition Closing Date, as applicable), due to any Active Company Employee, (ii) the liabilities assumed by Buyer under this Section 6.8 or any failure by Buyer to comply with the provisions of this Section 6.8, and (iii) any claims of, or damages or penalties sought by, any Active Company Employee, or any governmental entity on behalf of or concerning any Active Company Employee, with respect to any act or failure to act by Buyer to the extent arising from the employment, discharge, layoff or termination of any Active Company Employee who becomes an employee of Buyer or any Company after the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date.

(l) Parents shall retain responsibility for and continue to pay all medical, life insurance, disability and other welfare plan expenses and benefits for each

Company Employee with respect to claims incurred by such Company Employees or their covered dependents prior to the Non-STP Acquisition Closing or, in the case of the Scheduled Employees, the STP Acquisition Closing Date and with respect to any Company Employee who retired or was terminated prior to the Non-STP Acquisition Closing Date or, in the case of the Scheduled Employees, the STP Acquisition Closing Date. Such expenses and benefits with respect to claims incurred by Company Employees or their covered dependents on or after the Non-STP Acquisition Closing shall be the responsibility of Buyer. For purposes of this paragraph, a claim is deemed incurred when the services that are the subject of the claim are performed; in the case of life insurance, when the death occurs; and in the case of long-term disability benefits, when the disability occurs. In addition, after the Non-STP Acquisition Closing Date, Parents shall be responsible for, and shall indemnify and hold harmless, Buyer and its officers, directors, employees, affiliates and agents and the fiduciaries (including plan administrators) of the CenterPoint Energy, Inc. Savings Plan and the CenterPoint Energy, Inc. Retirement Plan, from and against any and all claims, losses, damages, costs and expenses (including attorneys' fees and expenses) and other liabilities and obligations relating to or arising out of any litigation, arbitration and administrative or other proceeding with respect to the CenterPoint Energy, Inc. Savings Plan or the CenterPoint Energy Inc. Retirement Plan.

(m) Nothing herein expressed or implied shall confer upon any of the employees of the Parents, the Companies or any of their affiliates, any rights or remedies, including any right to employment, or continued employment for any specified period, of any nature or kind whatsoever under or by reason of the Agreement.

Section 6.9 *Insurance.*

(a) From and after the date of this Agreement (including after the Non-STP Acquisition Closing Date and after the STP Acquisition Closing Date), CenterPoint shall not take or fail to take, and shall cause each of its subsidiaries not to take or fail to take, any action (including any termination, alteration or amendment) if such action or inaction, as the case may be, would adversely affect the applicability of, or limit or restrict the coverage available under: (i) any insurance policies (including, without limitation, the Company Insurance Policies) held by CenterPoint or any of its subsidiaries or predecessors that cover all or any part of the Genco Business, the Companies or any liabilities or obligations that were initially assumed or are of the type initially assumed by Genco Holdings in the Spin-off Separation Agreement ("**Applicable Insurance Policies**"); or (ii) any cost sharing, coverage-in-place, or similar arrangement or agreement related to and/or replacing the Applicable Insurance Policies ("**Applicable Insurance Agreements**", and together with the Applicable Insurance Policies, the "**Applicable Insurance**"). CenterPoint agrees that from and after August 31, 2002, all Applicable Insurance (including the proceeds therefrom) directly or indirectly applicable to such assets or liabilities shall be for the benefit of the Companies. CenterPoint and its affiliates and, prior to the STP Acquisition Closing Date, Genco Holdings, shall not agree to any buy out of coverage with respect to liability exposures under any Applicable Insurance Policies without Buyer's prior written consent (not to be unreasonably withheld). In connection with any such buy out approved by Genco Holdings, Genco

Holdings shall receive a share of any such buyout proceeds as agreed to by CenterPoint and the Buyer.

(b) Any Company shall be entitled to assert any rights such Company has under any Applicable Insurance. To the extent necessary to satisfy Section 6.9(a) and permissible under Applicable Insurance Policies without causing cancellation or loss of rights under Applicable Insurance, CenterPoint agrees to transfer or assign to the Companies or otherwise cause to be vested in the Companies the Applicable Insurance with respect to the Non-STP Assets and Liabilities at or prior to the Non-STP Acquisition Closing Date and at or prior to the STP Acquisition Closing Date with respect to the STP Assets and Liabilities. The parties agree that, in the event and to the extent that CenterPoint is not able to cause all Applicable Insurance to be modified, amended and/or assigned so that Buyer and its subsidiaries (including, for clarification, the applicable Companies that become subsidiaries of Buyer as of such time as those Companies become subsidiaries) are the direct beneficiaries of, and additional insureds under such Applicable Insurance, with all rights to directly enforce, obtain the benefit of and take all other action in respect of such Applicable Insurance, prior to the Non-STP Acquisition Closing Date, the following provisions shall apply:

(i) The Separation Amendment shall amend the Spin-Off Separation Agreement and related agreements and instruments to clarify that CenterPoint shall retain all liabilities included in the Non-STP Assets and Liabilities, and the STP Assets and Liabilities, to the extent and only to the extent that such liabilities are covered under the Applicable Insurance (the "**Insured Retained Liabilities**").

(ii) CenterPoint agrees, after receipt of a claim, to use commercially reasonable efforts to obtain the maximum available actual recovery for any Insured Retained Liabilities under the Applicable Insurance, provided that CenterPoint shall have no liability or obligation to Buyer or any Company (other than its obligation to comply herewith) for any amounts or costs in excess of amounts actually recovered under the Applicable Insurance. Buyer agrees to reasonably cooperate in defending claims relating to the Insured Retained Liabilities, including, without limitation, at CenterPoint's request, providing information, direction and guidance to CenterPoint. Buyer further agrees to reimburse CenterPoint and/or its counsel for documented out-of-pocket expenses reasonably incurred subsequent to the Non-STP Acquisition Closing Date with respect to the Non-STP Assets and Liabilities and subsequent to the STP Acquisition Closing Date with respect to the STP Assets and Liabilities in defending such claims, but only to the extent that such documented out-of-pocket expense are not paid under any Applicable Insurance.

(iii) To the extent any Insured Retained Liability is partially, but not fully, covered by the Applicable Insurance: (a) Buyer and its subsidiaries and Representatives shall be entitled to participate in all aspects of the defense, litigation, settlement and any other proceedings and negotiations regarding such Insured Retained Liability; and (b) neither CenterPoint nor any of its affiliates or

Representatives shall enter into any settlement of such Insured Retained Liability without Buyer's prior written consent.

(iv) CenterPoint shall promptly notify Buyer in writing of any Insured Retained Liability for which: (a) coverage is denied or threatened to be denied in part or in full under the Applicable Insurance and/or (b) CenterPoint believes that no coverage is available under the Applicable Insurance. CenterPoint shall provide together with such notice sufficient documentation to demonstrate the basis for any asserted lack of coverage for such Insured Retained Liability. To the extent Buyer is satisfied that there is no coverage for such Insured Retained Liability, such Insured Retained Liability shall cease to qualify as an Insured Retained Liability and to such extent shall be deemed a Genco Liability (as defined in the Spin-Off Separation Agreement). During the resolution of any disputes with respect to the matters set forth in this clause (iv), CenterPoint agrees that Buyer and its subsidiaries and Representatives shall be entitled to participate in all aspects of the defense, litigation, settlement and any other proceedings and negotiations regarding the disputed Insured Retained Liability (hereinafter, **"Disputed Insured Retained Liability"**) except to the extent that such participation would jeopardize maintenance of the Applicable Insurance in effect; provided that in such event participation shall be allowed to the greatest extent that would not jeopardize maintenance of the Applicable Insurance in effect.

(v) Notwithstanding the provisions of subsection (iv) above, CenterPoint, at Buyer's expense: (a) shall contest any denial or reduction of coverage for any Insured Retained Liability; and (b) shall not settle any claim related to any Disputed Insured Retained Liability without Buyer's prior written consent.

(vi) In no event shall CenterPoint or any of its affiliates enter into any cost sharing, coverage-in-place or similar agreement or arrangement or any other compromise or settlement relating to any Applicable Insurance or Insured Retained Liability without the prior written approval of Buyer.

(vii) Nothing in this Section 6.9 shall constitute a representation or warranty by CenterPoint that coverage is available to Buyer and its subsidiaries under the Applicable Insurance for any specific claim. Neither this Section 6.9 nor any provision hereof shall be read in a manner that violates or conflicts with any provision of any of the Applicable Insurance. Nothing in this Section 6.9 shall be deemed (A) to constitute an assignment of any Applicable Insurance Policy or any interest therein to the Buyer or (B) to provide CenterPoint or any of its affiliates with rights to coverage other than as already set forth in the Applicable Insurance. To the extent that this Section 6.9 or any provision hereof violates or conflicts with any provision of any Applicable Insurance Policy or would cause a cancellation or loss of rights under any Applicable Insurance Policy, the parties agree that this Section 6.9 shall be amended or construed with respect only to such Applicable Insurance Policy and to the minimum extent

necessary to cure or avoid such conflict, inconsistency, violation, cancellation or loss of rights, provided, however, that this provision shall not constitute a representation or warranty that any such conflict, purported assignment, inconsistency or violation may be avoided or cured.

(viii) CenterPoint agrees promptly to provide Buyer with copies of correspondence with insurers and other counterparties under the Applicable Insurance in respect of any Insured Retained Liability.

(c) Parents and Genco Holdings agree that Buyer and its subsidiaries may use, following the Non-STP Acquisition Closing Date, the third party providers, including legal counsel, currently used by Parents and the Companies to defend and manage the defense of asbestos-related claims involving the Companies.

Section 6.10 *No Solicitation of Transactions.*

(a) Each of Parents and Genco Holdings agrees that neither it nor any other Company shall, and that it shall cause its Representatives and the Representatives of any Company not to, directly or indirectly, initiate, solicit, encourage or otherwise facilitate (including by way of furnishing non-public information) any inquiries or the making or implementation of any proposal or offer (including any proposal from or offer to its shareholders) with respect to (i) a merger, reorganization, share exchange, tender offer, exchange offer, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture or similar transaction involving any Company or (ii) any purchase or sale of more than 10% of the assets of the Companies, taken as a whole, or any Company Securities (any such proposal or offer being hereinafter referred to as an "**Alternative Proposal**"). Each of Parents and Genco Holdings further agrees that neither it nor any Company shall, and that it shall cause its Representative and the Representative of any Company not to, directly or indirectly, have any discussion with or provide any confidential information or data to any person relating to an Alternative Proposal, or engage in any negotiations concerning an Alternative Proposal, or otherwise facilitate any effort or attempt to make or implement an Alternative Proposal or accept an Alternative Proposal.

(b) CenterPoint shall not, directly or indirectly, sell, transfer, pledge, hypothecate, encumber, assign or dispose of any membership interests in Utility Holding (or any beneficial ownership thereof) or its beneficial ownership interest in the Shares or offer to make such a sale, transfer or other disposition (collectively, "**Transfer**") to any person, and Utility Holding shall not Transfer the Shares (or any beneficial ownership thereof).

(c) Each of Parents and Genco Holdings (as applicable) shall notify Buyer promptly (and in any event by 5:00 p.m. New York City time, on the next business day) of the receipt of any inquiries, proposals or offers relating to an Alternative Proposal received by any Parent or Company or its Representatives, indicating, in connection with such notice, the name of such person and the material terms of any inquiries, proposals or offers. Each of Parents and Genco Holdings shall keep Buyer reasonably informed of the

status of any inquiries, proposals or offers and any modifications thereto. Each of Parents and Genco Holdings further agrees that neither of the Parents nor any Company shall enter into any agreement with any person subsequent to the date of this Agreement with respect to an Alternative Proposal or that prohibits Genco Holdings from providing such information to Buyer. Genco Holdings agrees that no Company shall terminate, waive, amend or modify any provision of any standstill or confidentiality agreement to which it is a party and that each Company shall use commercially reasonable efforts to enforce the provisions of any such agreement.

(d) Effective as of the date of this Agreement, each of Parents and Genco Holdings agrees that each Company shall, and each of Parents and Genco Holdings shall cause any Representative of a Parent or Company to, terminate any existing activities, discussions or negotiations with any third parties that may be ongoing with respect to any Alternative Proposal. Genco Holdings shall use commercially reasonable efforts to inform the Representatives of a Parent or a Company of the obligations undertaken in this Section 6.10 and shall request that all confidential information previously furnished to any such third parties be returned promptly.

(e) The board of directors of Genco Holdings (or any committee thereof) shall not approve or recommend an Alternative Proposal.

(f) Genco Holdings and the board of directors of Genco Holdings may take and disclose to Genco Holdings' shareholders a position in accordance with Rule 14e-2 under the Exchange Act with respect to an Alternative Proposal; provided that the foregoing will in no way (i) permit any action that would otherwise have been prohibited under this Agreement (including Section 6.10(e)), (ii) limit the obligation of Genco Holdings to comply with its obligations under this Agreement or (iii) eliminate or modify the effect that any action taken or disclosure made in accordance with such Rule would have under this Agreement.

(g) Genco Holdings shall not, and shall not permit any Company to, adopt, authorize or enter into any Rights Plan.

Section 6.11 *Tax Exempt Financing.* (a) Buyer and CenterPoint understand and agree that:

(i) the pollution control facilities identified in Section 6.11(a)(1) of the Parents Disclosure Letter (each a "**Pollution Control Facility**" and collectively the "**Pollution Control Facilities**") have been financed or refinanced, in whole or in part, with the proceeds of the issuance and sale by various governmental authorities of the industrial development revenue bonds or private activity bonds listed in such Section 6.11(a)(2) (collectively, the "**Revenue Bonds**"), the interest on which is excludable from gross income for purposes of federal income taxation; CenterPoint, or CenterPoint Energy Houston Electric, LLC, a Texas limited liability company and indirect wholly-owned subsidiary of CenterPoint ("**CEHE**" and, collectively with CenterPoint, the "**CenterPoint Obligors**"), is the entity obligated to make payments to the issuer

and any credit or liquidity provider in connection with each issue of Revenue Bonds; the Revenue Bonds listed in Section 6.11(a)(2) of the Parents Disclosure Letter are the only outstanding bonds or similar obligations the interest on which is excludable from gross income for purposes of federal income taxation relating the Genco Business; and Section 6.11(a)(1) of the Parents Disclosure Letter accurately reflects the generation facilities where the Pollution Control Facilities financed by such Revenue Bonds are located;

(ii) the basis for such exclusion is the use of the Pollution Control Facilities for one or more of the following purposes: (a) the abatement or control of atmospheric pollution or contamination, (b) the abatement or control of water pollution or contamination, (c) sewage disposal, or (d) the disposal of solid waste, such purposes ("**Qualifying Uses**") being discussed in more detail in Section 6.11(b) below;

(iii) the use of a Pollution Control Facility for a purpose other than its current Qualifying Uses indicated in subsection (ii) above could impair (a) such excludability from gross income of the interest on the issue of Revenue Bonds which were issued to finance or refinance the acquisition or construction of that Pollution Control Facility, possibly with retroactive effect, unless appropriate remedial action (which could include prompt redemption or defeasance of such issue of Revenue Bonds, in whole or in part) were taken, or (b) the deductibility of the CenterPoint Obligors' payment of interest on such issue of Revenue Bonds;

(iv) any breach by Buyer of its covenants under Section 6.11 could result in the incurrence by the CenterPoint Obligors of increased interest costs on the Revenue Bonds or loss of the interest deduction for tax purposes, or transaction costs relating to any refinancing, redemption or defeasance of the issue of Revenue Bonds which were issued to finance or refinance the acquisition or construction of any particular facilities, and, subject to Section 6.11(i), Buyer shall be liable to the CenterPoint Obligors to the extent such additional costs and expenses result from a breach by Buyer of its covenants under Section 6.11; provided, however, that Buyer shall only be liable after a final determination of taxability by the IRS to the CenterPoint Obligors for (i) actual costs incurred as a result of a final declaration of the IRS declaring any series of Revenue Bonds taxable, and, without duplication, (ii) actual costs accruing to the CenterPoint Obligors resulting from a loss of the deductibility of interest paid on such Revenue Bonds; provided, further, that the CenterPoint Obligors will promptly notify Buyer in writing of any audit by the IRS which could result in additional costs and expenses for which Buyer could be responsible hereunder and allow representatives of Buyer to participate in all proceedings and will not agree to any settlement without the prior written consent of Buyer (which consent shall not be unreasonably withheld); and

(v) notwithstanding the other provisions of this Section 6.11, neither Buyer nor the Companies will have any liability under this Agreement or otherwise to the CenterPoint Obligors arising with respect to the Revenue Bonds

and relating to the use of the Pollution Control Facilities for a purpose other than a Qualifying Use prior to the Non-STP Acquisition Closing, and the CenterPoint Obligors agree to fully release Buyer and the Companies in respect of any such liability effective as of the Non-STP Acquisition Closing.

(b) Subject to Section 6.11(c), Buyer covenants not to use (and to cause its subsidiaries not to use) the Pollution Control Facilities for any purpose other than each such Pollution Control Facility's current Qualifying Uses, which in each case may include:

(i) abating or controlling atmospheric or water pollution or contamination by removing, altering, disposing of or storing pollutants, contaminants, waste or heat, all as contemplated in U.S. Treasury Regulations Section 1.103-8(g);

(ii) the collection, storage, treatment, utilization, processing or final disposal of solid waste, all as contemplated in U.S. Treasury Regulations Section 1.103-8(f); or

(iii) the collection, storage, treatment, utilization, processing or final disposal of sewage, all as contemplated in U.S. Treasury Regulations Section 1.103-8(f);

unless, in each such case, (i) Buyer has obtained and delivered to the CenterPoint Obligors, at Buyer's expense, an opinion addressed to the CenterPoint Obligors of nationally recognized bond counsel reasonably acceptable to the CenterPoint Obligors ("**Bond Counsel**" and such opinion being an "**Opinion of Bond Counsel**") that such a change in use will not impair the excludability from gross income for federal income tax purposes of the interest on any issue of Revenue Bonds or that such change in use will not affect the CenterPoint Obligors' eligibility to deduct interest payments made with respect to such bonds, or (ii) there are no longer any Revenue Bonds or, to the extent permitted by this Agreement, tax-exempt bonds issued to refinance Revenue Bonds outstanding with respect to such Pollution Control Facility. Except with respect to the Gas Plant Pollution Control Facilities (as defined below), Buyer reasonably expects that each of the Pollution Control Facilities will continue to be used for its current Qualifying Uses set forth in subsection (a)(ii) above, and for no other purpose, for the remainder of the Pollution Control Facilities' useful lives. Subject to the representations in Section 6.11(i), Buyer covenants to refrain (and to cause its subsidiaries to refrain) from making any use of the Pollution Control Facilities, other than each such Pollution Control Facility's current Qualifying Uses, that would (i) impair the excludability from gross income for federal income tax purposes of the interest on any issue of Revenue Bonds, or (ii) impair the deductibility of the CenterPoint Obligors' payments of interest on such issue of Revenue Bonds.

(c) It is expressly understood and agreed that the provisions of Section 6.11(b) above shall not prohibit Buyer or any of Buyer's subsidiaries from (i) causing or otherwise permitting the operation of the Pollution Control Facilities to be

suspended on a temporary basis; (ii) causing or otherwise permitting the termination of the operation of any Pollution Control Facilities on a permanent basis and the shutting down, retiring, abandoning and/or decommissioning of any of the Pollution Control Facilities; or (iii) subject to Section 6.11(f), selling, exchanging or transferring any of the Pollution Control Facilities to a third party. Notwithstanding the foregoing, except in the case of any of the Pollution Control Facilities financed or refinanced with the Revenue Bonds identified on Section 6.11(c) of the Parents Disclosure Letter (such facilities, the "Gas Plant Pollution Control Facilities"), neither Buyer nor Buyer's subsidiaries shall cause or otherwise permit the dismantlement of all or any portion of a Pollution Control Facility unless (i) such dismantlement occurs subsequent to the end of the expected economic useful life of the Pollution Control Facility (as determined on the date of issue of the most recent issue of Revenue Bonds that financed or refinanced prior to the date of this Agreement such Pollution Control Facility and as set forth in the documentation and tax information filings with respect to such Revenue Bonds), (ii) in the event such dismantlement involves the sale (for scrap or otherwise) of all or any portion of such Pollution Control Facility, the amount received in consideration for such sale is used by Buyer or such subsidiary, within 90 days of such dismantlement, to acquire or construct property that is used for the same Qualifying Use for which such Pollution Control Facility had been used prior to its dismantlement, (iii) Buyer or such subsidiary first obtains and delivers to the CenterPoint Obligors at Buyer's or its subsidiary's expense an Opinion of Bond Counsel addressed to the CenterPoint Obligors that such action will not (x) impair the exclusion from gross income of the interest on any issue of Revenue Bonds for federal income tax purposes or (y) affect the CenterPoint Obligors' eligibility to deduct interest payments made with respect to such bonds, or (iv) there are no longer any Revenue Bonds or, to the extent permitted by this Agreement, tax-exempt bonds issued to refinance Revenue Bonds outstanding with respect to such Pollution Control Facility. In addition, Buyer shall give the CenterPoint Obligors 120 days advance written notice before Buyer or any subsidiary of Buyer shall cause or otherwise permit the dismantlement of all or any portion of any of the Gas Plant Pollution Control Facilities.

(d) If Buyer, its successors or assigns desires to finance or refinance any improvement or addition to any of the Pollution Control Facilities, the CenterPoint Obligors agree to cooperate, at Buyer's expense, with all reasonable requests by Buyer in supplying any information, records or reports necessary or desirable to effect such financing.

(e) If the CenterPoint Obligors desire to refund any Revenue Bonds, Buyer, at the expense of the CenterPoint Obligors, shall cooperate with all reasonable requests of the CenterPoint Obligors and with Bond Counsel with respect to the issuance of the refunding bonds and shall provide upon request any representations, agreements or covenants that are reasonably requested concerning Buyer's compliance to such date and/or in the future; provided that Buyer shall not be required to make any covenants, representations or agreements which will adversely impact Buyer or Buyer's operation of the Genco Business or Buyer's intended use of the Pollution Control Facilities, including the sale or discontinuance of use of any Pollution Control Facilities; provided further that the CenterPoint Obligors agree that they will not undertake any refunding of Revenue Bonds with tax-exempt bonds that have a maturity that is later than the latest maturity of

any other outstanding series of Revenue Bonds previously issued to finance or refinance all or a portion of Pollution Control Facilities located at the same generation facility as the Pollution Control Facilities that were financed or refinanced (in whole or in part) with the series of Revenue Bonds to be refunded. If Buyer shall desire to cause an Opinion of Bond Counsel to be delivered to the CenterPoint Obligors pursuant to Section 6.11(b) or the second sentence of Section 6.11(c), the CenterPoint Obligors shall cooperate with Buyer and with Bond Counsel and shall provide upon request copies of documents relating to the Revenue Bonds and any representations relating to the Revenue Bonds and the CenterPoint Obligors or any affiliate or predecessor entity's prior use of the Pollution Control Facilities and compliance with the terms of the trust indentures, installment payment and bond agreements, tax certificates and agreements and any other agreements underlying or relating to the Revenue Bonds or any similar documents relating to any tax-exempt bonds refunded by the Revenue Bonds that are reasonably requested. Buyer shall cooperate with the CenterPoint Obligors and with Bond Counsel, and shall provide upon request such representations as the CenterPoint Obligors may reasonably request in connection with efforts by the CenterPoint Obligors to obtain any opinions of Bond Counsel contemplated under the terms of the bond documents relating to the Revenue Bonds in connection with the transactions contemplated by this Agreement; provided, that, Buyer shall not be required to provide any representations that would adversely impact Buyer or Buyer's operation of the Genco Business or Buyer's intended use of the Pollution Control Facilities, including the sale or discontinuance of use of any Pollution Control Facilities, and the parties hereto agree that obtainment of any such opinions of Bond Counsel shall not constitute a condition to any party's obligation to close any of the transactions contemplated by this Agreement.

(f) If Buyer or any of Buyer's subsidiaries shall sell, exchange, transfer or otherwise dispose of any of the Pollution Control Facilities or any subsidiary that owns any of the Pollution Control Facilities to a third party, Buyer shall cause to be included in the documentation relating to such transaction covenants and agreements on the part of such third party for the benefit of the CenterPoint Obligors substantially the same as those on the part of Buyer contained in Section 6.11; provided that if the third party transferee makes such agreements, Buyer shall be released from any liability or obligations under this Section 6.11 (including Section 6.11(a)) with regard to the portion of Pollution Control Facilities so disposed of arising as a result of a breach of such agreements by such third party transferee after the closing of such transaction.

(g) The CenterPoint Obligors shall notify Buyer, as soon as practicable, in writing when any issue of Revenue Bonds has been refunded, paid in full, defeased or is no longer outstanding.

(h) The CenterPoint Obligors shall retain all of their obligations as borrower, obligor, company or the user contained in each trust indenture, loan agreement, installment payment and bond amortization agreement, tax certificate, tax agreement, continuing disclosure agreement, agreement with credit and liquidity providers or any other agreement relating to the Revenue Bonds (the "**Bond Documents**") for each issue of Revenue Bonds and any Revenue Bonds issued to refund any Revenue Bonds and any other legal or offering document relating to the Revenue Bonds. Buyer shall have only

those responsibilities specifically set forth in this Section 6.11 with respect to the Pollution Control Facilities and the Revenue Bonds.

(i) CenterPoint, on behalf of the CenterPoint Obligors, represents and warrants to Buyer that, except as set forth in Section 6.11(i) of the Parents Disclosure Letter: (i) there are no Liens on the Pollution Control Facilities that secure debt or other payment obligations of a CenterPoint Obligor or any of their affiliates other than the Companies; (ii) each of the Pollution Control Facilities is being, and since the initial issuance of Revenue Bonds or tax-exempt bonds refinanced with Revenue Bonds has been, used for its current Qualifying Uses as set forth in subsection (a)(ii) above, and for no other purpose; (iii) they have not received any notice that there is any audit or administrative action pending by the Internal Revenue Service as to the exemption from federal income taxation of interest on any of the Revenue Bonds, and they are not aware as of the date of this Agreement of any facts or circumstances that could give rise to any challenge to such exemption from federal income taxation of interest on any of the Revenue Bonds; and (iv) no event of default or default which with the lapse of time could become an event of default exists under any of the Bond Documents relating to any of the Revenue Bonds or will occur as a result of the Public Company Merger or any other transaction contemplated hereby.

(j) The CenterPoint Obligors agree that they will provide information to Buyer prior to Non-STP Acquisition Closing as to any Pollution Control Facilities, if any, the legal title to which is held by a governmental issuer of Revenue Bonds. When all Revenue Bonds of such issue are no longer outstanding and title is transferred to the obligor on such issue of Revenue Bonds, the CenterPoint Obligors will promptly take all actions necessary to transfer or cause to be transferred such title to Buyer or its designees, successors or assigns. If CenterPoint transfers its payment obligations with respect to the Revenue Bonds it shall require its transferee to convey or cause such title to be conveyed to Buyer or its designees, successors or assigns.

(k) If Buyer incurs any costs or expenses, including the time of any of its employees, in connection with the CenterPoint Obligors' refunding any of the Revenue Bonds or a successful defense of an IRS audit, the CenterPoint Obligors shall pay to Buyer an amount equal to its actual costs reasonably incurred unless any such costs or expenses arise directly or indirectly out of Buyer's breach of its obligations under this Section 6.11.

Section 6.12 *NRC Approval.*

(a) As promptly after the date hereof as may be feasible (and in any event, within 45 calendar days of the date of this Agreement), Genco Holdings and Buyer shall jointly prepare and file one or more applications (the "**NRC Application**") with the NRC for approval of the indirect transfer of the NRC license for the South Texas Project and, to the extent necessary, any conforming amendment of the NRC license to reflect such indirect transfer. Thereafter, Parents, Genco Holdings and Buyer shall cooperate with one another to facilitate review of the NRC Application by the NRC staff, including but not limited to promptly providing the NRC staff with any and all documents or

information that the NRC staff may reasonably request or require any of the parties to provide or generate. In addition, Parents and Genco Holdings shall provide Buyer with the opportunity to review and comment on any application to be filed with the NRC relating to Genco LP's exercise of its right of first refusal to increase its interest in STP and they shall keep Buyer reasonably apprised as to the status of any such application and cooperate with Buyer to the extent such application may relate to the NRC Application.

(b) The NRC Application shall identify STP Nuclear Operating Company ("**STPNOC**"), Genco Holdings and Buyer as separate parties to the NRC Application, but Genco Holdings and Buyer shall jointly direct and control the prosecution of the NRC Application. In the event the processing of the NRC Application by the NRC becomes subject to a hearing or other extraordinary procedure by the NRC (a "**Contested Proceeding**"), until such Contested Proceeding becomes final and nonappealable, Genco Holdings, on the one hand, and Buyer, on the other hand, shall separately appear therein by their own counsel, and shall continue to cooperate with each other to facilitate a favorable result.

(c) Parents, Genco Holdings and Buyer will bear their own costs of the preparation, submission and processing of the NRC Application, including any Contested Proceeding that may occur in respect thereof; provided, however, that Buyer, on the one hand, and Parents, on the other hand, shall equally share the costs of all NRC staff fees payable in connection with the NRC Application and costs incurred by South Texas Project Nuclear Operating Company in filing and prosecuting the NRC Application. In the event that Parents, Genco Holdings and Buyer agree upon the use of common counsel, they shall share equally the fees and expenses of such counsel.

(d) Buyer will conform to the restrictions on foreign ownership, control or domination contained in Sections 103d and 104d of the Atomic Energy Act, 42 U.S.C. §§ 2133(d) and 2134(d), as applicable, and the NRC's regulations in 10 C.F.R. § 50.38 and will take, as promptly as practicable after the date of this Agreement, commercially reasonable efforts to develop and implement a mitigation plan to address foreign ownership concerns that is satisfactory to the NRC. For purposes of this Section 6.12(d), commercially reasonable efforts include the acceptance of licensing conditions similar in all material respects to those that have been or are being imposed by the NRC on similarly situated license applicants.

Section 6.13 *Preparation of Information Statement; SEC Filings.*

(a) Promptly after the execution and delivery of this Agreement, Genco Holdings shall prepare (in consultation with Buyer and Parents) and file with the SEC an information statement, which information statement shall relate to the adoption of this Agreement and approval of the transactions contemplated hereby, including the Public Company Merger, and shall comply with the requirements of Rule 13e-3 under the Exchange Act (the "**Information Statement**"). The Information Statement shall include the recommendation of the board of directors of Genco Holdings described in Section 4.25. Genco Holdings shall also mail a copy of the Information Statement to

Genco Holdings' shareholders as promptly as practicable following the date of this Agreement.

(b) Each of Buyer, Genco Holdings and Parents (i) shall furnish all information concerning itself and its subsidiaries to the others as may be reasonably requested in connection with the preparation, filing and distribution of the Information Statement and (ii) agrees, as to itself and its subsidiaries, that none of the information supplied or to be supplied by it or its subsidiaries (other than, in the case of Parents, the Companies) for inclusion or incorporation by reference in the Information Statement and any amendment or supplement thereto will, at the date of mailing to shareholders, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of Buyer, Genco Holdings and Parents agrees to promptly correct any information provided by it for use in the Information Statement that shall have become false or misleading. Genco Holdings will cause the Information Statement to comply as to form in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder.

(c) Genco Holdings shall promptly notify Buyer upon the receipt of any comments from the SEC or its staff or any request from the SEC or its staff for amendments or supplements to the Information Statement and shall provide Buyer and Parents with copies of all correspondence between Genco Holdings and its Representatives, on the one hand, and the SEC and its staff, on the other hand. Notwithstanding the foregoing, prior to filing or mailing the Information Statement or any amendment or supplement thereto or responding to any comments of the SEC with respect thereto, Genco Holdings (i) shall provide Buyer and Parents an opportunity to review and comment on such document or response and (ii) shall include in such document or response all comments reasonably proposed by Buyer and Parents.

(d) Each of the Genco SEC Reports to be filed by Genco Holdings after the date of this Agreement, when filed, will comply in all material respects with the applicable requirements of the Securities Act and the Exchange Act, each as in effect on the date so filed. None of the Genco SEC Reports (including any financial statements or schedules included or incorporated by reference therein) to be filed by Genco Holdings after the date of this Agreement, when filed, will contain any untrue statement of a material fact or omit to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(e) Each of the audited and unaudited financial statements (including any related notes) included in the Genco SEC Reports to be filed by Genco Holdings after the date of this Agreement, when filed, will comply in all material respects with all applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, will have been prepared in accordance with GAAP (except, in the case of unaudited quarterly statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto) and will fairly present the consolidated financial position of Genco

Holdings and its subsidiaries at the respective date thereof and the consolidated results of its and their operations and cash flows for the periods indicated (subject, in the case of unaudited quarterly statements, to normal year-end audit adjustments, which were not and are not expected to be material in amount).

Section 6.14 *Directors' and Officers' Indemnification and Insurance.* (a) The articles of incorporation and bylaws of the Surviving Corporation shall contain the provisions regarding liability of directors and indemnification of directors and officers that are set forth, as of the date of this Agreement, in the articles of incorporation and the bylaws, respectively, of Genco Holdings and shall provide indemnification with respect to claims arising from facts or events that occurred prior to the Public Company Merger Effective Time to the fullest extent permitted by and in accordance with the TBCA and other applicable Law from time to time, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Public Company Merger Effective Time in any manner that would affect adversely the rights thereunder of individuals who at or at any time prior to the Public Company Merger Effective Time were Company Employees.

(b) The Surviving Corporation shall cause to be obtained at the Public Company Merger Effective Time "tail" insurance policies with a claims period of at least six years from the Public Company Merger Effective Time with respect to directors' and officers' liability insurance in amount and scope at least as favorable as the Genco Holdings' existing policies for claims arising from facts or events that occurred prior to the Public Company Merger Effective Time; provided that if such "tail" insurance policies are not available at a cost not greater than the amount set forth on Section 6.14 of the Companies Disclosure Letter (the **"Insurance Cap"**), the Surviving Corporation shall cause to be obtained as much comparable insurance for as long a period (not to exceed six years from the Public Company Merger Effective Time) as is available for a cost not to exceed the Insurance Cap.

Section 6.15 *Section 16 Matters.* Prior to the Public Company Merger Closing, Genco Holdings and CenterPoint shall take all such steps as may be required to cause to be exempt under Rule 16b-3 promulgated under the Exchange Act any dispositions of Common Stock (including derivative securities with respect to Common Stock) that are treated as dispositions to Genco Holdings under such rule and result from the Public Company Merger by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Genco Holdings or CenterPoint.

Section 6.16 *Intercompany Accounts and Agreements.*

(a) Except as set forth in Section 6.16(a) of the Parents Disclosure Letter and Section 6.6(m) of this Agreement, any intercompany accounts and all amounts due under intercompany leases and other agreements between any of the Companies, on the one hand, and Parents and their affiliates (other than the Companies), on the other hand, related to the Non-STP Assets and Liabilities shall be paid or otherwise settled in cash, and all such agreements shall be terminated, as of the Non-STP Acquisition

Closing; provided, that, any intercompany accounts between any of the Companies, on the one hand, and Parents and their affiliates (other than the Companies), on the other hand, relating to the Texas Genco Money Pool Agreement dated as of October 22, 2003 (the "**Money Pool Agreement**") shall be paid or otherwise settled in cash and such agreement shall be terminated as of such date with respect to Genco II LP and Genco Services and from such date until the STP Acquisition Closing Date, no person other than a Company may borrow funds under the Money Pool Agreement; provided, further, that all amounts payable under any fuel purchase Contracts and the Current Transition Services Agreement shall be paid in the ordinary course consistent with past practice. Such payment, settlement or termination shall be made effective at or prior to the Non-STP Acquisition Closing or as promptly thereafter as practicable. No adjustment shall be made to the Non-STP Consideration as a result of any such payment, settlement or termination.

(b) Except as set forth in Section 6.16(b) of the Parents Disclosure Letter and Section 6.6(m) of this Agreement, any intercompany accounts and all amounts due under intercompany leases and other agreements between any of the Companies, on the one hand, and Parents and their affiliates (other than the Companies), on the other hand, related to the STP Assets and Liabilities shall be paid or otherwise settled in cash, and all such agreements shall be terminated, as of the STP Acquisition Closing; provided, that, any intercompany accounts between any of the Companies, on the one hand, and Parents and their affiliates (other than the Companies), on the other hand, relating to the Money Pool Agreement shall be paid or otherwise settled in cash and such agreement shall be terminated as of such date with respect to all Companies; provided, further, that all amounts payable under the Transition Services Agreement shall be paid in the ordinary course consistent with past practice. Such payment, settlement or termination shall be made effective at or prior to the STP Acquisition Closing or as promptly thereafter as practicable. No adjustment shall be made to the STP Consideration as a result of any such payment, settlement or termination.

(c) Parents and Genco Holdings agree that, to the extent any intercompany leases or agreements between any of the Companies, on the one hand, and the Parents or their affiliates, on the other hand, have not been disclosed in Section 4.22 of the Companies Disclosure Letter, to the extent and as Buyer reasonably requests that any such lease or agreement survive the Non-STP Acquisition Closing or the STP Acquisition Closing, as applicable, Parents shall, or shall cause their applicable affiliate to, cause such lease or contract to survive the Non-STP Acquisition Closing or the STP Acquisition Closing, as applicable.

(d) Prior to the Non-STP Acquisition Closing Date, neither Genco LP nor Genco Services shall, and Genco Holdings shall not make any payment, incur any liability to or enter into any Contract or transaction with, Parent or any of its affiliates (including the Companies, other than Genco LP and Genco Services), except pursuant to Company Affiliate Contracts in effect on the date of this Agreement or with Buyer's prior written consent.

Section 6.17 *Transition Services and Other Intercompany Arrangements.* (a) Each of Buyer and CenterPoint agree to enter into the Transition Services Agreement on the Non-STP Acquisition Closing Date. At the Non-STP Acquisition Closing, all data processing, accounting, insurance, banking, personnel, legal, communications, information technology and other products and services provided to the Companies or Genco II LP by or at the expense of CenterPoint or any of its affiliates (other than a Company), including any agreements or understandings (written or oral) with respect thereto with respect to the Genco Business, will terminate, except to the extent provided in the Transition Services Agreement or as set forth in Sections 6.16(a) and (b) of the Parents Disclosure Letter.

(b) On or prior to the Public Company Merger Closing Date, CenterPoint, Genco Holdings, Buyer and Genco LP, as applicable, shall execute an amendment to the Spin-off Separation Agreement substantially in the form attached as Schedule 6.17(b), which amendment shall be effective as of or after the Public Company Merger Effective Time (the "**Separation Amendment**").

Section 6.18 *Power Purchase Agreement.* On or prior to the Non-STP Acquisition Closing Date, Genco LP and Genco II LP shall enter into a power purchase agreement on the terms set forth on Schedule 6.18 attached hereto and otherwise on terms and conditions reasonably satisfactory to Buyer and Genco Holdings.

Section 6.19 *Decommissioning Undertakings.* Buyer covenants and agrees that following the STP Acquisition, Buyer shall cause its subsidiary that owns the STP interest to maintain the Decommissioning Trust in compliance in all material respects with applicable Laws, including regulations or rulings of the IRS, NRC and the PUC (or any successor entity having jurisdiction over the Decommissioning Trust and the collection of decommissioning funds). CenterPoint covenants and agrees to cause its transmission and distribution subsidiary, CenterPoint Energy Houston Electric, LLC ("CEHE") (i) to maintain in its tariffed rates for the delivery of electricity the non-bypassable STP decommissioning funding charge established in CEHE's most recent rate order, with such changes to the charge as may be authorized or ordered by the PUC from time to time, (ii) to deposit the decommissioning revenues collected by CEHE through the decommissioning charges into Buyer's nuclear decommissioning trust for STP (or, as applicable, into a decommissioning trust for STP maintained by an entity succeeding to or having acquired all or part of Buyer's interest in STP). CenterPoint and Buyer shall cooperate with the other, and shall cause each of their subsidiaries to cooperate, at Buyer's expense with respect to documented out-of-pocket expenses reasonably incurred, in providing information for and otherwise supporting filings with the PUC in connection with the decommissioning charge, including any rate proceeding filed by CEHE. Such support shall include: (i) Buyer or its subsidiary providing decommissioning studies and information as may be required to substantiate Buyer's proposed decommissioning charge levels, (ii) CenterPoint causing CEHE to provide information as may be required to substantiate Buyer's proposed decommissioning charge levels, including any necessary testimony or information relating to sales forecasts and rate design, (iii) Buyer and CenterPoint supporting, and causing their subsidiaries to support, the maintenance of the decommissioning charge and any increase to such charge proposed by Buyer or its

subsidiary or any request by Buyer or its subsidiary that such charge be established as a separate non-bypassable charge in CEHE's rates and (iv) Buyer and CenterPoint opposing, and causing their subsidiaries to oppose, positions taken by other parties to reduce, delay the recovery of or impose other terms or conditions relating to the annual decommissioning funding amount to the extent that Buyer or its subsidiary does not support such position. CenterPoint shall cause CEHE to timely file proposed tariff and any other information necessary to implement PUC orders effecting a change in the annual decommissioning funding amount for STP included in CEHE's rates, and CenterPoint shall cooperate with Buyer and its subsidiaries in complying with Code Section 468A and the Treasury Regulations thereunder including filing any necessary elections or rulings with the IRS or other authorities. Buyer and CenterPoint agree that the provisions of this Section 6.19 shall be binding upon and shall benefit their respective successors and assigns. CenterPoint agrees that it will not enter into any transaction the effect of which would be to transfer, allocate, vest or assign (whether by merger, operation of law or otherwise) all or any part of its transmission or distribution business or the requirement to collect all or any portion of such non-bypassable STP decommissioning fund charge to any other person without obtaining the agreement of such person to be bound by and abide by the terms of this Section 6.19 or substantially similar terms, and Buyer agrees that it will not enter into any transaction the effect of which would be to transfer, allocate, vest or assign (whether by merger, operation of law or otherwise) its interest in STP to any other person without obtaining the agreement of such person to be bound by and abide by the terms of this Section 6.19 or substantially similar terms. All references in this Section 6.19 to Buyer, CenterPoint or CEHE shall include each such party's successors and assigns.

Section 6.20 *True-up Proceeds.* Buyer acknowledges that it has no claim or entitlement to any recovery or other amount resulting from any final order issued by the PUC in the stranded cost true-up proceeding now pending before the PUC in Docket No. 29526 or to any proceeds from any securitization bonds that may be issued by a subsidiary of CenterPoint to recover amounts CenterPoint and its subsidiaries may be entitled to recover as a result of that proceeding. In the event that Buyer or any subsidiary receives any stranded cost recovery, amount or proceeds referred to in the prior sentence, Buyer shall (or shall cause such subsidiary to) immediately pay such recovery, amount or proceeds over to CenterPoint.

Section 6.21 *Environmental Reporting Regarding NOx Emission Reductions.* Unless CenterPoint notifies Buyer that CenterPoint is not required to furnish such information to the PUC, within 90 days after December 31, 2004, 2005 and 2006, Buyer shall furnish or cause to be furnished to CenterPoint a statement detailing the capital expenditures made by Buyer and its subsidiaries for purposes of reduction of emissions of NOx during the prior year. Such statement shall be in a form agreed by Buyer and CenterPoint in order to permit CenterPoint to file reports required by the PUC. This provision does not require Buyer to make any capital expenditures for these purposes or subject Buyer to any liability with respect to CenterPoint's filings with the PUC, but is solely a reporting obligation to enable CenterPoint to comply with its obligations.

Section 6.22 *Leases.* Prior to the Genco LP Division, CenterPoint shall (or shall cause its applicable subsidiary to) enter into one or more lease agreements with Genco LP or its designated affiliate on the terms set forth in Section 6.22 of the Companies Disclosure Letter and otherwise on terms and conditions reasonably acceptable to Buyer.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE PUBLIC COMPANY MERGER

Section 7.1 *Conditions to Genco Holdings and Merger Sub's Obligations to Consummate the Public Company Merger.* The respective obligations of Genco Holdings and Merger Sub to consummate the Public Company Merger are subject to the satisfaction on or prior to the Public Company Merger Closing Date of each of the following conditions:

(a) No Law or Order shall exist or shall have been enacted, entered, promulgated or enforced by any Governmental Authority which prohibits or makes illegal consummation of the Public Company Merger or the Non-STP Acquisition or any of the other transactions related thereto;

(b) Any waiting period applicable to the Public Company Merger or the Non-STP Acquisition, under applicable U.S. antitrust or trade regulation laws and regulations, including under the HSR Act, shall have expired or been terminated;

(c) The consummation of the Public Company Merger is permitted by Rule 14c-2 promulgated under the Exchange Act;

(d) The Companies shall have access to immediately available funds under the Overnight Bridge Loan as contemplated by the Public Company Merger Debt Term Sheet, the Buyer shall have received proceeds from the Debt Financing in an amount equal to the Non-STP Consideration (or such amount shall have been funded into escrow as contemplated by the Debt Financing Letter) and the Delayed Draw Term Facility shall be in full force and effect, in each case on the terms and conditions set forth in the Debt Financing Letter or the Public Company Merger Debt Term Sheet, as applicable, or upon terms and conditions which are, in the judgment of Buyer, comparable or more favorable (to Buyer) in the aggregate thereto, and to the extent that any terms and conditions are not set forth in the Debt Financing Letter, on terms and conditions reasonably satisfactory to Buyer and, with respect to the Public Company Merger Debt Term Sheet, Genco Holdings;

(e) Buyer shall have delivered to Parents a certificate, dated as of the date scheduled for the Public Company Merger Closing and effective so long as the Public Company Merger is consummated on such date, to the effect that, in reliance on the certificates referred to in Section 8.3(d), and based on the

satisfaction or waiver by Buyer of the conditions precedent set forth in Section 8.3(e) and 8.3(f), Buyer is prepared to consummate the Non-STP Acquisition on the following business day (subject to the satisfaction of the conditions set forth in Section 8.1 and 8.5), and upon delivery of such certificate, all the conditions in Section 8.3 shall be deemed satisfied or waived, so long as the Public Company Merger is consummated on the date scheduled for the Public Company Merger, and the Non-STP Acquisition occurs on the following business day or as soon as possible thereafter;

(f) The conditions in Section 8.2 shall have been satisfied; and

(g) Genco II LP shall have been certified as an EWG by the FERC.

Genco Holdings shall not waive the conditions set forth in subsection (a), (b) or (c) of this Section 7.1 without Buyer's consent.

ARTICLE VIII

CONDITIONS TO CONSUMMATION OF THE NON-STP ACQUISITION

Section 8.1 *Conditions to Buyer, Genco Holdings and CenterPoint's Obligations to Consummate the Non-STP Acquisition.* The respective obligations of Buyer, Genco Holdings and CenterPoint to consummate the Non-STP Acquisition are subject to the satisfaction on or prior to the Non-STP Acquisition Closing Date of each of the following conditions:

(a) No Law or Order shall exist or shall have been enacted, entered, promulgated or enforced by any Governmental Authority which prohibits or makes illegal consummation of the Non-STP Acquisition or any of the other transactions related thereto.

(b) Any waiting period applicable to the Non-STP Acquisition under applicable U.S. antitrust or trade regulation laws and regulations, including under the HSR Act, shall have expired or been terminated.

(c) The Public Company Merger shall have been consummated.

Section 8.2 *Further Conditions to Genco Holdings and CenterPoint's Obligations.* The obligation of Genco Holdings and CenterPoint to consummate the Non-STP Acquisition is further subject to satisfaction or, if permitted by applicable Law, waiver by Genco LP and CenterPoint, on or prior to the Public Company Merger Closing Date of each of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of Buyer set forth in Article V of this Agreement shall be true and correct as of the date of this Agreement and on and as of the Public Company Merger Closing Date as though such representations and warranties were made on and as of such date, except for representations and warranties which speak as of

an earlier date or period which shall be true and correct as of such date or period; provided, however, that for purposes of this clause, such representations and warranties shall be deemed to be true and correct unless the failure or failures of all such representations and warranties to be so true and correct, without giving effect to any qualification as to materiality or Buyer Material Adverse Effect set forth in such representations or warranties, would reasonably be expected, in the aggregate, to have a Buyer Material Adverse Effect.

(b) Performance Obligations of Buyer. Buyer shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Public Company Merger Closing.

(c) Officer's Certificate. Genco LP and CenterPoint shall have received a certificate, dated the Public Company Merger Closing Date, signed on behalf of Buyer by an officer of Buyer certifying as to the matters described in Sections 8.2(a) and 8.2(b).

Section 8.3 *Further Conditions to Buyer's Obligations.* The obligation of Buyer to consummate the Non-STP Acquisition shall be further subject to the satisfaction or, if permitted by applicable Law, waiver by Buyer, on or prior to the Public Company Merger Closing Date, of each of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of Parents and Genco Holdings (i) set forth in Articles III and IV of this Agreement shall be true and correct as of the date of this Agreement and as of the Public Company Merger Closing Date as though such representations and warranties were made on and as of such date, except for representations and warranties that speak as of an earlier date or period which shall be true and correct as of such date or period; provided, however, that for purposes of this clause, such representations and warranties shall be deemed to be true and correct unless the failure or failures of all such representations and warranties to be so true and correct, without giving effect to any qualification as to materiality or Companies Material Adverse Effect set forth in such representations or warranties, would reasonably be expected, in the aggregate, to have a Companies Material Adverse Effect and (ii) set forth in Sections 3.3 and 4.3 shall be true and correct in all material respects as of the date of this Agreement and as of the Public Company Merger Closing Date as though made on and as of the Public Company Merger Closing Date, except for representations and warranties which speak as of an earlier date or period which shall be true and correct as of such date or period.

(b) Performance Obligations. Each of Parents and Genco Holdings shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Public Company Merger Closing Date, including, without limitation, causing the consummation of the Genco LP Division.

(c) No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any state of facts, change, development, event, effect, condition or occurrence that, individually or in the aggregate, has had or would reasonably be expected to have a Companies Material Adverse Effect.

(d) Officer's Certificate. Buyer shall have received a certificate, dated the Public Company Merger Closing Date, signed on behalf of (i) the Parents by the Chief Executive Officer or Chief Financial of CenterPoint and (ii) Genco Holdings by the Chief Executive Officer or Chief Financial of Genco Holdings, in each case certifying as to the matters described in Section 8.3(a), 8.3(b) and 8.3(c).

(e) Receipt of Debt Financing. Genco Holdings shall have access to immediately available funds under the Overnight Bridge Loan as contemplated by the Public Company Merger Debt Term Sheet, Buyer shall have received proceeds from the Debt Financing in an amount equal to the Non-STP Consideration (or such amount shall have been funded into escrow as contemplated by the Debt Financing Letter) and the Delayed Draw Term Facility shall be in full force and effect, in each case on the terms and conditions set forth in the Debt Financing Letter or the Public Company Merger Debt Term Sheet, as applicable, or upon terms and conditions which are, in the judgment of Buyer, comparable or more favorable (to Buyer) in the aggregate thereto, and to the extent that any terms and conditions are not set forth in the Debt Financing Letter, on terms and conditions reasonably satisfactory to Buyer and, with respect to the Public Company Merger Debt Term Sheet, Genco Holdings.

(f) Ancillary Agreements. At the request of Buyer delivered prior to the Public Company Merger Closing Date, (i) CenterPoint and Buyer shall have entered into a Transition Services Agreement, dated as of the Non-STP Acquisition Closing Date, between CenterPoint and Buyer, in substantially the form attached as Exhibit E to this Agreement (the **"Transition Services Agreement"**), and (ii) the parties thereto shall have entered into the Separation Amendment, and each such agreement shall not have been revoked, terminated or amended.

(g) EWG Certification. Genco II LP shall have been certified as an EWG by the FERC.

(h) Genco II LP and Genco Services shall hold all Permits necessary to operate the Non-STP Assets and Liabilities consistent with past practice, except where the failure to hold such Permits would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 8.4 *Additional Conditions to Genco Holdings and CenterPoint's Obligations.* The obligation of Genco Holdings and CenterPoint to consummate the Non-STP Acquisition shall be further subject to the satisfaction or, if permitted by applicable Law, waiver by Genco Holdings and CenterPoint, on or prior to

the Non-STP Acquisition Closing Date, of the following conditions with respect to the Power Purchase Agreement:

(a) All Bonds (as defined in the Phase I Lien Annex to the Power Purchase Agreement) issued by Genco LP under the Phase I Lien Annex to the Power Purchase Agreement shall have been cancelled and returned to the Trustee (as defined in the Phase I Lien Annex to the Power Purchase Agreement).

Section 8.5 *Additional Conditions to Buyer's Obligations.* The obligation of Buyer to consummate the Non-STP Acquisition shall be further subject to the satisfaction or, if permitted by applicable Law, waiver by Buyer, on or prior to the Non-STP Acquisition Closing Date, of the following conditions:

(a) Performance Obligations. Each of Parents and Genco Holdings shall have performed in all material respects all obligations required to be performed by it under this Agreement in order to consummate the Non-STP Acquisition and all obligations required to be performed by it under this Agreement from the Public Company Merger Closing Date through and prior to the Non-STP Acquisition Closing.

(b) Officer's Certificate. Buyer shall have received a certificate, dated the Non-STP Acquisition Closing Date, signed on behalf of (i) the Parents by the Chief Executive Officer or Chief Financial of CenterPoint and (ii) Genco Holdings by the Chief Executive Officer or Chief Financial of Genco Holdings, in each case certifying as to the matters described in Section 8.5(a).

(c) Provided that Buyer has satisfied the condition set forth in Section 8.4(a), (i) the Indenture (as defined in the Phase I Lien Annex to the Power Purchase Agreement) shall have been satisfied and discharged or (ii) (A) Genco II LP shall have been released and discharged from all obligations and covenants under such Indenture and on and under all Securities (as defined in the Indenture) then Outstanding (as defined in the Indenture) and (B) all assets (including all property, real, personal and mixed) of Genco II LP shall have been released from all liens under the Indenture.

ARTICLE IX

CONDITIONS TO CONSUMMATION OF THE STP ACQUISITION

Section 9.1 *Conditions to CenterPoint and Buyer's Obligations to Consummate the STP Acquisition.* The respective obligations of CenterPoint and Buyer to consummate the STP Acquisition are subject to the satisfaction on or prior to the STP Acquisition Closing Date of each of the following conditions:

(a) No Law or Order shall exist or shall have been enacted, entered, promulgated or enforced by any Governmental Authority which prohibits or makes illegal consummation of the STP Acquisition or any of the other transactions related thereto;

(b) Any waiting period applicable to the STP Acquisition under applicable U.S. antitrust or trade regulation laws and regulations, including under the HSR Act, shall have expired or been terminated;

(c) The NRC Approval shall have been obtained and shall be in full force and effect, any waiting period prescribed by Law before the STP Acquisition may be consummated shall have expired, no rehearing or appeal of such NRC Approval shall be pending or to Genco Holdings' or Buyer's knowledge threatened; and

(d) The Non-STP Acquisition shall have been consummated.

Section 9.2 *Further Conditions to Buyer's Obligations.* The obligation of Buyer to consummate the STP Acquisition shall be further subject to the satisfaction or, if permitted by applicable Law, waiver by Buyer, on or prior to the STP Acquisition Closing Date, of each of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of Parents and Genco Holdings (i) set forth in Articles III and IV of this Agreement relating to the Companies (excluding the Non-STP Assets and Liabilities transferred in the Non-STP Acquisition) shall be true and correct as of the date of this Agreement and as of the STP Acquisition Closing Date as though such representations and warranties were made on and as of such date, except for representations and warranties that speak as of an earlier date or period which shall be true and correct as of such date or period; provided, however, that for purposes of this clause, such representations and warranties shall be deemed to be true and correct unless the failure or failures of all such representations and warranties to be so true and correct, without giving effect to any qualification as to materiality or Companies Material Adverse Effect set forth in such representations or warranties, would reasonably be expected, in the aggregate, to have a Companies Material Adverse Effect and (ii) set forth in Section 3.3(b) of this Agreement shall be true and correct as of the STP Acquisition Closing Date as though such representation was made on and as of such date. For purposes of this Section 9.2, in the definition of "Companies Material Adverse Effect", the words "Companies taken as a whole" shall be deemed to be followed by the phrase "(including the Non-STP Assets and Liabilities as in effect as of the date hereof)", so that the only items relevant shall be any state of facts, changes, developments, events, effects, conditions and occurrences affecting the STP Assets and Liabilities, which shall be compared to the Companies taken as a whole as of the date of this Agreement, ignoring any such item thereafter affecting the Non-STP Assets and Liabilities.

(b) Performance Obligations. From the Non-STP Acquisition Closing Date through the STP Acquisition Closing Date, each of Parents and Genco Holdings shall have performed in all material respects all obligations relating to the Companies (excluding the Non-STP Assets and Liabilities transferred in the

Non-STP Acquisition) required to be performed by it under this Agreement at or prior to the STP Acquisition Closing.

(c) No STP Assets Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any state of facts, change, development, event, effect, condition or occurrence with respect to the Companies (for the avoidance of doubt excluding the Non-STP Assets and Liabilities transferred in the Non-STP Acquisition) that, individually or in the aggregate, has had or would reasonably be expected to have a Companies Material Adverse Effect.

(d) Officer's Certificate. Buyer shall have received a certificate, dated the STP Acquisition Closing Date, signed on behalf of CenterPoint by the Chief Executive Officer or Chief Financial of CenterPoint certifying as to the matters described in Section 9.2(a), 9.2(b) and 9.2(c).

ARTICLE X

TERMINATION AND ABANDONMENT

Section 10.1 *Termination.* This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the STP Acquisition Closing Date, as follows (the date of any such termination, the "**Termination Date**"):

(a) by mutual written consent of CenterPoint, Genco Holdings and Buyer;

(b) by CenterPoint, Genco Holdings or Buyer if the STP Acquisition Closing shall not have been consummated on or before April 30, 2005 (such date, as it may be extended under clause (a) of this paragraph, the "**Optional Termination Date**"); provided, however, that (a) either CenterPoint, Genco Holdings or Buyer may, in its sole discretion, elect to extend the Optional Termination Date for up to two consecutive 90-day extension periods if, in each case, (i) the conditions set forth in Sections 7.1(b), 9.1(b) or 9.1(c) have not been satisfied, (ii) all other conditions to consummation of the Public Company Merger, in the case of Section 7.1(b), or the STP Acquisition Closing, in the case of Section 9.1(b) or 9.1(c), are satisfied or capable of then being satisfied (other than the condition in Section 9.1(d) in the case of the STP Acquisition Closing), and (iii) the sole reason that the Public Company Merger or the STP Acquisition Closing, as applicable, has not been consummated by such date is that the conditions set forth in Sections 7.1(b), 9.1(b) or 9.1(c), as applicable, have not been satisfied due to the failure to obtain the necessary consents and Approvals under applicable Laws or a judgment, injunction, order or decree of a court or governmental or regulatory entity of competent jurisdiction shall be in effect and Parents and Genco Holdings, on the one hand, or Buyer, on the other hand, as applicable, are still attempting to obtain such necessary consents and Approvals under applicable Laws, or are contesting (x) the refusal of such court or

governmental or regulatory entity to give such consents or Approvals or (y) the entry of any such judgment, injunction, order or decree, in court or through other applicable proceedings; and (b) the right to terminate this Agreement pursuant to this Section 10.1(b) shall not be available to either of CenterPoint or Genco Holdings, if either of their failure to perform, or Buyer, if its failure to perform, its obligations under this Agreement has been the cause of, or resulted in, the failure of the Public Company Merger or STP Acquisition Closing to have been consummated on or before the Termination Date or Optional Termination Date, as applicable;

(c) by CenterPoint or Genco Holdings, on the one hand, or Buyer, on the other hand, if there shall have been a material breach of any of the covenants or agreements or any of the representations or warranties set forth in this Agreement on the part of any of Buyer, in the case of termination by CenterPoint or Genco Holdings, or the Parents or Genco Holdings, in the case of a termination by Buyer, which breach, individually or together with all other such breaches, would constitute, if occurring or continuing on the Non-STP Acquisition Closing Date or the STP Acquisition Closing Date, the failure of any of the conditions set forth in Section 8.2, 8.3 or 9.2, as the case may be, and which is not cured within 30 days following written notice to the party committing such breach or by its nature or timing cannot be cured prior to the Non-STP Acquisition Closing Date or the STP Acquisition Closing Date, as the case may be;

(d) by CenterPoint, Genco Holdings or Buyer if (i) a Governmental Authority shall have issued an Order or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such Order shall have become final and non-appealable or (ii) a Governmental Authority of competent jurisdiction shall have denied or otherwise failed to grant a Required Approval and such failure or denial shall have become final and non-appealable, a result of which the conditions set forth in Section 7.1 or, if the Public Company Merger has occurred, Section 8.1 or, if the Non-STP Acquisition Closing has occurred, Section 9.1, shall become incapable of being satisfied; or

(e) by Buyer if the Non-STP Acquisition has not occurred within three calendar days after the Public Company Merger Closing Date.

Section 10.2 *Procedure for and Effect of Termination.* In the event of termination of this Agreement and abandonment of the transactions contemplated by this Agreement by either party as provided under Section 10.1 of this Agreement, written notice thereof shall be given by a party so terminating to the other party and this Agreement shall forthwith become void and have no effect, and the transactions contemplated by this Agreement shall be abandoned without further action by Parents, Genco Holdings or Buyer, without any liability or obligation on the part of Buyer, Genco Holdings or Parents, other than the provisions of Section 6.2(b), this Section 10.2 and Article XI. If this Agreement is terminated under Section 10.1 of this Agreement:

(a) each party shall redeliver all documents, work papers and other materials of the other parties relating to the transactions contemplated by this Agreement which have not been consummated as of the date of termination, whether obtained before or after the execution of this Agreement, to the party furnishing the same, and all confidential information received by any party hereto with respect to the other party shall be treated in accordance with the Confidentiality Agreement and Section 6.2(b) of this Agreement;

(b) all filings, applications and other submissions made pursuant hereto shall, to the extent practicable, be withdrawn from the agency or other person to which made, to the extent the applicable transaction has not been consummated; and

(c) there shall be no liability or obligation under this Agreement on the part of Parents, Genco Holdings or Buyer or any of their respective Representatives, except that nothing contained in this Section 10.2 shall relieve any party from liability for its breach of representations, warranties, covenants or agreements set forth in this Agreement; and except that the obligations provided for in this Section 10.2 shall survive any such termination.

Notwithstanding anything to the contrary in this Agreement, in the event of a termination of this Agreement pursuant to Article X following the consummation of the Non-STP Acquisition, the provisions of this Agreement shall remain in effect in accordance with their terms, except for the obligations relating solely to the STP Assets and Liabilities, including the obligation to consummate the STP Acquisition.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 11.1 *Representations and Warranties.* All representations and warranties in Articles IV and V of this Agreement or in any instrument delivered pursuant to this Agreement shall not survive and shall terminate at the Public Company Merger Effective Time (as such representations and warranties relate to the Non-STP Assets and Liabilities) or at the STP Acquisition Closing (otherwise) or, subject to Section 10.2(c), upon termination of this Agreement pursuant to Article X, as the case may be. The representations and warranties contained in Article III (other than Section 3.4) and Section 6.11(i) of this Agreement shall survive indefinitely.

Section 11.2 *Amendment and Modification.* This Agreement may be amended, modified or supplemented at any time by the parties to this Agreement, under an instrument in writing signed by all parties.

Section 11.3 *Entire Agreement; Assignment.* This Agreement (including the Parents Disclosure Letter, Companies Disclosure Letter and Buyer Disclosure Letter), the Confidentiality Agreement and the Parent Written Consent (a) constitute the entire agreement between the parties concerning the subject matter of this Agreement and

supersede other prior agreements and understandings, both written and oral, between the parties concerning the subject matter of this Agreement, and (b) shall not be assigned, by operation of Law or otherwise, by a party, without the prior written consent of the other parties, and any such assignment without such prior written consent shall be null and void, except that Buyer may assign its rights or obligations hereunder to any affiliate or a lender (or agent therefor) for security purposes, provided that no such assignment shall relieve Buyer of its obligations hereunder.

Section 11.4 *Severability.* The invalidity or unenforceability of any term or provision of this Agreement in any situation or jurisdiction shall not affect the validity or enforceability of the other terms or provisions of this Agreement or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction and the remaining terms and provisions shall remain in full force and effect, unless doing so would result in an interpretation of this Agreement which is manifestly unjust.

Section 11.5 *Notices.* Unless otherwise provided in this Agreement, all notices and other communications under this Agreement shall be in writing and may be given by any of the following methods: (a) personal delivery; (b) facsimile transmission; (c) registered or certified mail, postage prepaid, return receipt requested; or (d) overnight delivery service. Such notices and communications shall be sent to the appropriate party at its address or facsimile number given below or at such other address or facsimile number for such party as shall be specified by notice given under this Agreement (and shall be deemed given upon receipt by such party or upon actual delivery to the appropriate address, or, in case of a facsimile transmission, upon transmission by the sender and issuance by the transmitting machine of a confirmation slip that the number of pages constituting the notice have been transmitted without error; in the case of notices sent by facsimile transmission, the sender shall contemporaneously mail a copy of the notice to the addressee at the address provided for above; provided, however, that such mailing shall in no way alter the time at which the facsimile notice is deemed received):

(a) if to Genco Holdings, to

Texas Genco Holdings, Inc.
1111 Louisiana Street
Houston, Texas 77002
Telecopy: (713) 207-0141
Attention: David G. Tees

with a copy to

Baker Botts L.L.P.
One Shell Plaza
910 Louisiana Street
Houston, Texas 77002-4995
Telecopy: (713) 229-7701
Attention: J. David Kirkland, Jr.

(b) if to Parents, to

CenterPoint Energy, Inc,
1111 Louisiana Street
Houston, Texas 77002
Telecopy: (713) 207-0141
Attention: Gary Whitlock

Utility Holding LLC
1011 Centre Road
Suite 324
Wilmington, Delaware 19805
Telecopy: (302) 225-1485
Attention: Patricia F. Genzel
President and Secretary

with a copy to

Baker Botts L.L.P.
One Shell Plaza
910 Louisiana Street
Houston, Texas 77002-4995
Telecopy: (713) 229-7701
Attention: J. David Kirkland, Jr.

(c) if to Buyer, to

GC Power Acquisition LLC
c/o Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Telecopy: (212) 455-2502
Attention: David J. Sorkin
Brian M. Stadler

with a copy to

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Telecopy: (212) 455-2502
Attention: David J. Sorkin
Brian M. Stadler

Section 11.6 *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York (except to the extent that mandatory provisions of Texas Law are applicable). All Actions arising out of or relating to this Agreement shall be heard and determined in any state or federal court sitting in the City of New York, and the parties hereby irrevocably submit to the exclusive jurisdiction of such courts in any such Action and irrevocably waive the defense of an inconvenient forum to the maintenance of any such Action. Each party irrevocably consents to the service of any and all process in any such Action by the mailing of copies of such process to such party at its address specified in Section 11.5. The parties agree that a final judgment in any such Action 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 Section 11.6 shall affect the right of any party to serve legal process in any other manner permitted by Law. The consents to jurisdiction set forth in this Section 11.6 shall not constitute general consents to service of process in the State of New York and shall have no effect for any purpose except as provided in this Section 11.6 and shall not be deemed to confer rights on any person other than the parties. EACH PARTY HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 11.7 *Descriptive Headings.* The table of contents and descriptive headings used in this Agreement are inserted for convenience of reference only and shall in no way be construed to define, limit, describe, explain, modify, amplify, or add to the interpretation, construction or meaning of any provision of, or scope or intent of, this Agreement nor in any way affect this Agreement.

Section 11.8 *Counterparts.* This Agreement may be executed in counterparts, each of which shall be deemed an original, but any of which together shall constitute one and the same instrument.

Section 11.9 *Fees and Expenses.* Whether or not this Agreement and the transactions contemplated by this Agreement are consummated, and except as otherwise expressly set forth in this Agreement, all costs and expenses (including legal and financial advisory fees and expenses) incurred in connection with, or in anticipation of, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such expenses. Each of the Parents and Genco Holdings, on the one hand,

and Buyer, on the other hand, shall indemnify and hold harmless the other party from and against any and all claims or liabilities for financial advisory and finders' fees incurred by reason of any action taken by such party or otherwise arising out of the transactions contemplated by this Agreement by any person claiming to have been engaged by such party.

Section 11.10 *Interpretation.*

(a) The phrase "**to the knowledge of**" any person or any similar phrase shall mean such facts and other information which as of the date of determination are actually known to any executive officer of such person, after due inquiry. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement. When a reference is made in this Agreement to Sections, Schedules or Exhibits, such reference shall be to a Section, Schedule or Exhibit of this Agreement, respectively, unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The term "or" is not exclusive. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. References to a person are also to its permitted successors and assigns. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms.

(b) For purposes of this Agreement, the term: (i) "**affiliate**" means, unless otherwise indicated, any person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the person specified; (ii) "**Company IP**" means all Intellectual Property owned, held or used by any Company, all material patent, copyright, trademark and service mark registrations and applications, domain names issued to, assigned to and filed by any Company (or, to the extent applicable, any affiliate of Parents engaged in the Genco Business who transferred, directly or indirectly, assets or liabilities to any Company in the Separation Transactions) and all IP Contracts; (iii) "**good utility practices**" means with respect to each generation facility, any of the practices, methods and acts generally engaged in or approved by a significant portion of the electric utility industry in the United States for facilities of similar size, technology and age in the United States during a particular time period, or any of such practices, methods, and acts, which, in the exercise of reasonable judgment in light of the facts known or that reasonably should be known at the time a decision is made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition; (iv) "**Intellectual Property**" means all U.S. and foreign intellectual property, including: (a) patents, inventions, discoveries, processes, designs, techniques, developments, technology, and related improvements and know-how, whether or not patented or patentable; (b) copyrights and works of authorship in any media, including computer hardware, software, firmware, applications, files, systems, networks, databases and

compilations, documentation and related textual works, graphics, advertising, marketing and promotional materials, photographs, artwork, drawings, articles, textual works, and Internet site content; (c) trademarks, service marks, trade names, brand names, corporate names, domain names, logos trade dress and other source indicators and the goodwill of any business symbolized thereby; (d) trade secrets, drawings, blueprints and all non-public, confidential or proprietary information, documents, materials, analyses, reach and lists; (e) all registrations, applications and recordings and licenses and other agreements related thereto; and (f) all rights to obtain renewals, extensions, continuations, continuations-in-part, reissues, divisions or similar legal protections related thereto; (v) "**person**" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, representative office, branch, Governmental Authority or other similar entity such determination; and (vi) "**subsidiary**" means, with respect to any person, any other person of which such person (either alone or through or together with any other subsidiary) owns, directly or indirectly, 50% or more of the outstanding equity securities or securities carrying 50% or more of the voting power in the election of the board of directors or other governing body of such person; provided that STPNOC shall be deemed to be a "subsidiary" of Genco Holdings for purposes of the following Sections of this Agreement: 3.5, 4.1 (other than the last sentence), 4.3, 4.5, 4.6(a) (first sentence only), 4.8 (first sentence only), 4.9, 4.10, 4.14 (first sentence only), 4.15, 4.21, 4.22, 6.1, 6.2, 6.3, 6.6, 6.7 and 6.16; and provided, further, that the parties acknowledge that Genco Holdings does not control STPNOC, and accordingly (i) the representations and warranties referred to above in Article IV are made to the Company's knowledge and (ii) with respect to the obligations of Genco Holdings to cause the Companies to take various actions under Sections 6.1, 6.2, 6.3, 6.6, 6.7 and 6.16, Genco Holdings' obligations under such Sections shall be to cause Genco LP not to approve or take any other action that would permit STPNOC to take actions under such Sections that could not be taken by Companies.

Section 11.11 *Third-Party Beneficiaries.* This Agreement is solely for the benefit of Parents, Genco Holdings, CEHE (with respect to Section 6.11 only) and their respective successors and permitted assigns, with respect to the obligations of Buyer under this Agreement, and for the benefit of Buyer, and its successors and permitted assigns, with respect to the obligations of Parents and Genco Holdings, under this Agreement. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

Section 11.12 *No Waivers.* Except as otherwise expressly provided in this Agreement, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by any party, and no course of dealing between the parties, shall constitute a waiver of any such right, power or remedy. No waiver by a party of any default, misrepresentation, or breach of warranty or covenant under this Agreement, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant under this Agreement or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

No waiver shall be valid unless in writing and signed by the party against whom such waiver is sought to be enforced.

Section 11.13 *Specific Performance.* The parties to this Agreement agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms of this Agreement and immediate injunctive relief, without the necessity of proving the inadequacy of money damages as a remedy, in addition to any other remedy at law or in equity.

Section 11.14 *Acknowledgments.* Notwithstanding anything else that may be expressed or implied in this Agreement, CenterPoint, Utility Holding and Genco Holdings covenant, agree and acknowledge that no recourse under this Agreement or any documents or instruments delivered in connection with this Agreement or any of the transactions contemplated hereby shall be had against any current or future director, officer, employee, general or limited partner, member or Affiliate (including the Investors) of Buyer or any of the foregoing, whether by the enforcement of any assessment or by any legal or equitable proceeding, or by virtue of any statute, regulation or other applicable Law, it being expressly agreed and acknowledged that no personal liability whatsoever shall attach to, be imposed on or otherwise be incurred by any current or future officer, agent or employee of Buyer or any current or future shareholder of Buyer or any current or future director, officer, employee, general or limited partner, member or Affiliate (including the Investors) of any of the foregoing, as such, for any obligation of Buyer under this Agreement or any documents or instruments delivered in connection with this Agreement or any of the transactions contemplated hereby or for any claim based on, in respect of or by reason of such obligations of Buyer or their creation.

Section 11.15 *Parent Undertaking.* CenterPoint agrees to cause Utility Holding to, and subject to Section 11.16 to use its best efforts to cause Genco Holdings to, perform the actions required of it under this Agreement and guarantees the performance of the obligations of Utility Holding and, after the Public Company Merger, of Genco Holdings.

Section 11.16 *Special Committee.* Prior to the Public Company Merger Effective Time, any action by Genco Holdings to terminate this Agreement pursuant to Section 10.1, any agreement by Genco Holdings to amend this Agreement pursuant to Section 11.2 or any waiver by Genco Holdings pursuant to Section 7.1, 8.1, or 8.2 shall be made, taken or given, as the case may be, only with the concurrence, or at the direction, of the Special Committee of the Board of Directors of Genco Holdings which was appointed to act in connection with this Agreement and related matters.

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly signed as of the date first above written.

TEXAS GENCO HOLDINGS, INC.

By: _____
Name: David G. Tees
Title: President & CEO

GC POWER ACQUISITION LLC

By: _____
Name: _____
Title: _____

HPC MERGER SUB, INC.

By: _____
Name: _____
Title: _____

NN HOUSTON SUB, INC.

By: _____
Name: Gary L. Whitlock
Title: Executive Vice President & Chief Financial Officer

PARENTS:

CENTERPOINT ENERGY, INC.

By: _____
Name: David M. McClanahan
Title: President & Chief Executive Officer

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly signed as of the date first above written.

TEXAS GENCO HOLDINGS, INC.

By: _____
Name: _____
Title: _____

GC POWER ACQUISITION LLC

By: Michael MacDougall
Name: Michael MacDougall
Title: Manager

HPC MERGER SUB, INC.

By: Michael MacDougall
Name: Michael MacDougall
Title: President

NN HOUSTON SUB, INC.

By: _____
Name: _____
Title: _____

PARENTS:

CENTERPOINT ENERGY, INC.

By: _____
Name: _____
Title: _____

UTILITY HOLDING, LLC

By: _____
Name: Patricia FD Genzel
Title: President

Exhibit A
Action by Written Consent of Shareholder of Texas Genco Holdings, Inc.

The undersigned, Utility Holding, LLC (the "**Shareholder**"), a shareholder of Texas Genco Holdings, Inc., a Texas corporation (the "**Company**"), acting by written consent pursuant to Article 9.10 of the Texas Business Corporation Act (the "**TBCA**"), does hereby adopt the following resolutions, effective immediately:

WHEREAS, the Company has entered into a Transaction Agreement, dated as of July 21, 2004 (the "**Transaction Agreement**"), by and among CenterPoint Energy, Inc., Shareholder, the Company, NN Houston Sub, Inc. ("**Merger Sub**"), HPC Merger Sub, Inc. and GC Power Acquisition LLC ("**Buyer**");

WHEREAS, in furtherance thereof, the board of directors of the Company, upon the unanimous recommendation of a special committee thereof, has approved the Transaction Agreement and the merger of Merger Sub with and into the Company (the "**Public Company Merger**") so that the Company continues as the surviving corporation in the Public Company Merger, upon the terms and subject to the conditions set forth in the Transaction Agreement and in accordance with the provisions of the TBCA;

WHEREAS, the affirmative vote in favor of the adoption of the Transaction Agreement by two-thirds of the votes entitled to be cast thereon by the shareholders of the Company is required pursuant to Article 5.03 of the TBCA before the Company may effect the Public Company Merger;

WHEREAS, the Shareholder is the record owner of shares of the capital stock of the Company representing more than two-thirds of the votes entitled to be cast on the adoption of the Transaction Agreement;

WHEREAS, the board of directors of the Company has recommended to its shareholders the adoption of the Transaction Agreement and the approval of the transactions contemplated by the Transaction Agreement, including, without limitation, the Public Company Merger; and

WHEREAS, Buyer has requested that the Shareholder, in its capacity as a shareholder of the Company, adopt the Transaction Agreement and approve the transactions contemplated by the Transaction Agreement, including, without limitation, the Public Company Merger, the Non-STP Acquisition (as defined in the Transaction Agreement) and the STP Acquisition (as defined in the Transaction Agreement);

NOW, THEREFORE, BE IT RESOLVED, that, the Shareholder, in its capacity as a shareholder of the Company, hereby irrevocably approves the Transaction Agreement within the meaning of Article 5.03 of the TBCA and approves the transactions contemplated by the Transaction Agreement, including, without limitation, the Public Company Merger, the Non-STP Acquisition and the STP Acquisition.

Exhibit B

AGREEMENT AND PLAN OF MERGER
OF
TEXAS GENCO, LP
AND
TEXAS GENCO II, LP

This Agreement and Plan of Merger ("**Plan of Merger**") made as of the ___ day of _____, 2004, pursuant to Article 6132a-1, Section 2.11 of the Texas Revised Limited Partnership Act (the "**TRLPA**"), by and between Texas Genco, LP, a Texas limited partnership ("**Genco LP**"), and Texas Genco II, LP, a Texas limited partnership ("**Genco II LP**"), said entities being hereinafter sometimes collectively called the "**Surviving Entities.**"

WITNESSETH

WHEREAS, CenterPoint Energy, Inc., a Texas corporation ("**CenterPoint**"), Utility Holding, LLC, a Delaware limited liability company and wholly owned subsidiary of CenterPoint ("**Utility Holding**"), TGN Sub, Inc., a Texas corporation and a direct wholly owned subsidiary of Utility Holding ("**Merger Sub**"), Texas Genco Holdings, Inc., a Texas corporation ("**Genco Holdings**"), Houston Power Company LLC, a Delaware limited liability company ("**Buyer**"), and HPC Merger Sub, Inc., a Texas corporation and a wholly owned subsidiary of Buyer ("**STP Merger Sub**"), have entered into that certain Transaction Agreement, dated as of July ___, 2004 (the "**Transaction Agreement**");

WHEREAS, Section 2.1 of the Transaction Agreement contemplates a multiple survivor merger of Genco LP and Genco II LP in accordance with the terms and conditions of this Plan of Merger (the "**Merger**");

WHEREAS, pursuant to its Agreement of Limited Partnership, Genco LP currently has one general partner, which is entitled to manage the limited partnership and that general partner is Texas Genco GP, LLC ("**Genco GP**");

WHEREAS, Genco GP has adopted resolutions approving the Merger upon the terms and conditions hereinafter set forth and approving this Plan of Merger in accordance with the applicable provisions of the TRLPA and the constituent documents of Genco GP;

WHEREAS, pursuant to its Agreement of Limited Partnership, Genco II LP currently has one general partner, which is entitled to manage the limited partnership and that general partner is Texas Genco II GP, LLC ("**Genco II GP**"); and

WHEREAS, Genco II GP has adopted resolutions approving the Merger upon the terms and conditions hereinafter set forth and approving this Plan of Merger in accordance with the applicable provisions of the TRLPA and the constituent documents of Genco II GP;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and for the purpose of prescribing the terms and conditions of the Merger, the mode of carrying it into effect, the manner and basis of allocating ownership interests

of each of the Surviving Entities and such other details and provisions of the Merger as are deemed necessary or desirable, the parties hereto have agreed and covenanted, and do hereby agree and covenant, as follows:

1. At the time contemplated by Section 2.1 of the Transaction Agreement, the parties hereto shall cause the Merger to be consummated by filing the certificate of merger ("**Certificate of Merger**") with the Secretary of State of the State of Texas (the "**Secretary of State**") in such form as is required by, and executed in accordance with, the relevant provisions of the TRLPA and shall make any other filings or recordings required under the TRLPA. The date and time of the issuance of a certificate of merger by the Secretary of State pursuant to Article 6132a-1, Section 2.11 of the TRLPA, being the "**Effective Time.**" When the Merger contemplated by this Plan of Merger shall become effective under the TRLPA, the Surviving Entities shall each continue in existence under the laws of the State of Texas.

2. At the Effective Time:

(a) Each of the Surviving Entities shall maintain their separate existence and each shall continue as a surviving business entity under the same name.

(b) There shall be no change (through conversion, exchange or otherwise) to the partnership interests of Genco LP or Genco II LP.

(c) There shall be no change (through amendment, restatement or otherwise) to the Certificate of Limited Partnership of Genco LP or Genco II LP.

(d) Genco GP shall continue as the sole general partner of Genco LP, and Texas Genco LP, LLC shall continue as the sole limited partner of Genco LP.

(e) Genco II GP shall continue as the sole general partner of Genco II LP, and Texas Genco LP, LLC shall continue as the sole limited partner of Genco II LP.

(f) All of Genco LP's right, title and interest in and to any and all real estate and other property (including any assets, rights, claims, contracts and permits) owned by Genco LP, other than the STP Assets as more fully described in Section 2.2(h) below, shall be allocated to and vested in Genco II LP without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing liens or other encumbrances thereon.

(g) All of Genco LP's liabilities and obligations, other than the STP Liabilities as more fully described in Section 2.2(i) below, shall be allocated to Genco II LP.

(h) All of Genco LP's right, title and interest in and to any and all real estate and other property (including any assets, rights, claims, contracts and permits) described in Annex A attached hereto (collectively, the "STP Assets") shall be allocated to and vested in Genco LP without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing liens or other encumbrances thereon.

(i) All of Genco LP's liabilities and obligations described in Annex B attached hereto (collectively, the "**STP Liabilities**") shall be allocated to Genco LP.

3. Genco LP hereby agrees that at any time, or from time to time, as and when requested by Genco II LP, or by its successors and assigns, it will execute and deliver, or cause to be executed and delivered in its name by its authorized officers, all such conveyances, assignments, transfers, deeds or other instruments, and will take or cause to be taken such further or other action, as Genco II LP, its successors or assigns, may deem necessary or desirable in order to evidence the transfer, vesting or devolution to Genco II LP of any property, right, privilege or franchise pursuant to applicable law, or to vest or perfect in or confirm to Genco II LP, its successors and assigns, title to and possession of all the property, rights, privileges, powers, franchises and interests as a result of the Merger pursuant to applicable law, and otherwise to carry out the intent and purpose hereof.

[*Signature page follows.*]

IN WITNESS WHEREOF, the parties hereto have duly executed this Plan of Merger as of the date first above written.

TEXAS GENCO, LP
a Texas limited partnership

By: Texas Genco GP, LLC, its General Partner

By: _____
Name: _____
Title: _____

TEXAS GENCO II, LP
a Texas limited partnership

By: Texas Genco II GP, LLC, its General Partner

By: _____
Name: _____
Title: _____

Exhibit C

AGREEMENT AND PLAN OF MERGER
OF
TEXAS GENCO II, LP
AND
[TEXAS GENCO III LP]

This Agreement and Plan of Merger ("**Plan of Merger**") made as of the ____ day of _____, 2004, pursuant to Article 6132a-1, Section 2.11 of the Texas Revised Limited Partnership Act (the "**TRLPA**"), by and between Texas Genco II, LP, a Texas limited partnership ("**Genco II LP**"), and [Texas Genco III LP], a Texas limited partnership ("**Merger LP**").

WITNESSETH

WHEREAS, CenterPoint Energy, Inc., a Texas corporation ("**CenterPoint**"), Utility Holding, LLC, a Delaware limited liability company and wholly owned subsidiary of CenterPoint ("**Utility Holding**"), TGN Sub, Inc., a Texas corporation and a direct wholly owned subsidiary of Utility Holding ("**Merger Sub**"), Texas Genco Holdings, Inc., a Texas corporation ("**Genco Holdings**"), Houston Power Company LLC, a Delaware limited liability company ("**Buyer**"), and HPC Merger Sub, Inc., a Texas corporation and a wholly owned subsidiary of Buyer ("**STP Merger Sub**"), have entered into that certain Transaction Agreement, dated as of July ___, 2004 (the "**Transaction Agreement**");

WHEREAS, Section 2.3(a) of the Transaction Agreement contemplates a merger (the "**Merger**") of Merger LP with and into Genco II LP in accordance with the terms and conditions of this Plan of Merger;

WHEREAS, pursuant to its Agreement of Limited Partnership, Genco II LP currently has one general partner, which is entitled to manage the limited partnership and that general partner is Texas Genco II GP, LLC, a Texas limited liability company ("**Genco II GP**");

WHEREAS, Genco II GP has adopted resolutions approving the Merger upon the terms and conditions hereinafter set forth and approving this Plan of Merger in accordance with the applicable provisions of the TRLPA and the constituent documents of Genco II GP;

WHEREAS, pursuant to its Agreement of Limited Partnership, Merger LP currently has one general partner, which is entitled to manage the limited partnership and that general partner is _____ ("**Merger GP**"); and

WHEREAS, Merger GP has adopted resolutions approving the Merger upon the terms and conditions hereinafter set forth and approving this Plan of Merger in accordance with the applicable provisions of the TRLPA and the constituent documents of Merger GP;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and for the purpose of prescribing the terms and conditions of the Merger, the mode of carrying it into effect and such other details and provisions of the Merger as are deemed necessary or desirable, the parties hereto have agreed and covenanted, and do hereby agree and covenant, as follows:

1. On the Non-STP Acquisition Closing Date (as defined in the Transaction Agreement), on the terms and subject to the conditions set forth in Article VIII of the Transaction Agreement, at the Non-STP Acquisition Closing (as defined in the Transaction Agreement), the parties hereto shall cause the Merger to be consummated by filing the certificate of merger ("**Certificate of Merger**") with the Secretary of State of the State of Texas (the "**Secretary of State**") in such form as is required by, and executed in accordance with, the relevant provisions of the TRLPA and shall make any other filings or recordings required under the TRLPA. The date and time of the issuance of a certificate of merger by the Secretary of State pursuant to Article 6132a-1, Section 2.11 of the TRLPA, being the "**Effective Time.**" As a result of the Merger, the separate existence of Merger LP shall cease and Genco II LP shall survive the Merger (sometimes hereinafter referred to as the "**Surviving Partnership**") and shall continue its existence under the laws of the State of Texas. From and after the Effective Time, the Merger shall have the effects provided in Section 2.11 of the TRLPA. All rights, titles and interests to all real estate and other property owned by Genco II LP and Merger LP shall be allocated to and vested in the Surviving Partnership without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing liens or other encumbrances thereon. All liabilities and obligations of Genco II LP and Merger LP shall be allocated to the Surviving Partnership. In addition, the Merger will have the effects set forth in Section 2.

2. At the Effective Time:

(a) The general partner interest in Genco II LP immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive in the aggregate $[___] in cash without interest.

(b) The limited partner interest in Genco II LP immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive in the aggregate $[___] in cash without interest.

(c) The general partner interest in Merger LP shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into an equivalent general partner interest in the Surviving Partnership.

(d) The limited partner interest in Merger LP shall, by virtue of the Merger and without any action on the part of the holder thereof, shall be converted into an equivalent limited partner interest in the Surviving Partnership.

(e) The Certificate of Limited Partnership of the Surviving Partnership shall be the Certificate of Limited Partnership of Genco II LP immediately prior to the Effective Time.

[END OF PAGE]

IN WITNESS WHEREOF, the parties hereto have duly executed this Plan of Merger as of the date first above written.

TEXAS GENCO II, LP
a Texas limited partnership

BY: Texas Genco II GP, LLC, its General Partner

By: _____
Name: _____
Title: _____

[TEXAS GENCO III, LP]
a Texas limited partnership

BY: _____, its General Partner

By: _____
Name: _____
Title: _____

Exhibit D

AGREEMENT AND PLAN OF MERGER
OF
TEXAS GENCO SERVICES, LP
AND
[TEXAS GENCO IV LP]

This Agreement and Plan of Merger ("**Plan of Merger**") made as of the ____ day of _____, 2004, pursuant to Article 6132a, Section 2.11 of the Texas Revised Limited Partnership Act (the "**TRLPA**"), by and between Texas Genco Services, LP, a Texas limited partnership ("**Genco Services**"), and [Texas Genco IV LP], a Texas limited partnership ("**Merger LP**").

WITNESSETH

WHEREAS, CenterPoint Energy, Inc., a Texas corporation ("**CenterPoint**"), Utility Holding, LLC, a Delaware limited liability company and wholly owned subsidiary of Centerpoint ("**Utility Holding**"), TGN Sub, Inc., a Texas corporation and a direct wholly owned subsidiary of Utility Holding ("**Merger Sub**"), Texas Genco Holdings, Inc., a Texas corporation ("**Genco Holdings**"), Houston Power Company LLC, a Delaware limited liability company ("**Buyer**"), and HPC Merger Sub, Inc., a Texas corporation and a wholly owned subsidiary of Buyer ("**STP Merger Sub**"), have entered into that certain Transaction Agreement, dated as of July ___, 2004 (the "**Transaction Agreement**");

WHEREAS, Section 2.3(b) of the Transaction Agreement contemplates a merger (the "**Merger**") of Merger LP with and into Genco Services in accordance with the terms and conditions of this Plan of Merger;

WHEREAS, pursuant to its Agreement of Limited Partnership, Genco Services currently has one general partner, which is entitled to manage the limited partnership and that general partner is Texas Genco GP, LLC ("**Genco Services GP**");

WHEREAS, Genco Services GP has adopted resolutions approving the Merger upon the terms and conditions hereinafter set forth and approving this Plan of Merger in accordance with the applicable provisions of the TRLPA and the constituent documents of Genco Services GP;

WHEREAS, pursuant to its Agreement of Limited Partnership, Merger LP currently has one general partner, which is entitled to manage the limited partnership and that general partner is _____ ("**Merger GP**"); and

WHEREAS, Merger GP has adopted resolutions approving the Merger upon the terms and conditions hereinafter set forth and approving this Plan of Merger in accordance with the applicable provisions of the TRLPA and the constituent documents of Merger GP;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and for the purpose of prescribing the terms and conditions of the Merger, the mode of carrying it into effect and such other details and provisions of the Merger as are deemed necessary or desirable, the parties hereto have agreed and covenanted, and do hereby agree and covenant, as follows:

1. On the Non-STP Acquisition Closing Date (as defined in the Transaction Agreement), on the terms and subject to the conditions set forth in Article VIII of the Transaction Agreement, at the Non-STP Acquisition Closing (as defined in the Transaction Agreement), the parties hereto shall cause the Merger to be consummated by filing the certificate of merger ("**Certificate of Merger**") with the Secretary of State of the State of Texas (the "**Secretary of State**") in such form as is required by, and executed in accordance with, the relevant provisions of the TRLPA and shall make any other filings or recordings required under the TRLPA. The date and time of the issuance of a certificate of merger by the Secretary of State pursuant to Article 6132a-1, Section 2.11 of the TRLPA, being the "**Effective Time.**" As a result of the Merger, the separate existence of Merger LP shall cease and Genco Services shall survive the Merger (sometimes hereinafter referred to as the "**Surviving Partnership**") and shall continue its existence under the laws of the State of Texas. From and after the Effective Time, the Merger shall have the effects provided in Section 2.11 of the TRLPA. All rights, titles and interests to all real estate and other property owned by Genco Services and Merger LP shall be allocated to and vested in the Surviving Partnership without reversion or impairment, without further act or deed, and without any transfer or assignment having occurred, but subject to any existing liens or other encumbrances thereon. All liabilities and obligations of Genco Services and Merger LP shall be allocated to the Surviving Partnership. In addition, the Merger will have the effects set forth in Section 2.

2. At the Effective Time:

(a) The general partner interest in Genco Services immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive in the aggregate $[___] in cash without interest.

(b) The limited partner interest in Genco Services immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive in the aggregate $[___] in cash without interest.

(c) The general partner interest in Merger LP shall, by virtue of the Merger and without any action on the part of the holder thereof, shall be converted into an equivalent general partner interest in the Surviving Partnership.

(d) The limited partner interest in Merger LP shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into an equivalent limited partner interest in the Surviving Partnership.

(e) The Certificate of Limited Partnership of the Surviving Partnership shall be the Certificate of Limited Partnership of the Genco Services immediately prior to the Effective Time.

[END OF PAGE]

IN WITNESS WHEREOF, the parties hereto have duly executed this Plan of Merger as of the date first above written.

TEXAS GENCO SERVICES, LP
a Texas limited partnership

BY: Texas Genco GP, LLC, its General Partner

By: _____
Name: _____
Title: _____

[TEXAS GENCO IV LP]
a Texas limited partnership

BY: _____, its General Partner

By: _____
Name: _____
Title: _____

Exhibit E

TRANSITION SERVICES AGREEMENT

between

CENTERPOINT ENERGY SERVICE COMPANY, LLC

and

GC POWER ACQUISITION LLC

Table of Contents

TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT, entered into effective as of _____, 2004 (the "Effective Date"), is between CenterPoint Energy Service Company, LLC, a Texas limited liability company and wholly owned subsidiary of CenterPoint Energy, Inc. ("CenterPoint Services"), and GC Power Acquisition LLC, a Delaware limited liability company ("Buyer"). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I hereof or assigned to them in the Transaction Agreement (as defined below).

WHEREAS, CenterPoint Energy, Inc. and Buyer are parties to that certain Transaction Agreement, dated as of July 21, 2004 (the "Transaction Agreement"), by and among CenterPoint Energy, Inc., Utility Holding, LLC, NN Houston Sub, Inc., Texas Genco Holdings, Inc. ("Genco Holdings"), HPC Merger Sub, Inc. and Buyer, pursuant to which and subject to the terms and conditions thereof, among other things, Buyer and its Subsidiaries will through a series of mergers and related transactions acquire ownership, directly or indirectly, of (i) the Non-STP Assets and Liabilities and (ii) thereafter, Genco Holdings; and

WHEREAS, pursuant to that certain Transition Services Agreement dated August 31, 2002 between CenterPoint Energy, Inc. and Genco Holdings, CenterPoint Energy, Inc. and its affiliates presently provide specified services to Genco Holdings and its Subsidiaries as set forth in that agreement (the "Existing Transition Services Agreement"); and

WHEREAS, the parties agree that it will be necessary and desirable for CenterPoint Services to provide to Buyer and its Subsidiaries the "Services" described herein for a transitional period following the Non-STP Acquisition Closing Date, which will occur on the Effective Date.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties, intending to be legally bound, agree as follows:

Article I.

Definitions

For the purpose of this Agreement the following terms shall have the following meanings:

1.1 Additional Services. "Additional Services" shall have the meaning set forth in subsection 2.1(c).

1.2 Business Services. "Business Services" shall mean the Services described in Exhibit 2.1(a)(i).

1.3 Buyer Group. "Buyer Group" shall mean Buyer and its Subsidiaries.

1.4 CenterPoint Group. "CenterPoint Group" shall mean CenterPoint Energy, Inc. and its Subsidiaries including CenterPoint Services but excluding Genco Holdings and its Subsidiaries.

1.5 Circuit. "Circuit" shall mean the structures, hardware, facilities and software to connect Local Area Networks by means of a Wide Area Network.

1.6 Executive Management Services. "Executive Management Services" shall mean the Services described in Exhibit 2.1(a)(ii).

1.7 Genco Separation Agreement. "Genco Separation Agreement" shall mean that certain Separation Agreement, dated August 31, 2002, between CenterPoint Energy, Inc. and Genco Holdings as amended as of the Effective Date by the Separation Amendment among CenterPoint Energy, Inc., Genco Holdings and Buyer.

1.8 Group. "Group" shall mean either of the CenterPoint Group or the Buyer Group, as the context requires.

1.9 Impracticable. "Impracticable" (and words of similar import) shall have the meaning set forth in Section 2.5(b).

1.10 Infrastructure. "Infrastructure" shall mean the structures, facilities, hardware and software required to operate a computer system, data center or Local Area Network (LAN).

1.11 Initial Services. "Initial Services" shall have the meaning set forth in Section 2.1(a).

1.12 Liability. "Liability" has the meaning assigned to that term in the Genco Separation Agreement.

1.13 Providing Company. "Providing Company" shall mean CenterPoint Services.

1.14 Receiving Company. "Receiving Company" shall mean, with respect to any particular Service, Buyer or such Buyer Subsidiary or Buyer Subsidiaries as Buyer may identify to receive such Service.

1.15 Representative. "Representative" of any party shall mean a managerial level employee appointed by such party to have the responsibilities and authority set forth in Section 2.9.

1.16 Services. "Services" shall have the meaning set forth in Section 2.1(c).

1.17 Subsidiary. "Subsidiary" shall mean, with respect to CenterPoint Energy, Inc. or Buyer, a corporation, partnership, limited partnership, limited liability company or other entity more than 50% of the voting common stock or other interests entitled to vote generally for

the election of directors (or comparable governing body) is owned, directly or indirectly, by CenterPoint Energy, Inc. or Buyer, respectively.

1.18 System. "System" shall mean the software, hardware, data store or maintenance and support components or portions of such components of a set of information technology assets identified in Exhibit 2.1(a)(i) hereto.

Article II.

Services

2.1 Services.

(a) Initial Services. Except as otherwise provided herein, during the applicable term determined pursuant to Section 2.7 hereof, the following "Initial Services" shall be provided by CenterPoint Services to Buyer or other Receiving Company with respect to a Service, as and to the extent requested from time to time by Buyer or the applicable Receiving Company:

(i) Business Services; and

(ii) Executive Management Services.

(b) Final Exhibits. From and after the Effective Date, the Initial Services shall be as set forth on Exhibits 2.1(a)(i) and 2.1(a)(ii); *provided, however*, that to the extent an Exhibit has not been prepared for an Initial Service or an Exhibit is otherwise incomplete as of the date hereof, the parties shall use good faith efforts to prepare or complete Exhibits as soon as reasonably practicable following the Effective Date. Any Services reflected on any such additional or amended Exhibit shall be deemed an "Initial Service" as if set forth on such Exhibit as of the date hereof. [*Note to Form: Notwithstanding the foregoing, by delivery of notice to CenterPoint at least 15 days prior to the Non-STP Acquisition Closing Date, Buyer may inform CenterPoint Services that it does not wish any Service to be provided under this Agreement and thereafter any such Service shall cease to be deemed a "Service" and shall be deemed to be deleted from the applicable Exhibit hereto.*]

(c) Additional Services. From time to time after the Effective Date, CenterPoint Services shall provide such other service or services (the "Additional Services" and, together with the Initial Services, the "Services") with respect to the Genco Business to the Buyer Group as the Buyer Group may reasonably request to the extent the CenterPoint Group was providing such Additional Services with respect to the Genco Business immediately prior to the Effective Date. The parties shall create or amend an Exhibit for each Additional Service setting forth a description of the Service, the time period during which the Service will be provided, the charge for the Service (established pursuant to Section 2.3) and any other terms applicable thereto and obtain the approval of each party's Representative.

(d) Scaled Up Or Modified Services. If Buyer requests in writing the level at which any Service is to be provided to be scaled up to a level in excess of the level in effect on the Effective Date (or, in the case of Corporate Center Services, such levels as may

reasonably be expected to result taking into account the fact that the Genco Business is being separated from the CenterPoint Group), or a modification to any Service, Buyer shall give CenterPoint Services such advance notice as it may reasonably require sufficient to enable CenterPoint Services to make any necessary preparations to perform such Services on the scaled-up or modified basis, and to develop changes in the cost-based rates for those services as described in Section 2.3(d); provided, however that the scaling up of a Service shall occur under this Agreement only upon the mutual consent of both parties. For purposes of this Section, the level of a Service shall be considered to be "scaled up" if providing the service at the proposed level involves an increase in personnel, equipment, space or other resources that is not, in the opinion of the Providing Company, de minimis and is not reasonably embraced by the agreed definition and scope of that Service prior to the proposed increase.

(e) Scaled Down Services. If Buyer requests in writing the level at which any Service is to be provided to be scaled down below the level in effect as of such date, Buyer shall give CenterPoint Services at least 30 days written notice of such request; provided, however that with respect to any Services provided by a third party service provider that can be scaled down only on written notice in excess of 30 days, CenterPoint Services will use commercially reasonable efforts to notify Buyer of any such termination requirements as soon as practicable (and in any event prior to Buyer's notice of scaling down such Service), and to the extent Buyer has been so notified, Buyer agrees to provide CenterPoint Services such longer written notice. For purposes of this section, the level of a Service shall be considered to be "scaled down" if providing the service at the proposed level involves a decrease in personnel, equipment, space or other resources that is not, in the opinion of the Providing Company, de minimis.

2.2 Subsidiaries; Services Performed By Others. At its option, the Providing Company may cause any Service it is required to provide hereunder to be provided by any other Person that is providing, or may from time to time provide, the same or similar services for the Providing Company. Unless otherwise specified herein or on an Exhibit hereto, the Providing Company shall remain responsible, in accordance with the terms of this Agreement, for performance of any Service it causes to be so provided. A Receiving Company may direct that any Service required to be provided hereunder be provided for the benefit of another member of the Group of which the Receiving Company is a member, but unless specified herein or on an Exhibit hereto, the Receiving Company shall be responsible for the payment of charges and other performance required of the Receiving Company with respect to such Service.

2.3 Charges And Payment.

(a) General Principles Relating To Charges For Services. Subject to the specific terms of this Agreement, the Services will be charged and paid for on the same general basis as has been heretofore in effect, with the intent that such charges shall approximate the fully allocated direct and indirect costs of providing the services, including reimbursement of out-of-pocket third party costs and expenses, but without any element of profit except to the extent routinely included as a component of traditional utility cost of capital. It is the further intent of the parties that the fully allocated direct and indirect costs incurred by CenterPoint Services in providing Services under this Agreement and similar services to other entities within the CenterPoint Group will be charged on a basis that allocates such costs charged on a fair,

nondiscriminatory basis. The parties shall use good faith efforts to discuss any situation in which the actual charge for a Service is reasonably expected to exceed the estimated charge, if any, for a particular Service; provided, however, that charges incurred in excess of any such estimate shall not justify stopping the provision of, or payment for, Services under this Agreement.

(i) The costs of Services included in Exhibit 2.1(a)(i) will be direct billed on the basis of the fully allocated direct and indirect costs of providing those Services determined under the principles set forth in Section 2.3(a) above and pursuant to the billing methodology as defined in the Form U-1/A (Amendment No. 5) of CenterPoint Energy, Inc. and Utility Holding, LLC filed with the Securities and Exchange Commission on December 17, 2003.

The Services in Exhibit 2.1(a)(i) that are covered by Service Level Agreements will be charged initially based on the rates and usage formulas set forth in the applicable Service Level Agreements and shall be adjusted from time to time thereafter, as provided in the applicable Service Level Agreements. The costs of all other Services will be gathered in a common cost pool with similar services provided to other members of the CenterPoint Group and allocated to Buyer and to other members of the CenterPoint Group. As is the case under the current methodology as applied in the Existing Transition Services Agreement, when there is a significant increase or decrease in one or more components of the cost of providing a Service, or when a category of Services is terminated as provided in Section 2.7, an adjustment to the allocation will be made by CenterPoint Services to reflect such changes. Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a).

In the case of any Services associated with facilitating the transition to an independent information technology Infrastructure for Buyer (as distinguished from the continuation of services of the nature heretofore provided), the rates therefor will be determined by CenterPoint Services on the basis of the same cost-based methodology underlying the pricing of other Services provided under this Agreement. CenterPoint Services and Buyer will use their respective commercially reasonable efforts to minimize incremental costs of effecting a transition to an independent information technology Infrastructure for Buyer.

It is understood that, except as otherwise provided herein or agreed in writing, the cost of buying new hardware, obtaining new software licenses and obtaining transfers of existing software licenses, each specifically for the benefit of Buyer, shall be the responsibility of Buyer. All hardware or software and other intellectual property licensed by the CenterPoint Group and used primarily in the Genco Business will be assigned, transferred or otherwise made available to the Buyer Group on the Effective Date or upon termination of the Services hereunder that use such hardware or intellectual property, as Buyer may request and as permitted under the terms of such licenses.

It is understood that CenterPoint Services' commitment to deliver the level of service specified herein (including any Exhibits hereto) is contingent upon

adherence by Buyer to CenterPoint Services' process and technology standards as currently in effect and as subsequently modified and communicated to Buyer.

(ii) It is understood that CenterPoint Services is responsible for protecting the performance levels and security of existing systems and information technology Infrastructure. Accordingly, Buyer agrees to review all modifications to any existing system currently running on CenterPoint Services' Infrastructure and to obtain CenterPoint Services' approval, which shall not be unreasonably withheld, for such modifications. Similarly, Buyer will review all new systems to be run on CenterPoint Services' Infrastructure, or which connect with it, and will obtain CenterPoint Services' approval, which shall not be unreasonably withheld or delayed, before such systems are put in development or production. CenterPoint Services agrees to provide Buyer with such notice as is reasonably practicable of all planned additions or modifications to CenterPoint Services' Infrastructure, including but not limited to firewall rules, DNS changes and circuit additions, deletions or consolidation, that reasonably may be expected to have a material adverse impact on Buyer's information technology and operations, and to receive Buyer's written approval prior to implementation of any such additions or modifications.

(iii) Special Provisions for Executive Management Services. The costs of Services included in Exhibit 2.1(a)(ii) will be direct billed on the basis of the allocated fully loaded costs for such officers' and employees' actual time spent working for the Buyer Group. Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a).

(b) Scaled Up Or Modified Services. If Buyer requests in writing the scaling up or modifications of Services under Section 2.1(d) and, in the case of a scaling up of Services, if CenterPoint Services shall consent to such scaling up, CenterPoint Services shall determine appropriate changes in the charges for such scaled up or modified Services in accordance with the general principles set forth in Section 2.3(a) and shall give notice thereof to Buyer. CenterPoint Services shall not be required to incur costs or obligations or otherwise commit time and resources in preparation for providing such Services on the scaled up or modified basis (except to the extent necessary to make such determination of appropriate changes in the charges to be made) unless and until Buyer gives CenterPoint Services notice that it will accept the charges for such services determined by CenterPoint Services in accordance with this Section 2.3(d). If the scaling up of Services requires the hiring of additional employees by CenterPoint Services or its Subsidiaries or the procurement of additional equipment or services (other than equipment or services the full cost of which is paid or reimbursed by Buyer on a current basis), CenterPoint Services may include in the charges for the scaled up services provisions for recovery (either as part of the periodic rate or as payments due upon termination of the Services) of (a) employee severance expenses and (b) the cost of equipment and systems that CenterPoint Services cannot otherwise recover following termination of the Services, in each case to the extent attributable to the scaled-up service levels. In case any scaling up or modification of services requires the incurrence of costs to implement such modification or scaling up (for example, an SAP change or payroll configuration), CenterPoint Services may charge Buyer for such costs on an "up front" basis, in addition to any adjustments in periodic

rates occasioned by such scaling up or modification. In no event shall any charges allow for duplicate recovery by CenterPoint Services of its costs in respect of the applicable Service.

(c) Scaled-Down Services. If Buyer requests in writing the scaling down of Services under Section 2.1(e), CenterPoint Services shall determine appropriate reductions in the charges for such scaled down services in accordance with the general principles set forth in Section 2.3(a) and shall give notice thereof to Buyer as promptly as practicable. Buyer shall have the right to rescind its notice scaling down such Services within 15 days of notice of the revised charges, but Buyer will remain responsible for all charges incurred with respect to such Service prior to the effective date of such rescission. In addition and without limiting the foregoing, Buyer may elect to terminate such Service in its entirety in accordance with Section 2.7(b) in the event that it does not agree with the revised charges proposed by CenterPoint Services.

(d) Charges For Additional Services. The Receiving Company shall pay the Providing Company the charges, if any, set forth on each Exhibit hereafter created for each of the Additional Services listed therein. Charges, if any, for other Additional Services shall be determined according to methods in use with respect to the Genco Business prior to the Effective Date or such other method as may be mutually agreed that ensures that the Providing Company recovers costs and expenses, but without any profit except to the extent routinely included as a component of traditional utility cost of capital, in accordance with Section 2.3(a).

(e) Payment Terms. The Providing Company shall bill the Receiving Company monthly for all charges pursuant to this Agreement and the Receiving Company shall pay the Providing Company for all Services within 30 days after receipt of an invoice therefor. Charges shall be supported by detailed invoicing, which will include, where appropriate, quantity of Services, unit price and cost for line items of Services (which may be maintained in electronic form). Late payments shall bear interest at the lesser of the prime rate announced by JPMorgan Chase Bank and in effect from time to time plus 2% per annum or the maximum non-usurious rate of interest permitted by applicable law.

(f) Error Correction; True-Ups; Accounting. The Providing Company shall make adjustments to charges as required to reflect the discovery of errors or omissions in charges. The Providing Company and the Receiving Company shall conduct a true-up process as of the end of each calendar year during which Services were provided to adjust charges based on a reconciliation of differences in budgeted usage and costs with actual experience. It is the intent of the parties that such true-up process will be conducted using substantially the same process, procedures and methods of review as have been heretofore in effect with respect to the Genco Business.

(g) Audit Right. CenterPoint Services shall maintain complete and accurate books and records relating to costs and charges for Services to Buyer under this Agreement. Books and records shall be maintained in accordance with generally accepted accounting principles, consistently applied, and to the extent such books and records relate to regulated business activities, shall conform to any applicable regulatory code of accounts which Buyer or the Receiving Company is required to comply with, to the extent such conformity is reasonably feasible. If conformity to a regulatory code of accounts is infeasible, CenterPoint

Services shall maintain its books and records related to the provision of Services in such a manner that Buyer or the Receiving Company may readily reconcile such books and records to the applicable code of accounts. Buyer shall be entitled from time to time (but not more than once every six months and not prior to December 31, 2004) to audit CenterPoint Services' books and records related to the Services, using its own personnel or personnel from its independent auditing firm. Discrepancies identified as a result of any audit shall be promptly reconciled between the parties in accordance with any provisions of this Agreement.

2.4 General Obligations; Standard Of Care.

(a) Providing Company. Subject to Sections 2.3 and 2.5(c), CenterPoint Services shall maintain sufficient resources to perform its obligations hereunder and shall perform such obligations in a commercially reasonable manner. The Providing Company shall provide Services in accordance with the policies, procedures and practices in effect before the date of this Agreement and shall exercise the same care and skill as it exercises in performing similar services for itself.

(b) Receiving Company. The Receiving Company shall, in connection with receiving Services, follow the policies, procedures and practices in effect before the date of this Agreement including providing information and documentation sufficient for the Providing Company to perform the Services as they were performed before the date of this Agreement with respect to the Genco Business and making available, as reasonably requested by the Providing Company, sufficient resources and timely decisions, approvals and acceptances in order that the Providing Company may accomplish its obligations hereunder in a timely manner.

(c) Transitional Nature Of Services; Changes. The parties acknowledge the transitional nature of the Services and that the Providing Company may make changes from time to time in the manner of performing the Services if the Providing Company is making similar changes in performing similar services for members of the CenterPoint Group and if the Providing Company furnishes to the Receiving Company substantially the same notice the Providing Company shall provide members of the CenterPoint Group respecting such changes.

(d) Responsibility For Errors; Delays. The Providing Company's sole responsibility to the Receiving Company:

(i) for errors or omissions in Services shall be to furnish correct information and/or adjustment in the Services, at no additional cost or expense to the Receiving Company; provided, the Receiving Company must promptly advise the Providing Company of any such error or omission of which it becomes aware after having used reasonable efforts to detect any such errors or omissions in accordance with the standard of care set forth in subsection 2.4(b); and provided, further, that the responsibility to furnish correct information or an adjustment of services at no additional cost or expense to the Receiving Company shall not be construed to require the Providing Company to make any payment or incur any Liability for which it is not responsible, or with respect to which it is provided indemnity, under Section 2.8; and

(ii) for failure to deliver any Service because of Impracticability shall be to use commercially reasonable efforts, subject to subsection 2.5(b), to make the Services available and/or to resume performing the Services as promptly as reasonably practicable.

(e) Good Faith Cooperation; Consents. The parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Services. Such cooperation shall include exchanging information subject to any limitations on exchanging information or access that third-party agreements or the Transaction Agreement contemplates, providing electronic access to systems used in connection with Services to the extent the systems in use are designed and configured to permit such access, performing true-ups and adjustments and obtaining all consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations hereunder. The costs of obtaining such consents, licenses, sublicenses or approvals shall be allocated in accordance with Section 2.3. The parties will maintain documentation supporting the information contained in the Exhibits and cooperate with each other in making such information available as needed in the event of a tax audit, whether in the United States or any other country.

(f) Alternatives. If the Providing Company reasonably believes it is unable to provide any Service because of a failure to obtain necessary consents, licenses, sublicenses or approvals pursuant to subsection 2.4(e) or because of Impracticability, the parties shall cooperate to determine the best alternative approach. Until such alternative approach is found or the problem otherwise resolved to the satisfaction of the parties, the Providing Party shall use commercially reasonable efforts, subject to Section 2.5(b) and Section 2.5(c), to continue providing the Service or, in the case of Systems, to support the function to which the System relates or permit Receiving Party to have access to the System so Receiving Party can support the function itself.

(g) Assistance in Transition. As requested by Buyer, CenterPoint Services agrees to use its commercially reasonable efforts to assist Buyer and the Receiving Companies in transitioning off of the Services. Buyer shall reimburse CenterPoint Services for any documented out-of-pocket expenses reasonably incurred by CenterPoint Services at Buyer's request pursuant to this Section 2.4(g), except that if any such assistance is contemplated by the Services described in the Exhibits hereto, Buyer shall pay for such Services in accordance with Section 2.3.

2.5 Certain Limitations.

(a) Service Boundaries And Scope. Except as provided in an Exhibit for a specific Service, (i) the Providing Company shall be required to provide the Services only at the locations such Services are being provided by the Providing Company with respect to the Genco Business immediately prior to the Effective Date; and (ii) the Services will be available only for purposes of conducting the Genco Business substantially in the manner it was conducted prior to the Effective Date.

(b) Impracticability. The Providing Company shall not be required to provide any Service to the extent the performance of such Service becomes "Impracticable" as a

result of a cause or causes outside the reasonable control of the Providing Company including unfeasible technological requirements, or to the extent the performance of such Services (i) would require the Providing Company to violate any applicable laws, rules or regulations or (ii) would result in the breach of any software license or other applicable contract in effect on the date of this Agreement. Each party represents that it is not aware of any facts or circumstances, which are reasonably likely to result in the performance of any Services as contemplated hereunder being rendered Impracticable during the term hereof (except, in the case of any provisions requiring the transfer of third-party agreements, to the extent any such agreement may limit or restrict such transferability).

(c) Additional Resources. Except as provided in this Agreement or in an Exhibit for a specific Service, in providing the Services, the Providing Company shall not be obligated to (i) maintain the employment of any specific employee; (ii) purchase, lease or license any additional equipment or software; or (iii) pay any costs related to the transfer or conversion of the Receiving Company's data to the Receiving Company or any alternate supplier of Services.

(d) No Sale, Transfer, Assignment. No Receiving Company may sell, transfer, assign or otherwise use the Services provided hereunder, in whole or in part, for the benefit of any Person other than a member of the Buyer Group.

2.6 Confidentiality.

(a) Information Subject To Other Obligations. The Providing Company and the Receiving Company agree that all Information (as defined in the Genco Separation Agreement) regarding the Services, including, but not limited to, price, costs, methods of operation, and software, and all Information provided by any Receiving Company in connection with the Services, shall be maintained in confidence and shall be subject to Sections 8.2 and 8.11 of the Genco Separation Agreement.

(b) All Information Confidential. The Providing Company's Systems used to perform the Services provided hereunder are confidential and proprietary to the Providing Company or third parties. The Receiving Company shall treat these Systems and all related procedures and documentation as confidential and proprietary to the Providing Company or its third party vendors.

(c) Internal Use; Title, Copies, Return. Subject to the applicable provisions of the Genco Separation Agreement and the Transaction Agreement governing ownership, use and licensing of Intellectual Property (as defined therein) and Section 2.3(a)(ii) of this Agreement, the Receiving Company agrees that:

(i) all Systems, procedures and related materials provided to the Receiving Company are for the Receiving Company's internal use only and only as related to the Services or any of the underlying Systems used to provide the Services;

(ii) title to all Systems used in performing the Services provided hereunder shall remain in the Providing Company or its third party vendors;

(iii) the Receiving Company shall not copy, modify, reverse engineer, decompile or in any way alter Systems without the Providing Company's express written consent; and

(iv) upon the termination of any of the Services, the Receiving Company shall return to the Providing Company, as soon as practicable and in good condition, normal wear and tear excepted, any equipment or other property of the Providing Company relating to the Services which is owned or leased by it and is or was in the Receiving Company's possession or control.

(d) Third-Party Service Providers. Before any person unaffiliated with CenterPoint Services shall provide services to a Receiving Company under this Agreement in accordance with Section 2.2 and receive the Receiving Party's confidential information in connection therewith, CenterPoint Services shall secure from such person its agreement to keep confidential all Information of the Receiving Company in accordance with this Section. CenterPoint Services shall be responsible under this Section for the foreseeable actions of any such unaffiliated person engaged by it to provide services hereunder as though the actions of such person were the actions of CenterPoint Services and the relevant Providing Company.

2.7 Term; Early Termination.

(a) Term. The term of this Agreement shall commence on the Effective Date and shall remain in effect through the earlier of (i) such time as all Services are terminated as provided in this Section or (ii) the later of (A) 180 days after the Effective Date, and (B) with respect to the Executive Management Services, the earlier of the STP Acquisition Closing Date or the date on which the Transaction Agreement is terminated with respect to the STP Acquisition. In addition, this Agreement may be further extended by mutual agreement of the parties in writing either in whole or with respect to one or more of the Services; provided, however, that such extension shall apply only to the Service or Services for which the Agreement was extended. The parties may agree on an earlier expiration date respecting a specific Service by specifying that date on the Exhibit for that Service.

(b) Termination. By Buyer Of Specific Service Categories. Buyer may terminate this Agreement either with respect to all, or with respect to any one or more, of the Services provided hereunder at any time and from time to time, for any reason or no reason, by giving 30 days written notice to the Providing Party (or such longer notice period as is specified in the applicable Exhibit with specific reference to the applicable Service); provided, however that with respect to any Services provided by a third party service provider that can be terminated only on written notice in excess of 30 days, CenterPoint Services will use commercially reasonable efforts to notify Buyer of any such termination requirements as soon as practicable (and in any event prior to Buyer's notice of termination of such Service), and to the extent Buyer has been so notified, Buyer agrees to provide CenterPoint Services such longer written notice.

(c) Termination Of Less Than All Services. In the event of any termination with respect to one or more, but less than all, Services, this Agreement shall continue in full force and effect with respect to any Services not terminated hereby.

(d) User IDs, Passwords. The parties shall use good faith efforts at the termination or expiration of this Agreement or any specific Exhibit hereto, to ensure that all user IDs and passwords are canceled and, subject to Section 2.6(c), that any data pertaining solely to the other parties are deleted or removed from Systems.

2.8 Disclaimer Of Warranties, Limitation Of Liability And Indemnification.

(a) DISCLAIMER OF WARRANTIES. THE PROVIDING COMPANY AND EACH MEMBER OF THE CENTERPOINT GROUP DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE SERVICES. THE PROVIDING COMPANY AND EACH MEMBER OF THE CENTERPOINT GROUP MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY OR ADEQUACY OF THE SERVICES FOR ANY PURPOSE OR USE.

(b) Limitation Of Liability; Indemnification Of Receiving Company. The Providing Company and each member of the CenterPoint Group shall have no Liability to any Receiving Company with respect to its furnishing any of the Services hereunder except for Liabilities arising out of or resulting from the gross negligence or willful misconduct occurring after the Effective Date of the Providing Company or any of its Subsidiaries. The Providing Company will indemnify, defend and hold harmless each Receiving Company in respect of all such Liabilities arising out of or resulting from such gross negligence or willful misconduct. Such indemnification obligation shall be a Liability of the Providing Company for purposes of the Genco Separation Agreement, and the provisions of Article III of the Genco Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL THE PROVIDING COMPANY OR ANY MEMBER OF THE CENTERPOINT GROUP HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT THE PROVIDING COMPANY OR ANY OF ITS SUBSIDIARIES WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(c) Limitation Of Liability; Indemnification Of Providing Company. Each Receiving Company shall indemnify and hold harmless the Providing Company in respect of all Liabilities arising out of or resulting from the Providing Company's furnishing or failing to furnish the Services provided for in this Agreement, other than Liabilities arising out of or resulting from the gross negligence or willful misconduct of the Providing Company or any other member of the CenterPoint Group. The provisions of this indemnity shall apply only to losses that relate directly to the provision of Services. Such indemnification obligation shall be a Liability of the Receiving Company for purposes of the Genco Separation Agreement and the provisions of Article III of the Genco Separation Agreement with respect to indemnification

shall govern with respect thereto. IN NO EVENT SHALL A RECEIVING COMPANY OR ANY OF ITS SUBSIDIARIES HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT THE PROVIDING COMPANY OR ANY OF ITS SUBSIDIARIES WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(d) Subrogation Of Rights Vis-A-Vis Third Party Contractors. In the event any Liability arises from the performance of Services hereunder by a third party contractor, the Receiving Company shall be subrogated to such rights, if any, as the Providing Company may have against such third party contractor with respect to the Services provided by such third party contractor to or on behalf of the Receiving Company. Subrogation under this Section 2.8(d) shall not affect the obligation of the Providing Company to perform Services under this Agreement.

2.9 Representatives. The parties shall each appoint one or more Representatives to facilitate communications and performance under this Agreement. The maximum number of Representatives for each party shall be four. Each party may treat an act of a Representative of another party as being authorized by such other party without inquiring behind such act or ascertaining whether such Representative had authority to so act. Each party shall have the right at any time and from time to time to replace any of its Representatives by giving notice in writing to the other party setting forth the name of (i) each Representative to be replaced and (ii) the replacement, and certifying that the replacement Representative is authorized to act for the party giving the notice in all matters relating to this Agreement (or matters relating to one or more categories specified in Section 2.1(a)). Each Representative is hereby authorized by the party he or she represents to approve the establishment of new or modifications to existing Exhibits for Initial Services and the addition of new Exhibits for Additional Services.

Article III.

Miscellaneous

3.1 Taxes. (a) General. Each Receiving Company shall bear all taxes, duties and other similar charges (and any related interest and penalties), imposed as a result of its receipt of Services under this Agreement, including any tax which a Receiving Company is required to withhold or deduct from payments to the Providing Company, except any net income tax imposed upon the Providing Company by the country of its incorporation or any governmental entity within its country of incorporation.

(b) Sales Tax Liability and Payment. Notwithstanding Section 3.1(a), each Receiving Company is liable for and will indemnify and hold harmless the Providing Company from all sales, use and similar taxes (plus any penalties, fines or interest thereon) (collectively, "Sales Taxes") assessed, levied or imposed by any governmental or taxing authority on the

providing of Services by the Providing Company to the Receiving Company. The Providing Company shall collect from the Receiving Company any Sales Tax that is due on the Service it provides to such Receiving Company and shall pay such Sales Tax so collected to the appropriate governmental or taxing authority.

3.2 Laws And Governmental Regulations. The Receiving Company shall be responsible for (i) compliance with all laws and governmental regulations affecting its business and (ii) any use the Receiving Company may make of the Services to assist it in complying with such laws and governmental regulations. The provision of Services shall comply, to the extent applicable, with CenterPoint Services' Internal Code of Conduct. The Providing Company shall comply with all laws and governmental regulations applicable to the provision of Services. Without limiting the foregoing, the parties hereto shall comply with all code of conduct regulations promulgated under 16 T.A.C. 25.272 to the extent applicable.

3.3 Relationship Of Parties. Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship of independent contractor nor be deemed to vest any rights, interest or claims in any third parties.

3.4 References. All reference to Sections, Articles, Exhibits or Schedules contained herein mean Sections, Articles, Exhibits or Schedules of or to this Agreement, as the case may be, unless otherwise stated. When a reference is made in this Agreement to a "party" or "parties", such reference shall be to a party or parties to this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The use of the singular herein shall be deemed to be or include the plural (and vice versa) whenever appropriate. The use of the words "hereof", "herein", "hereunder", and words of similar import shall refer to this entire Agreement, and not to any particular article, section, subsection, clause, paragraph or other subdivision of this Agreement, unless the context clearly indicates otherwise. The word "or" shall not be exclusive; "may not" is prohibitive and not permissive.

3.5 Modification And Amendment. Except, as provided in Section 2.1 or for modifications to Exhibits, which may be made by Representatives pursuant to Section 2.9 hereof, this Agreement may not be modified or amended, or any provision waived, except by written agreement of the parties.

3.6 Inconsistency. In the event of any inconsistency between the terms of this Agreement and any of the Exhibits hereto, the terms of this Agreement, other than charges, shall control.

3.7 Resolution of Disputes.

(a) Each Party shall, from time to time, designate a senior officer (a "Dispute Representative") who shall have the authority to represent such party and resolve and settle any dispute arising under or in connection with this Agreement or the Services performed

hereunder. The Parties hereto agree to attempt to resolve all such disputes equitably and in a good faith manner (unless, in the reasonable judgment of the affected Party, the immediate pursuit of judicial equitable relief is necessary to prevent or mitigate a risk of irreparable harm or damage). In the event such a dispute arises under or in connection with this Agreement or the Services performed hereunder, the Providing Company shall nonetheless continue to perform the Services and the Receiving Company shall nonetheless pay the Providing Company all amounts due with respect to undisputed charges in accordance with Section 2.3(e).

(b) If any dispute arising under or in connection with this Agreement or the Services performed hereunder is not resolved pursuant to Section 3.7(a) within thirty (30) days from the date on which such dispute is submitted to the Dispute Representatives, such dispute shall, if the Parties agree, be submitted to and resolved by binding arbitration, or in the absence of such agreement either Party may pursue any and all remedies in respect of such dispute available to such Party at law or in equity. Any arbitration proceeding arising under or in connection with this Agreement or the Services performed hereunder shall be conducted pursuant to the terms of the Federal Arbitration Act and (except as otherwise specified herein) the Commercial Arbitration Rules of the American Arbitration Association in effect at the time the arbitration is commenced. The venue for the arbitration shall be Houston, Texas. The arbitration shall be conducted before a panel of three (3) arbitrators, selected as follows: (i) each Party shall specify one arbitrator within ten (10) days after the thirty (30) day period for dispute resolution under Section 3.7(a), and (ii) a neutral person shall be selected through the American Arbitration Association's arbitrator selection procedures to serve as the third arbitrator. The arbitrator designated by any Party need not be neutral. In the event that any person fails or refuses timely to name his arbitrator within the time specified herein, the American Arbitration Association shall (immediately upon notice from the other Party) appoint an arbitrator for the person or entity that has failed to appoint its arbitrator. To the extent practical, the arbitrators shall schedule the hearing to commence within sixty (60) days after the arbitrators have been impaneled. A majority of the panel shall render an award or other decision within ten (10) days of the completion of the hearing, which award or decision shall be final, binding and conclusive upon the Parties hereto. Each Party shall have the right to have an award or decision of such panel enforced by any court or competent jurisdiction. The parties agree to pay the costs of such arbitration, including the out-of-pocket costs and expenses of the parties, in inverse proportion as they each shall prevail on the matters in dispute.

3.8 Successors And Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as contemplated by Section 2.2, no party shall assign this Agreement or any rights herein without the prior written consent of the other party, which may be withheld for any or no reason. However, Buyer may assign its rights or obligations hereunder to any affiliate or a lender (or agent therefore) for security purposes, provided that no such assignment shall relieve Buyer of its obligations hereunder.

3.9 Notices. The provisions of Section 11.5 of the Transaction Agreement shall be deemed to be incorporated into this Agreement.

3.10 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

3.11 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason, such declaration shall have no effect upon the remaining portions of this Agreement, which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted.

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

3.13 Rights Of The Parties. Nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity, other than the parties and to the extent provided herein their respective Subsidiaries, any rights or remedies under or by reason of this Agreement or any transaction contemplated thereby.

3.14 Reservation Of Rights. The waiver by either party of any of its rights or remedies afforded hereunder or at law is without prejudice and shall not operate to waive any other rights or remedies which that party shall have available to it, nor shall such waiver operate to waive the party's rights to any remedies due to a future breach, whether of a similar or different nature. The failure or delay of a party in exercising any rights granted to it hereunder shall not constitute a waiver of any such right and that party may exercise that right at any time.

Any single or partial exercise of any particular right by a party shall exhaust the same or constitute a waiver of any other right.

3.15 Entire Agreement. All understandings, representations, warranties and agreements, if any, heretofore existing between the parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the parties with respect to the subject matter hereof. The parties acknowledge that, pursuant to the Transaction Agreement, the Existing Transition Services Agreement shall be terminated as of the Effective Date.

IN WITNESS WHEREOF, the parties have executed this Transition Services Agreement as of the date first above written.

CENTERPOINT ENERGY SERVICE COMPANY, LLC

By: _____
[Name]
[Title]

GC POWER ACQUISITION LLC

By: _____
[Name]
[Title]

EXHIBIT 2.1(a)(i)
(As amended and restated
effective _____, 2004)

BUSINESS SERVICES

A1. Accounting

A.1.1. Financial Accounting and Reporting.

A.1.2. Tax Assistance in respect of Prior Period Audits.

A2. Corporate Finance.

A.2.1. Financial Services.

A.2.2. Cash Management.

A.2.3. Insurance.

A3. Corporate Human Resources

A.3.1. Compensation Design and Delivery

A.3.2. Benefits Design, Delivery and Communications

A.3.3. Payroll Services and Administration

A.3.4. Workforce Planning

A.3.5. Disability and Employee Services

A.3.6. HR Technology Services

A.3.7. Learning and Organization Development

A4. Information Technology Services

A.4.1. Data Circuit Management

A.4.2. Solutions Delivery (SAP Programming Services Only)

A.4.3. Mainframe Operations – SAP Only

A.4.4. Telecommunications

A.4.5. System Transition Services

A5. Shared Services

A.5.1. Facilities Management

A.5.2. Financial Services

A.5.3. Office Support Services

A.5.4. Procurement

A.5.5. Corporate Security

EXHIBIT 2.1(a)(ii)
(As amended and restated
effective _____, 2004)

EXECUTIVE MANAGEMENT SERVICES

The major activities and costs associated with this service include the management services of the following officers and employees of Genco Holdings:

- David G. Tees
- Michael A. Reed
- Sean Skinner
- Jerome Svatek
- Richard Balcom
- Lynne Purdue
- Rose Gallardo
- Melanie Barrett
- Charlotte Bailey

Schedule 2.3

Purchase Price Allocation
Subject to Valuation Study and Actual Amounts on Final Closing Balance Sheet
(in millions)

Purchase Price of Non-STP Assets	2,813
Non-STP Estimated Liabilities at 10/04	443
Purchase Price Allocation to Non-STP Assets	3,255

Section 1060 Allocation	Amount
Class I Assets	-
Class II Assets	-
Class III Assets	55
Class IV Assets	71
Class V Assets	2,603
Class VI Assets	527
Class VII Assets	-
TOTAL Purchase Price Allocation to Non-STP Assets	3,255

Schedule 6.17(B)

Amendment and Assignment and Assumption Agreement to the Separation Agreement

This **Amendment and Assignment and Assumption Agreement** (this "Agreement"), dated as of _____, 2004, by and among CenterPoint Energy, Inc. ("CenterPoint"), Texas Genco Holdings, Inc. ("Genco Holdings"), Texas Genco, LP ("Genco LP") and GC Power Acquisition LLC ("Buyer"), hereby amends the Separation Agreement (the "Separation Agreement"), dated as of August 31, 2002, between CenterPoint and Genco Holdings and the Bill of Sale and Assignment dated as of August 31, 2002 by and between Reliant Energy, Incorporated, Genco Holdings and Genco LP ("Bill of Sale"). CenterPoint, Genco Holdings, Genco LP and Buyer are hereinafter collectively referred to as the "parties" and each individually as a "party". Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I hereof or assigned to them in the Transaction Agreement (as defined below).

WHEREAS, CenterPoint, Genco Holdings and Buyer are parties to that certain Transaction Agreement, dated as of July 21, 2004 (the "Transaction Agreement"), by and among CenterPoint, Utility Holding, LLC, NN Houston Sub, Inc., Genco Holdings, HPC Merger Sub, Inc. and Buyer, pursuant to which and subject to the terms and conditions thereof, among other things, Buyer will acquire entities owning (i) the Non-STP Assets and Liabilities and (ii) thereafter, the STP Assets and Liabilities; and

WHEREAS, pursuant to the Transaction Agreement, the parties agreed to effect certain amendments and assignments of rights and obligations, and to enter into the other agreements, relating to the Separation Agreement as set forth in this Agreement as of the Non-STP Acquisition Closing Date (the "Effective Date").

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Transaction Agreement, the parties, intending to be legally bound, agree as follows:

1. Article I of the Separation Agreement is hereby amended as of the Effective Date as follows:

(a) The definition of "Genco Liabilities" is hereby amended to insert at the end thereof the following new sentence:

"Notwithstanding the foregoing or anything to the contrary in this Agreement, in any Ancillary Agreement, including the Bill of Sale and Assignment dated as of August 31, 2002 by and between REI, Genco and Genco LP, or any other document related to the separation contemplated herein, the Genco Liabilities shall not include the Insured Retained Liabilities (as defined in the Transaction Agreement)."

(b) The following new defined term is inserted into Article I of the Separation Agreement:

"Transaction Agreement. "Transaction Agreement" means the Transaction Agreement, dated as of July 21, 2004, by and among CenterPoint, Utility Holding, LLC, NN Houston Sub, Inc., Genco, HPC Merger Sub, Inc. and GC Power Acquisition LLC."

2. Section 1.12 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced by the following:

"1.12 CenterPoint Intellectual Property. "CenterPoint Intellectual Property" means Intellectual Property that as of the Genco Separation Date is owned or partly owned by any member of the CenterPoint Group and that, as between the Genco Group and the CenterPoint Group, is used primarily by the CenterPoint Group."

3. Section 1.29 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced by the following:

"1.29 Genco Intellectual Property. "Genco Intellectual Property" means Intellectual Property that as of the Genco Separation Date is owned or partly owned by any member of the Genco Group and that, as between the Genco Group and the CenterPoint Group, is used primarily by the Genco Group."

4. Section 3.2(b) of the Separation Agreement is hereby amended of the Effective Date by inserting, following "the Genco Business", the following: "(except to the extent any such Loss constitutes an Insured Retained Liability)".

5. Section 3.2(d) of the Separation Agreement is hereby deleted in its entirety as of the Effective Date.

6. Section 3.3 of the Separation Agreement is hereby amended as of the Effective Date by inserting therein the following new clause (e): "(e) the Insured Retained Liabilities."

7. Section 3.4(b) of the Separation Agreement is hereby amended as of the Effective Date by deleting the last sentence thereof in its entirety.

8. Section 4.2 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date.

9. Section 5.1 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced by the following:

"5.1 **Assignment.** CenterPoint hereby assigns to Genco all of its right, title and interest in and to the Genco Intellectual Property; the goodwill symbolized by any trademarks or service marks assigned hereunder; and all rights of action accrued or to accrue under or by virtue of any of the Genco Intellectual Property, including the right to sue and recover for past infringement or misappropriation. Genco hereby assigns to CenterPoint all of its right, title and interest in and to the

CenterPoint Intellectual Property; the goodwill symbolized by any trademarks or service marks assigned hereunder; and all rights of action accrued or to accrue under or by virtue of any of the CenterPoint Intellectual Property, including the right to sue and recover for past infringement or misappropriation."

10. Section 5.2 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced by the following:

"5.2 **License Grants.**

(a) Grants to CenterPoint. Except as provided below in this Section 5.2(a), Genco grants to each member of the CenterPoint Group a worldwide, irrevocable, perpetual, royalty-free license under all rights in the Genco Intellectual Property used by any member of the CenterPoint Group at any time during the one year period preceding the Genco Separation Date, including the right to sublicense customers or suppliers of CenterPoint or its Subsidiaries to the extent necessary for such customers to use the products or services of CenterPoint or its Subsidiaries and for such suppliers to provide equipment or services to CenterPoint or its Subsidiaries in connection with their operations. This license specifically excludes any grant to any Person within the CenterPoint Group of any rights to use any trademarks, service marks, trademark/service mark registrations and applications, brand names, trade names, or other names and slogans or source indicators embodying business or product goodwill (or both) which are a part of the Genco Intellectual Property or any updates, revisions, improvements or other changes to the Genco Intellectual Property or any Intellectual Property acquired by Genco after the Genco Separation Date. This license may be assigned by its licensees to Affiliates or in the event of a change of control, merger or sale of all or substantially all of the assets of the business to which this license relates."

(b) Grants to Genco. Except as provided below in this Section 5.2(b), CenterPoint grants to each member of the Genco Group a worldwide, irrevocable, perpetual, royalty-free license under all rights in the CenterPoint Intellectual Property used by any member of the Genco Group at any time during the one year period preceding the Genco Separation Date, including the right to sublicense customers or suppliers of Genco or its Subsidiaries to the extent necessary for such customers to use the products or services of Genco or its Subsidiaries and for such suppliers to provide equipment or services to Genco or its Subsidiaries in connection with their operations. This license specifically excludes any grant to any Person within the Genco Group of any rights to use any trademarks, service marks, trademark/service mark registrations and applications, brand names, trade names, or other names and slogans or source indicators embodying business or product goodwill (or both) which are a part of the CenterPoint Intellectual Property or any updates, revisions, improvements or other changes to the CenterPoint Intellectual Property or any Intellectual Property acquired by CenterPoint after the Genco Separation Date. This license may be assigned by its licensees to Affiliates or in the event of a change of control, merger or sale of all or substantially all of the assets of the business to which this license relates."

11. Section 6.1(d) of the Separation Agreement is hereby amended as of the Effective Date by inserting at the end thereof but prior to the period, the following: ", in any such case related to, arising from or in connection with, any Environmental Law or Environmental Condition".

12. Section 6.3 of the Separation Agreement is hereby amended as of the Effective Date by inserting therein the following new clause (c): "(c) the Insured Retained Liabilities to the extent they constitute Environmental Liabilities."

13. Section 6.4(a) of the Separation Agreement is hereby amended of the Effective Date by inserting, following "CenterPoint Real Property", the following: ", but excluding any Insured Retained Liability".

14. Section 6.4(b) of the Separation Agreement is hereby amended of the Effective Date by inserting at the end thereof but prior to the period, the following: ", but excluding any Insured Retained Liability".

15. Article VII of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced with the following:

"7.1 **Dispute Representatives.** Each Party shall, from time to time, designate a senior officer (a "Dispute Representative") who shall have the authority to represent such party and resolve and settle any dispute arising under or in connection with this Agreement or the Services performed hereunder. The Parties hereto agree to attempt to resolve all such disputes equitably and in a good faith manner (unless, in the reasonable judgment of the affected Party, the immediate pursuit of judicial equitable relief is necessary to prevent or mitigate a risk of irreparable harm or damage).

7.2 **Arbitration.** If any dispute arising under or in connection with this Agreement or the Services performed hereunder is not resolved pursuant to Section 7.1(a) within thirty (30) days from the date on which such dispute is submitted to the Dispute Representatives, such dispute shall, if the Parties agree, be submitted to and resolved by binding arbitration, or in the absence of such agreement either Party may pursue any and all remedies in respect of such dispute available to such Party at law or in equity. Any arbitration proceeding arising under or in connection with this Agreement or the Services performed hereunder shall be conducted pursuant to the terms of the Federal Arbitration Act and (except as otherwise specified herein) the Commercial Arbitration Rules of the American Arbitration Association in effect at the time the arbitration is commenced. The venue for the arbitration shall be [Houston, Texas]. The arbitration shall be conducted before a panel of three (3) arbitrators, selected as follows: (i) each Party shall specify one arbitrator within ten (10) days of the end of the thirty (30) day period for dispute resolution under Section 7.1(a), and (ii) a neutral person shall be selected through the American Arbitration Association's arbitrator selection procedures to serve as the third arbitrator. The arbitrator designated by any Party need not be neutral. In the event that any person fails or refuses timely to name his arbitrator within the time specified herein, the American Arbitration Association shall (immediately upon notice from the other Party) appoint an arbitrator for the person or entity that has failed to appoint its arbitrator.

To the extent practical, the arbitrators shall schedule the hearing to commence within sixty (60) days after the arbitrators have been impaneled. A majority of the panel shall render an award or other decision within ten (10) days of the completion of the hearing, which award or decision shall be final, binding and conclusive upon the Parties hereto. Each Party shall have the right to have an award or decision of such panel enforced by any court or competent jurisdiction. The parties agree to pay the costs of such arbitration, including the out-of-pocket costs and expenses of the parties, in inverse proportion as they each shall prevail on the matters in dispute."

16. Section 8.2(g) is hereby amended as of the Effective Date by deleting in its entirety the second sentence thereof.

17. Section 8.3 is hereby amended as of the Effective Date by inserting in the first sentence thereof, prior to "with respect to any financial reporting period", the following: ", solely with respect to clauses (c) and (d) below,".

18. Section 8.4 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date.

19. Section 8.9 of the Separation Agreement is hereby amended by deleting in its entirety the last sentence of the first paragraph thereof and replacing it with the following:

> "Members of the CenterPoint Group may advance funds to or borrow funds from members of the Genco Group, other than Genco II LP (as defined in the Transaction Agreement), from time to time prior to the STP Acquisition Closing Date (as defined in the Transaction Agreement) in the ordinary course of business consistent with past practice and at market based rates; provided, however, that no member of the CenterPoint Group or the Genco Group shall have any obligation to do so."

20. Section 8.12 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date.

21. Section 8.13 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date.

22. Section 9.2 of the Separation Agreement is hereby amended as of the Effective Date by inserting therein, following "the other Ancillary Agreements", the following: ", the Transaction Agreement".

23. Section 9.5 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced with the following:

> "The provisions of Section 11.5 of the Transaction Agreement shall be deemed to be incorporated into this Agreement."

24. Section 9.13 of the Separation Agreement is hereby deleted in its entirety as of the Effective Date and replaced with the following:

"In the event of conflict between the Transaction Agreement, this Agreement, as amended, any Ancillary Agreement or other agreement executed in connection herewith, first, the provisions of the Transaction Agreement shall prevail. Second, to the extent not in conflict with the Transaction Agreement, the provisions of this Agreement, as amended, shall prevail."

25. As of the Effective Date, and subject to the cross-license in the Separation Agreement, Genco Holdings hereby assigns to CenterPoint all of Genco Holdings' right, title, and interest, if any, in and to Intellectual Property that as of the Genco Separation Date was primarily used by any member of the CenterPoint Group and jointly owned by (i) any member of the CenterPoint Group and (ii) any member of the Genco Group; goodwill symbolized by trademarks and service marks, if any, assigned hereunder; and all rights of action accrued or to accrue under or by virtue hereof, including the right to sue and recover for past infringement or misappropriation. As of the Effective Date, and subject to the cross-license in the Separation Agreement, CenterPoint hereby assigns to Genco Holdings all of CenterPoint's right, title, and interest, if any, in and to Intellectual Property that as of the Genco Separation Date was primarily used by any member of the Genco Group and jointly owned by (i) any member of the CenterPoint Group and (ii) any member of the Genco Group; goodwill symbolized by trademarks and service marks, if any, assigned hereunder; and all rights of action accrued or to accrue under or by virtue hereof, including the right to sue and recover for past infringement or misappropriation. The terms Intellectual Property, Genco Separation Date, CenterPoint Group and Genco Group are defined as set forth in the Separation Agreement.

26. As of the Effective Date, all of the rights and obligations of Genco Holdings under the Separation Agreement related to the Non-STP Assets and Liabilities shall be transferred, assigned to and assumed by Buyer.

27. As of the Effective Date, CenterPoint hereby assumes all liabilities and obligations of Genco Holdings or any of its subsidiaries in respect of the Retained Insured Liabilities (as defined in, and subject to the terms and conditions of, the Transaction Agreement).

28. In addition to the specific agreements in this Agreement, each Party agrees to execute or cause to be executed by the appropriate parties and deliver, as appropriate, such other agreements, instruments and other documents as may be necessary or desirable in order to effect the amendments, assignments and assumptions of this Agreement.

29. The Separation Agreement, as modified by this Agreement and the assignments contained herein, is hereby in all respects confirmed.

30. The Bill of Sale is hereby amended as of the Effective Date as follows:

(a) Section 3 of Part I is hereby deleted in its entirety and replaced with the following:

"Assumption. TGH hereby assumes and agrees to pay, perform and discharge the Genco Liabilities, as defined in the Separation Agreement, dated as of August 31, 2002, between CenterPoint Energy, Inc. and TGH, as amended by the Amendment and Assignment and Assumption Agreement, dated as of ____ __, 2004, by and among CenterPoint Energy, Inc., TGH, Texas Genco LP and GC Power Acquisition LLC (the "Separation Agreement")."

(b) Section 2 of Part II is hereby deleted in its entirety and replaced with the following:

"Assumption. LLC hereby assumes and agrees to pay, perform and discharge the Genco Liabilities, as defined in the Separation Agreement"

(c) Section 2 of Part III is hereby deleted in its entirety and replaced with the following:

"Assumption. Grantee hereby assumes and agrees to pay, perform and discharge the Genco Liabilities, as defined in the Separation Agreement"

31. This Agreement may be executed in any number of copies and by different parties hereto on separate counterparts, each of which shall be deemed an original but all of which together shall constitute a single agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

CENTERPOINT ENERGY, INC.

By: _____
David M. McClanahan
President and Chief Executive Officer

TEXAS GENCO HOLDING, INC

By: _____
[Name]
[Title]

GC POWER ACQUISITION LLC

By: _____
[Name]
[Title]

Acknowledged and Agreed with respect to Section 30
as of the first date written above:

TEXAS GENCO, LP

BY: TEXAS GENCO GP, LLC,
Its General Partner

By: _____
[Name]
[Title]

GENCO LP/GENCO II LP TERM SHEET

This Term Sheet sets forth the proposed commercial terms of a transaction that will be entered into on the Non-STP Acquisition Closing Date between Genco LP and Genco II LP, as follows:

Trade Date:	The Non-STP Acquisition Closing Date.
Buyer:	Genco II LP.
Seller:	Genco LP.
Commodity:	Unit Firm Energy from Seller's share of Unit 1 and Unit 2 of STP, except that Seller's failure to sell and deliver shall be excused to the extent that the Available Energy during such hour is less than the Contract Quantity for such hour multiplied by one hour (the "Contract Energy" for such hour).
Delivery Period:	From hour ending 0100 on the Trade Date to hour ending 2400 on December 31, 2008. The parties will cooperate to coordinate the closing of the Non-STP Acquisition and the commencement of the Delivery Period.
Contract Quantity:	The quantity equal to Buyer's Energy commitments in the South zone (or equivalent designation), including, without limitation, under the Aron PPA, Seller Auctions, PUC Auctions, or otherwise, acquired by Buyer in the Non-STP Acquisition (the "Acquired Commitments"). This quantity will be established as of the Trade Date to reflect the actual quantity of Energy sold forward as of the Trade Date pursuant to the Acquired Commitments.
Phase I Contract Prices:	The fixed price per MWh for Energy from for STP Units 1 and 2 during an hour will be the weighted-average price (including both capacity and energy components) achieved on Buyer's firm forward sales pursuant to Acquired Commitments for the month in which such hour occurred (the "Weighted-Average Price"). This pricing applies to all deliveries for the period (the "Phase I Period") between the Trade Date and the earlier of either (i) the closing of the STP Acquisition or (ii) the termination of the Transaction Agreement prior to such closing.

	Within ten days following the termination of the Transaction Agreement prior to the closing of the STP Acquisition (in the event such termination occurs), notwithstanding that Seller's performance may have been excused under the terms of the "Commodity" section above, Seller will reimburse Buyer for 50% of the Economic Cost (as defined below), if any, incurred by Buyer during the Phase I Period associated with Undelivered Energy, provided that Buyer has used commercially reasonable efforts to mitigate such Economic Cost. "Undelivered Energy" means the deficiency, if any, between the Contract Energy and the actual amount of Energy delivered to Buyer by Seller during the Phase I Period. "Economic Cost" means, with respect to any Undelivered Energy that corresponds to Buyer's firm commitments to one or more third parties, an amount, at Buyer's option, equal to (i) liquidated damages paid by or due from Buyer to such third parties in connection with such Undelivered Energy or (ii) the cost at which Buyer, acting in a commercially reasonable manner, actually replaces such Undelivered Energy.
Phase II Contract Prices:	After the Phase I Period, fixed price per MWh for Energy from for STP Units 1 and 2 will be a 10% discount to the Weighted-Average Price for such hour.
Delivery Point:	STP Facility Busbar.
Credit Support:	None for either Seller or Buyer, provided that Seller's total indebtedness and liens will each not exceed $350,000,000 (the "Debt and Lien Limits"); provided that, if Seller exercises the San Antonio Right of First Refusal, the Debt and Lien Limits shall be increased to $425,000,000.
Allocation of Available Energy:	In the event of a forced outage or derate of Unit 1 or Unit 2 of STP or other event that excuses Seller's failure to sell and deliver under the definition of the "Unit Firm" product, Seller's share of all Energy generated by Unit 1 and Unit 2 in any hour in excess of Seller's firm commitments for such hour (with such excess being multiplied by the 2008 Fraction if such hour occurs in 2008) (the "Available Energy") shall be delivered by Seller to Buyer until the Contract Energy

	for such hour is delivered. "2008 Fraction" means, for any hour in 2008, a fraction, the numerator of which is the Contract Quantity for such hour and the denominator of which is the sum of the Contract Quantity for such hour and Seller's other other-than-firm commitments for such hour.
Documentation:	EEI Master Agreement and Confirm, including the modification to Section 1.23 of the EEI Master Agreement included in the Aron Confirm.
Services Agreement:	As addressed in the Transaction Agreement, the parties will also negotiate a services agreement under which Buyer, as agent (on terms to be mutually agreed), will provide energy dispatch and coordination services for Seller, administer PUC-mandated capacity auctions, market excess capacity for sale by Seller to third parties and assist Seller generally in managing its trading business. For this service, Seller will pay Buyer a monthly fee at cost. Seller may terminate this services agreement for cause and at any time after a termination of the Transaction Agreement prior to the closing of the STP Acquisition.
Excess Product Sales after Trade Date:	Seller will be permitted to sell capacity, Energy and related products of STP Units 1 and 2 in accordance with PUC-mandated auctions. In addition, all capacity, Energy and related products of STP Units 1 and 2 in excess of the Contract Quantity ("Excess Products") may be sold by Seller to third parties subject to the following: 1. Seller may not make firm forward sales (including sales of capacity) of Excess Products or any partial quantity of Excess Products on a more than month-ahead basis at any time, except that, in 2008, such restriction on Excess Product sales will be capped at 150 MW. 2. In the event of an outage or derate of either or both STP units, Seller shall not make any additional firm forward sales (including sales of capacity) until the relevant unit or units are restored to full capacity.

Governmental and Environmental Charges:	Seller will receive reimbursement for new Governmental and Environmental Charges to the extent Buyer is able to recover such charges in connection with its Energy and capacity sales in the South zone (or equivalent designation).
Discussion of Additional Products:	In the event that, pursuant to Acquired Commitments (other than the Aron PPA), Buyer is required to provide a product that is not currently required to be provided under the Acquired Commitments, may not be satisfied with firm Energy (such as, for example, a product that requires identification of a dedicated unit) and does not arise out of any amendment, waiver or other modification of the Acquired Commitments on or after the Trade Date, Seller shall, upon request of Buyer, in good faith meet with Buyer to discuss providing such product to Buyer (provided, for the avoidance of doubt, that "good faith" shall not require Seller to consider any product that would, in effect, require Seller to accept an obligation to deliver Energy on a basis that is more firm than the product contemplated by this Term Sheet or cause Seller to incur any cost or adverse effect).

Attachment 2

2003 Annual Report (Form 10-K) for Texas Genco Holdings, Inc.

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 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 1-31449

Texas Genco Holdings, Inc.

(Exact name of registrant as specified in its charter)

Texas *(State or other jurisdiction of incorporation or organization)*	**76-0695920** *(I.R.S. Employer Identification Number)*
1111 Louisiana **Houston, Texas 77002** *(Address and zip code of principal executive offices)*	**(713) 207-1111** *(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

The aggregate market value of the voting stock held by non-affiliates of the Company was $353,182,653 as of June 30, 2003, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers. As of February 29, 2004, the Company had 80,000,000 shares of Common Stock outstanding.

Portions of the definitive proxy statement relating to the 2004 Annual Meeting of Shareholders of the Company, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2003, are incorporated by reference in Item 10, Item 11, Item 12, Item 13 and Item 14 of Part III of this Form 10-K.

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

Some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements are described under "Risk Factors" beginning on page 18 in Item 1 of this report.

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

PART I

Item 1. ***Business.***

OUR BUSINESS

General

We are a wholesale electric power generating company that owns 60 generating units at 11 electric power generation facilities located in Texas. We also own a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating station with two 1,250 megawatt (MW) nuclear generating units. As of December 31, 2003, the aggregate net generating capacity of our portfolio of assets was 14,153 MW, of which 2,988 MW of gas-fired capacity was mothballed. We sell electric generation capacity, energy and ancillary services within the Electric Reliability Council of Texas, Inc. (ERCOT) market. The ERCOT market consists of the majority of the population centers in the State of Texas and facilitates reliable grid operations for approximately 85% of the demand for power in the state.

In June 1999, the Texas legislature enacted legislation (Texas electric restructuring law) which substantially amended the regulatory structure governing electric utilities in Texas in order to encourage retail electric competition. Under the Texas electric restructuring law, we ceased to be subject to traditional cost-based regulation. Since January 1, 2002, we have been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. Accordingly, our historical financial information and operating data, such as demand and fuel data, covering periods prior to 2002 do not reflect what our financial position, results of operations and cash flows would have been had our generation facilities been operated during those periods under the current deregulated ERCOT market.

As a result of requirements under the Texas electric restructuring law and agreements with our parent company, CenterPoint Energy, Inc. (CenterPoint Energy), we were obligated to sell substantially all of our capacity and related ancillary services through 2003 pursuant to capacity auctions. In these auctions, we sell firm entitlements to capacity and ancillary services on a forward basis dispatched within specified operational constraints. In our capacity auctions held through February 2004, we sold entitlements to 85% and 24% of our available capacity for 2004 and 2005, respectively. For more information regarding our auctions, please read "Capacity Auctions and Opportunity Sales" below.

Texas Genco Holdings, Inc. (Texas Genco) is an indirect majority owned subsidiary of CenterPoint Energy. Our portfolio of generation facilities was formerly owned by the unincorporated electric utility division of Reliant Energy, Incorporated (Reliant Energy), the predecessor of CenterPoint Energy Houston Electric, LLC (CenterPoint Houston). CenterPoint Houston is an indirect wholly owned subsidiary of CenterPoint Energy. Reliant Energy conveyed these facilities to us in accordance with a business separation plan adopted in response to the Texas electric restructuring law. For convenience, we describe our business in this report as if we had owned and operated our generation facilities prior to the date they were conveyed to us. On January 6, 2003, CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of Texas Genco's common stock to CenterPoint Energy's common shareholders. CenterPoint Energy now indirectly owns approximately 81% of the outstanding shares of Texas Genco's common stock. For more information, please read "Background of the Distribution of Texas Genco Shares" below. CenterPoint Energy expects to monetize its 81% interest in Texas Genco in 2004, which could involve the sale of all or a portion of its equity interest in Texas Genco. Pursuant to its plan, CenterPoint Energy has engaged a financial advisor and has solicited indications of interest from a number of potential buyers.

CenterPoint Energy is a registered holding company under the Public Utility Holding Company Act of 1935, as amended (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 October 2003, the Federal Energy Regulatory Commission (FERC) granted exempt wholesale generator status to Texas Genco, LP, our wholly owned subsidiary that owns and operates our electric generating plants. As a result, we are exempt from substantially all provisions of the 1935 Act as long as we remain an exempt wholesale generator.

Texas Genco was incorporated in Texas in August 2001. Our executive offices are located at 1111 Louisiana, Houston, Texas 77002, and our telephone number is (713) 207-1111. The generating assets of Texas Genco are owned and operated by Texas Genco, LP, its indirect wholly owned subsidiary. In this report, the terms "we," "us" or similar terms mean Texas Genco and its subsidiaries, unless the context indicates otherwise, while references to Texas Genco mean only the parent company.

We make available free of charge on our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC. Additionally, we make available free of charge on our Internet website:

- our Code of Ethics for our Chief Executive Officer and Senior Financial Officers;
- our Ethics and Compliance Code;
- our Corporate Governance Guidelines; and
- the charters of our audit and compensation committees.

Any shareholder who so requests may obtain a printed copy of any of these documents from us. Changes in or waivers of our Code of Ethics for our Chief Executive Officer and Senior Financial Officers and waivers of our Ethics and Compliance Code for directors or executive officers will be posted on our Internet website within five business days and maintained for at least twelve months or reported on Item 10 of our Forms 8-K. Our website address is *www.txgenco.com.*

The ERCOT Market

The ERCOT market consists of the State of Texas, other than a portion of the panhandle, a portion of the eastern part of the state bordering on Louisiana and the area in and around El Paso. The ERCOT market represents approximately 85% of the demand for power in Texas and is one of the nation's largest power markets. The ERCOT market includes an aggregate net generating capacity of approximately 78,000 MW. There are only limited direct current interconnections between the ERCOT market and other power markets in the United States.

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

The amount by which power generating capacity exceeded peak demand (reserve margin) in the ERCOT market has exceeded 30% since 2001, and the Texas Utility Commission and the ERCOT ISO have forecasted the reserve margin for 2004 to continue to exceed 30%. The commencement of commercial operation of new facilities in the ERCOT market will increase the competition within the wholesale power market, which could have a material adverse effect on our business, results of operations, financial condition and cash flows and the market value of our assets. The demand for power in the ERCOT market is seasonal, with higher demand occurring during the warmer months.

Since January 1, 2002, any wholesale producer of electricity that qualifies as a "power generation company" under the Texas electric restructuring law and that can access the ERCOT electric grid is allowed to sell power in the ERCOT market at unregulated rates. Transmission capacity, which may be limited, is needed to effect power sales. In the ERCOT market, buyers and sellers enter into bilateral wholesale capacity, energy and ancillary services contracts or may participate in the centralized ancillary services market, which the ERCOT ISO administers. Also, companies whose power generation facilities were formerly part of integrated utilities, like us, are required to auction entitlements to 15% of their capacity. For additional information regarding these auctions, please read "Capacity Auctions and Opportunity Sales — State-mandated Auctions" below. Wholesale buyers and sellers may also engage in spot market transactions in the ERCOT market.

The transmission capacity available in the ERCOT market affects power sales. The power transfer from generators to meet demand across a transmission line is limited by the transfer capability of the line. Therefore, power sales or purchases from one location to another may be constrained by the power transfer capability between locations. A transmission path with significant power flow, the loss of which may cause system reliability problems, is identified as a commercially significant constraint. When scheduled power transfers across transmission facility elements exceed the transfer capability of such elements, the transmission facility is constrained and transmission congestion is declared by the ERCOT ISO. Transmission congestion is then resolved through the use of ancillary services and unit specific deployments to reduce the transfer across the constrained facility. With the addition of new loads, generators and transmission facilities and the re-rating of older facilities, the commercially significant constraints and transfer capabilities can change. Under current protocol, the commercially significant constraints and the transfer capabilities along these paths are reassessed every year. The single control area of the ERCOT market for 2004 is organized into five congestion zones. The reserve margins may vary by congestion zone. The ERCOT ISO has also instituted direct assignment of congestion cost to those parties causing the congestion. This has the potential to increase the power generator's exposure to the congestion costs associated with transferring power between zones. The Texas Utility Commission has initiated a rulemaking project that proposes to replace the existing zonal wholesale market design with a nodal market design that is based on locational marginal prices for power. One of the stated purposes of the proposed market restructuring is to reduce local (intra-zonal) transmission congestion costs. The market redesign project is expected to take effect in late 2006 at the earliest. We expect that implementation of any new market design will require modifications to our procedures and systems, and will have a potential impact on our staffing. We do not expect our competitive position in the ERCOT market will be adversely affected by the proposed market restructuring.

Capacity Auctions and Opportunity Sales

State-mandated Auctions

As a power generation company that has been unbundled from an integrated electric utility, we are required by the Texas electric restructuring law to sell at auction firm entitlements to 15% of our installed generation capacity on a forward basis for varying terms of up to two years. We refer to the auctions held to satisfy this requirement as "state-mandated auctions." Our obligation to conduct state-mandated auctions will continue until January 1, 2007, unless before that date the Texas Utility Commission determines that loads equal to or exceeding 40% of the electric power consumed in 2000 before the onset of retail competition in Texas by residential and small commercial customers in CenterPoint Houston's service area are being served by retail electric providers not affiliated or formerly affiliated with CenterPoint Energy. Reliant Resources, Inc. (Reliant Resources) is deemed to be an affiliate of CenterPoint Energy for purposes of this test. Reliant Resources is currently not permitted under the Texas electric restructuring law to purchase capacity sold by us in the state-mandated auctions.

The capacity entitlements we are required to offer in the state-mandated auctions are determined by rules adopted by the Texas Utility Commission. Under these rules, we are required to sell entitlements to 15% of our installed generation capacity in blocks of 25 MW each. Texas Utility Commission rules require 50% of the 25 MW blocks we sell in these auctions to consist of one-month allocations, or "strips," 30% to consist of one-

year strips, and 20% to consist of two-year strips. Purchasers of our capacity entitlements offered in the state-mandated auctions may resell them to third parties, other than Reliant Resources. We only auction entitlements to capacity dispatched within specified operational constraints to specific zonal delivery points and the entitlements do not convey any right to have power dispatched from a specific generating unit. This enables us to dispatch our commitments in the most cost-effective manner available. This also exposes us to the potential risk that in the event one of our low-cost base-load facilities is shut down, we may be required to satisfy our commitments with the output of higher cost facilities or with replacement power purchased from third parties in the open market. Additionally, like other power generating companies within ERCOT, we are required to purchase power from certain qualifying facilities under the Public Utility Regulatory Policies Act of 1978 at avoided cost.

The types of capacity entitlements we offer in our state-mandated auctions include:

- base-load entitlements, representing our solid fuel, nuclear powered and certain gas-fired generation capacity, that provide energy at a relatively low fixed price and include limited ancillary service capabilities;
- intermediate entitlements, representing various gas-fired generation capacity, that provide energy indexed to natural gas prices and at a specified heat rate and include flexible ancillary service capabilities;
- cyclic entitlements, representing various other gas-fired generation capacity, that provide energy indexed to natural gas prices and at a specified heat rate and include flexible ancillary service capabilities; and
- peaking entitlements, representing various smaller gas-fired generation capacity, that provide energy indexed to natural gas prices and at a specified heat rate and include limited ancillary service capabilities.

Each of these categories of capacity entitlements is generally designed to have operating characteristics similar to the assumed underlying generating units. For example, base-load entitlements can be started once a month, whereas cyclic entitlements can be started up to 20 times a month.

Contractually-mandated Auctions

Through 2003, we were contractually obligated under an agreement with Reliant Resources to auction entitlements to substantially all of our capacity (less operating reserves) available after our state-mandated auctions. We were permitted to reduce the amount of capacity sold in the contractually-mandated auctions by the amount of operating reserves required to back up our obligations under our capacity auctions. We typically reserve 1,250 MW of our capacity, including 750 MW of base-load capacity, as operating reserves, which can be sold as interruptible power on a system-contingent basis.

Through 2003, Reliant Resources had the contractual right, but not the obligation, to purchase 50% (but not less than 50%) of each type of capacity entitlement we auctioned in the contractually-mandated auctions at the prices established in the auctions. Upon determination of the prices for the capacity entitlements, Reliant Resources was obligated to purchase the capacity it elected to reserve from the auction process at the prices set during the auction for that entitlement. In addition to its reservation of capacity, and whether or not it had reserved capacity in the auction, Reliant Resources was entitled to bid for entitlements in each contractually-mandated auction.

Since Reliant Resources chose not to exercise its option to purchase the shares of Texas Genco's common stock owned by CenterPoint Energy in January 2004, we are no longer obligated to conduct any capacity auctions, other than as required by the Texas Utility Commission's rules. We may continue to sell our capacity in a manner similar to such contractually-mandated auctions as well as seek sales under bilateral contracts for a portion of our capacity in the future. As described below under "— Auction Results," we have made significant forward sales of our 2004 and 2005 capacity pursuant to our auctions.

Auction Pricing Methodology

Revenues derived from our capacity auctions come from two sources: capacity payments and energy payments. Capacity payments are based on the final clearing prices, in dollars per kilowatt-month, determined during the auctions. We bill and collect for these capacity payments on a monthly basis just prior to the month of the entitlement. Energy payments consist of a variety of charges related to the fuel and ancillary services scheduled through our auctioned capacity entitlements. Energy payments for base-load products are tied to fixed prices specified in the auction products while energy payments for gas-based products are recovered through heat rates specified for gas auction products times an index based on the Houston Ship Channel Gas price. Additional charges, referred to as "adders," are included in the energy payments to cover additional costs we incur when we are required to operate our facilities at less efficient operating ranges. We bill for these energy payments on a monthly basis in arrears.

Auction Results

We sold 91% of our available capacity for 2003 through state-mandated auctions and contractually-mandated auctions. In our capacity auctions held through February 2004, we have sold 85% and 24% of our available capacity for 2004 and 2005, respectively. As a result, we have contracted for approximately $1 billion of total revenue with respect to our 2004 capacity and approximately $533 million of total revenue with respect to our 2005 capacity. Our available capacity equals our total net generating capacity less capacity withheld as operating reserves and capacity that is subject to planned outages. Of the 2,988 MW of capacity that we have "mothballed", 2,062 MW were included in our available capacity only for the months of May through September 2003. Reliant Resources purchased 78% of our sold 2003 capacity and, through February 2004, had purchased 79% and 68% of our sold 2004 and 2005 capacity, respectively. We will hold additional auctions to sell our remaining available capacity for 2004 as well as capacity for subsequent years.

In 2003, the market-based prices established in our capacity auctions continued to strengthen. Higher gas prices throughout 2003 positively influenced the prices established in our recent capacity auctions. Generally, higher gas prices increase the capacity prices for our base-load entitlements since natural gas is the marginal fuel for facilities serving the ERCOT market during most hours.

Opportunity Sales

In addition to our capacity auctions, from time to time we sell energy on a short-term basis from the generating capacity we use as operating reserves. Any significant unforeseen outage at our base-load or other facilities could adversely impact revenues generated by these sales. We seek to maximize our opportunity sales by seeking to optimize the dispatching of the various facilities in our generating portfolio. For example, we can meet the gas-fired auction products (intermediate, cyclic and peaking) with generation from our lower cost base-load operating reserves when they are available, since entitlements to our auction products convey no right to specific units. Thus, the availability of our base-load capacity has a significant impact on the level of these opportunity sales through the course of the year.

Our Generation Portfolio

Overview

We own 60 generating units at 11 electric power generation facilities located in Texas. We also own a 30.8% interest in the South Texas Project, a nuclear generating plant consisting of two 1,250 MW generating units. As of December 31, 2003, the aggregate net generating capacity of our combined portfolio of generation assets was 14,153 MW, which represents over 18% of the total net generating capacity serving the ERCOT market.

Summary of Our Generation Facilities (As of December 31, 2003)

Generation Facilities	Net Generating Capacity (in MW)(1)	Number of Units	Dispatch Type	Fuel
W. A. Parish	3,653	9	Base-load, Intermediate, Cyclic, Peaking	Coal/Gas
Limestone	1,602	2	Base-load	Lignite
South Texas Project	770(2)	2	Base-load	Nuclear
Cedar Bayou	2,258	3	Intermediate	Gas/Oil
P. H. Robinson	2,211(3)	4	Intermediate	Gas
San Jacinto	162	2	Intermediate	Gas
T. H. Wharton	1,254(4)	18	Intermediate, Cyclic, Peaking	Gas/Oil
S. R. Bertron	844	6	Cyclic, Peaking	Gas/Oil
Greens Bayou	760	7	Cyclic, Peaking	Gas/Oil
Webster	387(4)	2	Cyclic, Peaking	Gas
Deepwater	174(4)	1	Cyclic	Gas
H. O. Clarke	78	6	Peaking	Gas
Total	14,153	62		

(1) Net generating capacity equals gross maximum summer generating capability less the electric energy consumed at the facility.

(2) Represents our 30.8% interest in the South Texas Project.

(3) All four units at P.H. Robinson are expected to be mothballed through April 2005.

(4) Webster Unit 3 (374 MW), T.H. Wharton Unit 2 (229 MW) and Deepwater Unit 7 (174 MW) are expected to be mothballed through at least April 2004.

Mothballed Facilities

As of December 31, 2003, approximately 2,988 MW of our gas-fired generation capacity was mothballed. We expect that 777 MW of this amount will remain mothballed through April 2004 and the other 2,211 MW will remain mothballed through April 2005. The decision to mothball these units was based on the lack of demand for these types of units in our July and September 2003 capacity auctions combined with high forecasted reserve margins in the ERCOT market.

Base-load and Intermediate Facilities

W.A. Parish. Our W.A. Parish facility is the largest coal and gas-fired power facility in the United States based on total MW of net generating capacity. The facility consists of a coal-fired plant and a gas-fired plant each located near Thompsons, Texas. The coal-fired plant includes four steam generating units for base-load service with an aggregate net generating capacity of 2,462 MW. Two of these units are 646 MW steam units that were placed in commercial service in December 1977 and December 1978, respectively. The other two units are 560 MW and 610 MW steam units that were placed in commercial service in June 1980 and December 1982, respectively.

The gas-fired plant includes five generating units with an aggregate net generating capacity of 1,191 MW. Two of these units are 174 MW steam units that were placed in commercial service in June 1958 and December 1958, respectively. These units were converted for daily cyclic operation and the life of the units was extended in 1990 and 1991. The third unit at this plant is a 278 MW steam unit that was placed in commercial service in March 1961. These three units provide cyclic capacity. The fourth unit is a 552 MW steam unit for intermediate service that was placed in service in June 1968. This plant also has a 13 MW gas

turbine generator unit available for peaking and emergency start-up purposes that was placed in service in July 1967.

Limestone. Our Limestone facility is a lignite-fired base-load facility located approximately 120 miles northwest of Houston. This plant includes two steam generating units with an aggregate net generating capacity of 1,602 MW. The first unit is an 836 MW steam unit that was placed in commercial service in December 1985. The second unit is a 766 MW steam unit that was placed in commercial operation in December 1986.

Cedar Bayou. Our Cedar Bayou facility is a gas and oil-fired intermediate facility located east of Baytown, Texas. This plant includes three generating units with an aggregate net generating capacity of 2,258 MW. The units are 750 MW, 748 MW and 760 MW steam units that were placed in service in December 1970, March 1972 and December 1974, respectively.

P.H. Robinson. Our P.H. Robinson facility is a gas-fired intermediate facility located east of San Leon, Texas. This plant consists of four steam generating units with an aggregate net generating capacity of 2,211 MW. Two of the units are 461 MW units that were placed in service in June 1966 and April 1967, respectively. The third unit is a 552 MW unit that was placed in service in December 1968. The fourth unit is a 737 MW unit that was placed in service in December 1973. This plant is in mothball status through April 2005.

San Jacinto. Our San Jacinto facility is a 162 MW gas-fired intermediate facility located in LaPorte, Texas that produces both steam and power. This plant includes two cogeneration units and associated equipment. Both units began commercial operation in April 1995. Each unit consists of a gas turbine that drives an air-cooled generator with the exhaust from the gas turbine being sent to a heat recovery steam generator.

Cyclic and Peaking Facilities

T.H. Wharton. Our T. H. Wharton facility is a gas and oil-fired intermediate, cyclic and peaking facility located in Houston. This plant consists of 18 steam and gas turbine units with an aggregate net generating capacity of 1,254 MW. This facility includes a 229 MW steam unit for cyclic service that was placed in commercial operation in June 1960 and a 13 MW small gas turbine unit for peaking service that was placed in commercial operation in July 1967. In addition, six 57 MW gas turbines were placed in service at this facility in July 1972. An additional two 57 MW gas turbines and two 104 MW steam turbines were installed in August 1974 and were combined with the six gas turbines already in service to develop two combined cycle units for intermediate service. An additional six 58 MW gas turbines for peaking service were placed in service in November 1975. The 229 MW steam unit is in mothball status through April 2004.

S.R. Bertron. Our S.R. Bertron facility is a gas and oil-fired cyclic and peaking facility located in Deer Park, Texas. This plant consists of four steam electric generating units, one auxiliary boiler for cyclic operations, and two gas turbine generators with an aggregate net generating capacity of 844 MW. The first two units at this plant are 174 MW steam units for cyclic service that commenced commercial operation in April 1956 and March 1958, respectively. Both of these units underwent cyclic conversion and life extension in 1989 and 1990. The third and fourth units at this plant are 230 MW steam units that commenced commercial operation in April 1959 and March 1960, respectively. Both of these units are capable of swinging from an overnight minimum of 40 MW to their rated maximum capacity during peak load hours. This facility also has a 23 MW gas turbine generator and a 13 MW gas turbine generator. Both of these units provide peaking service and commenced commercial operation in July 1967.

Greens Bayou. Our Greens Bayou facility is a gas and oil-fired cyclic and peaking facility located northeast of Houston. This plant consists of one 406 MW steam turbine unit, three 54 MW gas turbine units and three 64 MW gas turbine units and has an aggregate net generating capacity of 760 MW. The 406 MW steam turbine unit provides cyclic service and was placed in commercial service in June 1973. The six gas turbine units provide peaking service and were placed in commercial service in December 1976.

Webster. Our Webster facility is a gas-fired cyclic and peaking facility located southeast of Houston between the towns of Webster and League City. This plant has two units with an aggregate net generating capacity of 387 MW. One of these units is a 374 MW steam unit for cyclic service that was placed in service in May 1965 and the other is a 13 MW gas turbine for peaking service that was placed in commercial operation in July 1967. The 374 MW steam unit is in mothball status through April 2004.

Deepwater. Our Deepwater facility is a gas-fired cyclic facility located in southeastern Harris County, Texas. This facility consists of a 174 MW steam unit that commenced commercial operation in 1955 and underwent a life extension and conversion for cyclic operation in 1992. This unit is in mothball status through April 2004.

H.O. Clarke. Our H.O. Clarke facility is a gas-fired peaking facility located in Houston that began operation in 1943. This plant currently consists of six simple-cycle air-cooled gas turbine generating units with an aggregate net generating capacity of 78 MW that were placed in service in June 1968.

South Texas Project

General. The South Texas Project is one of the largest nuclear powered generating facilities in the United States based on total MW of net generating capacity. This facility is located near Bay City, Texas and consists of two 1,250 MW generating units, the first of which commenced operation in August 1988 and the second in June 1989. We own a 30.8% interest in the South Texas Project and bear a corresponding 30.8% share of the capital and operating costs associated with the project. The South Texas Project is owned as a tenancy in common among us and three other co-owners. Each co-owner retains its undivided ownership interest in the two nuclear-fueled generating units and the electrical output from those units. We and the other three co-owners organized STP Nuclear Operating Company (STPNOC) to operate and maintain the South Texas Project. STPNOC is managed by a board of directors composed of one director appointed by each of the co-owners, along with the chief executive officer of STPNOC.

The two South Texas Project generating units operate under licenses granted by the Nuclear Regulatory Commission (NRC) that expire in 2027 and 2028. These licenses could potentially be extended for additional twenty-year terms if the project satisfies NRC requirements.

Right of First Refusal. In early March 2004, one of the other co-owners of the South Texas Project announced it had entered into an agreement to sell its 25.2% ownership interest for approximately $332.6 million, subject to certain closing adjustments. As a result, under the terms of the ownership arrangements for the South Texas Project, we have the right of first refusal to purchase our proportionate share of the interest being sold on the same terms as the third party purchaser, but we must give notice of our election within ninety days.

Decommissioning Trusts. CenterPoint Houston has been authorized to collect $2.9 million per year from customers using its transmission and distribution services and is obligated to deposit the amount collected into external trusts created to fund our 30.8% share of the decommissioning costs for the South Texas Project. As of December 31, 2003, the fair market value of the investments in the external trusts established to fund our 30.8% interest was $189 million.

In July 1999, an outside consultant estimated our 30.8% share of the decommissioning costs to be approximately $363 million in 1998 dollars. The consultant's calculation of decommissioning costs for financial planning purposes used the "DECON" methodology, one of the three alternatives acceptable to the NRC, and assumed deactivation of the project's two generating units upon the expiration of their 40-year operating licenses. The DECON methodology involves removal of all radioactive material from the site following permanent shutdown. The facility operator may then have unrestricted use of the site with no further requirement for a license. The consultant's calculation also assumed that the remainder of the plant systems and structures on site, not previously removed in support of license termination, are dismantled and the site restored.

The owners of the South Texas Project must provide a report on the status of decommissioning funding to the NRC every two years. The report compares external trust funding levels to minimum decommissioning

amounts calculated in accordance with NRC requirements. We first determine our decommissioning cost estimate by escalating the NRC's estimated decommissioning cost of $105 million per unit, expressed in 1986 dollars, for the effects of inflation between 1986 and the recent year-end and then multiplying by 30.8% to reflect our share of each unit of the South Texas Project. We then use this estimate to determine the minimum required level of funding as of the most recent year-end. The calculation of the NRC minimum funding level reflects that funding of the external trusts occurs over the operating lives of the generating units. Therefore, the minimum funding level is generally less than the estimated decommissioning cost. The last report was submitted to the NRC in March 2003 and showed that, as of December 31, 2002, the aggregate NRC minimum funding level was $70.2 million. While the trusts' funding levels have historically exceeded minimum NRC funding requirements, we cannot assure you that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. These costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment.

The investment of the funds in the external trusts is managed in accordance with applicable laws and regulations and by a committee composed of our representatives and representatives of CenterPoint Energy. Pursuant to the terms of an agreement between Reliant Energy and Reliant Resources and the applicable NRC regulations, the responsibility for the decommissioning trusts transferred to us at the time of Reliant Energy's corporate restructuring. In the event that funds from the trusts are inadequate to decommission the facilities, CenterPoint Houston will be required to collect through rates or other authorized charges all additional amounts required to fund our obligations relating to the decommissioning of the South Texas Project. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trusts, the excess will be refunded to the rate payers of CenterPoint Houston or its successor.

Technical Services and Support Facilities

We have a central support facility that we use to support our generation facilities that we refer to as our "EDC facility." This facility includes office space, a maintenance shop, a chemical lab, a warehouse facility and a fleet maintenance garage. Reliant Resources leases a portion of this facility from us.

Under a technical services agreement, Reliant Resources is obligated to provide engineering and technical support services and certain environmental, safety and industrial health services to support the operation and maintenance of our facilities. We have notified Reliant Resources that its obligation to provide these support services will be terminated effective May 31, 2004. Under the agreement, Reliant Resources is also obligated to provide systems, technical, programming and consulting support services and hardware maintenance, excluding plant-specific hardware, necessary to provide generation system planning, dispatch, and settlement and communication with the ERCOT ISO. A project is currently underway to identify manpower requirements, evaluate systems alternatives, define costs and develop time lines for replacement of those services considered necessary under the current overall technical services agreement with Reliant Resources. We paid Reliant Resources approximately $28.4 million for providing these services during 2003. The technical services agreement will terminate upon the sale of CenterPoint Energy's interest in Texas Genco.

Fuel Supplies

We rely primarily on natural gas, coal, lignite and uranium to fuel our generation facilities. The fuel mix of our generating portfolio, based on actual fuel usage during 2003, was approximately 52% coal and lignite, 21% natural gas, and 27% nuclear for the year 2003. As of December 31, 2003, the fuel mix of our generating portfolio based on the capacity of our facilities including mothballed capacity was approximately 66% natural gas, 29% coal and lignite and 5% nuclear. Based on our current assumptions regarding the cost and availability of fuel, plant operation schedules, load growth, load management and the impact of environmental regulations, we do not expect the mix of fuel used by our generating portfolio will vary materially during 2004 from 2003. We substantially collect the underlying cost of fuel through energy payments. As a result of new air emissions

standards imposed by federal and state law, we anticipate having additional costs for certain environmental equipment in 2004 and subsequent years.

Natural Gas

We have long-term natural gas supply contracts with several suppliers. Substantially all of our long-term contracts contain pricing provisions based on fluctuating spot market prices. In 2003, we purchased approximately 50% of our natural gas requirements under these long-term contracts. We purchased the remaining 50% of our natural gas requirements in 2003 on the spot market. Based on current market conditions, we believe we will be able to replace the supplies of natural gas covered under our long-term contracts when they expire with gas purchased on the spot market or under new long-term or short-term contracts. Our natural gas consumption and cost information for 2003 was as follows:

2003 average daily consumption	311 Bbtu(1)
2003 peak daily consumption	942 Bbtu
2003 average cost of natural gas	$5.59 per MMBtu(2)

(1) Billion British thermal units, or "Bbtu."

(2) Compared to $3.32 per million British thermal units, or "MMBtu," in 2002 and $4.28 per MMBtu in 2001.

We lease gas storage facilities capable of storing 6.3 billion cubic feet of natural gas, of which 4.2 billion cubic feet is working capacity. We use these storage facilities to assist us in:

- managing the volatility of the gas requirements of our generating facilities;
- meeting the gas requirements of our generating facilities during periods of inadequate gas supplies; and
- managing our gas-related costs.

Our natural gas requirements are generally more volatile than our other fuel requirements because we use natural gas to fuel our intermediate, cyclic and peaking facilities and other more economical fuels to fuel our base-load facilities. Since our intermediate and peaking facilities are dispatched to meet the variations of demand for electricity, our gas requirements are highly variable, on both an hour-to-hour and day-to-day basis. Although natural gas supplies have been sufficient in recent years to supply our generating portfolio, available supplies are subject to potential disruption due to weather conditions, transportation constraints and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time or prices may increase rapidly in response to temporary supply constraints or other factors.

Coal and Lignite

In 2003, we purchased approximately 80% of the fuel requirements for our four coal-fired generating units at our W.A. Parish facility under two fixed-quantity long-term supply contracts scheduled to expire in 2010 and 2011. The price for coal under the first contract was tied to spot market prices in 2003. The price for coal under the second contract was at a level approximately three times greater than the spot market prices for coal as of December 31, 2003. The second contract does not contemplate future prices being tied to spot market prices. The terms of this contract result from the market conditions in effect during the 1970's when the contract was entered into, including shortages of natural gas supplies, increased demand for low sulfur coal as a result of new environmental regulations and uncertainty regarding the future availability of long-term sources of coal supply. We purchase our remaining coal requirements for our W.A. Parish facility under short-term contracts. We have long-term rail transportation contracts with Burlington Northern Santa Fe Railroad and the Union Pacific Railroad Company to transport coal to our W.A. Parish facility. Despite the higher coal prices under these long-term contracts, our fuel costs associated with producing energy from our coal-fired facilities are, based on recent natural gas prices, significantly lower than the fuel costs associated with producing energy from our gas-fired facilities.

We obtain the lignite used to fuel the two generating units of our Limestone facility from a surface mine adjacent to the facility. We own the mining equipment and facilities and a portion of the lignite reserves located at the mine. Mining operations are conducted by the owner of the remaining lignite reserves. In the past, we have obtained our lignite requirements under a long-term contract on a cost-plus basis. Since July 2002, we have obtained our lignite requirements under an amended long-term contract with the owner/operator at a fixed price determined annually that is expected to result in a cost of generation at the Limestone facility equivalent to the cost of generating with low sulfur Western coal. We expect the lignite reserves will be sufficient to provide all of the lignite requirements of this facility through 2015.

We used a blend of lignite and Wyoming coal to fuel our Limestone facility in 2003 as a component of our oxides of nitrogen (NOx) control strategy. A fuel unloading and handling system was installed at the Limestone facility to accommodate the delivery of Wyoming coal. We expect that we will obtain Wyoming coal through spot and long-term market priced contracts. Our Limestone facility is connected with the Burlington Northern Santa Fe Railroad.

Nuclear

The South Texas Project satisfies its fuel supply requirements by acquiring uranium concentrates, converting uranium concentrates into uranium hexafluoride, enriching uranium hexafluoride, and fabricating nuclear fuel assemblies. We are party to a number of contracts covering a portion of the fuel requirements of the South Texas Project for uranium, conversion services, enrichment services and fuel fabrication. Other than a fuel fabrication agreement that extends for the life of the South Texas Project, these contracts have varying expiration dates, and most are short to medium term (less than seven years). We believe that sufficient capacity for nuclear fuel supplies and processing exists to permit normal operations of the South Texas Project's nuclear powered generating units.

Fuel Pipeline

We own a 90-mile fuel pipeline that can transport either fuel oil or natural gas (86 miles oil or gas and 4 miles gas only). As part of our system, we own over six million barrels of oil storage capacity that can supply fuel oil to our Cedar Bayou, Greens Bayou, S.R. Bertron and T.H. Wharton plants. For natural gas supply, our pipeline is connected to six of our generation facilities and is interconnected with several of our suppliers. Our pipeline provides us with added flexibility in managing the fuel supply requirements of our generation facilities.

Joint Operating Agreement with City of San Antonio

We have a joint operating agreement with the City Public Service Board of San Antonio (CPS) to jointly dispatch our portfolio of generating units with CPS' portfolio of 4,823 MW of generating capacity as a joint operating system to meet our combined obligations. The combined system includes approximately 19,000 MW of generating capacity and provides us with added economies of scale and production cost savings. A large portion of the benefit of joint operations is due to San Antonio's significant amount of capacity at its coal-fired generation facilities. We share the fuel cost savings realized under the agreement with the City of San Antonio. We currently share the cost savings benefits equally with CPS. The current agreement with CPS expires in 2009. Both parties are permitted to sell their capacity outside of the joint operating system if it is economically prudent to do so, in which case the parties would lose the agreement's cost savings benefits with respect to those sales. The capacity of CPS' generating facilities covered by the joint operating agreement is not included in the capacity auctions described under "Capacity Auctions and Opportunity Sales" above.

Competition

The ERCOT market is highly competitive. We have approximately 80 competitors that include generation companies affiliated with Texas-based utilities, independent power producers, municipal or co-operative generators and wholesale power marketers. These competitors compete with each other and us by

buying and selling wholesale power in the ERCOT market, entering into bilateral contracts and/or selling to aggregated retail customers.

As of December 31, 2003, our facilities provided over 18% of the aggregate net generating capacity serving the ERCOT market. Our competition is based primarily on price but we also may compete based on product flexibility. A number of our competitors are building efficient, combined cycle power plants that are generally not able to provide the operational flexibility, ancillary services and fuel risk mitigation that our large diversified portfolio of generating facilities can provide. In addition, we believe that there may be significant excess generating capacity constructed in the ERCOT market over the next several years. This overbuilding could result in lower prices for wholesale power in the ERCOT market. For more information regarding this trend and other competitive factors in the ERCOT market, please read "The ERCOT Market" above and "Risk Factors — Market Risks" below.

Customers

Since January 1, 2002, we have sold power to wholesale purchasers, including retail electric providers, at unregulated rates through our capacity auctions. In addition to retail electric providers, our customers in the ERCOT market include municipal utilities, electric co-operatives, power trading organizations and other power generating companies. We are also a significant provider to the ancillary services market operated by the ERCOT ISO. Sales to subsidiaries of Reliant Resources represented approximately 71% of our total revenues in 2003. We have been granted a security interest in accounts receivable and/or securitization notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to $250 million in purchase obligations.

Insurance

General

We carry insurance coverage consistent with companies engaged in similar commercial operations with similar properties. Our insurance coverage includes:

- general liability insurance, covering liabilities to third parties for bodily injury and property damage resulting from our operations;
- automobile liability insurance, for all owned, non-owned and hired vehicles, covering liabilities to third parties for bodily injury and property damage; and
- property insurance, subject to replacement cost of insured real and personal property, including coverage for boiler and machinery breakdowns, earthquake and flood damage, subject to certain sublimits.

We also maintain substantial excess liability insurance coverage above the established primary limits for general liability and automobile liability insurance. Limits and deductibles are comparable to those carried by other electric generation companies of similar size. However, our insurance policies are subject to certain limits and deductibles and do not include business interruption coverage. Adequate insurance coverage in the future may be more expensive or may not be available in the future on commercially reasonable terms. Also, the insurance proceeds received for any loss of or any damage to any of our generation facilities may not be sufficient to restore the loss or damage without negative impact on our financial condition, results of operations and cash flows.

Nuclear

We and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Under the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $10.6 billion as of December 31, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. We and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to $100.6 million per reactor. The owners are jointly and severally liable at a rate not to exceed $10 million per incident per year. In addition, the security procedures at this facility have been enhanced to provide additional protection against terrorist attacks.

We cannot assure you that all potential losses or liabilities associated with the South Texas Project will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material adverse effect on our financial condition, results of operations and cash flows.

Background of the Distribution of Texas Genco Shares

Under the Texas electric restructuring law, transmission and distribution utilities whose generation assets were "unbundled" pursuant to the law, including CenterPoint Houston, are entitled to recover their "stranded costs" associated with those assets. The Texas electric restructuring law defines stranded costs as the positive excess of the regulatory net book value of the utility's unbundled generation assets over the market value of those assets, after taking specified factors into account. The law allows alternate methods for establishing a market value for generation assets, including outright sale, full or partial stock market valuation and asset exchanges. Under Reliant Energy's business separation plan, Reliant Energy proposed that the fair market value of our generating assets would be determined using the partial stock market valuation method. CenterPoint Energy distributed 19% of Texas Genco's outstanding shares of common stock to its shareholders in order to establish a public market value for our shares that will be used in 2004 to calculate how much CenterPoint Houston will be able to recover as stranded costs and to comply with CenterPoint Energy's contractual obligations to Reliant Resources.

Beginning in January 2004, on a schedule established by the Texas Utility Commission, investor-owned utilities in Texas may file to commence true-up proceedings. CenterPoint Houston will make the filing to initiate its final true-up proceeding on March 31, 2004. One of the purposes of the true-up proceeding for CenterPoint Energy will be to quantify the amount of stranded costs associated with our generation assets. In the proceeding, the regulatory net book value of our generating assets will be compared to the market value based on the partial stock valuation method. The resulting difference, if positive, is stranded cost that will be recoverable by CenterPoint Houston either through a transition charge, which is a non-bypassable charge, or through a securitization of such cost. Texas Genco is not entitled to receive any payment or other benefits in connection with CenterPoint Houston's true-up proceeding. In the true-up proceeding, the market value of our assets will be based on the average daily closing price of Texas Genco's common stock on The New York Stock Exchange for the 30 consecutive trading days chosen by the Texas Utility Commission out of the last 120 days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission.

REGULATION

We are subject to regulation by various federal, state and local governmental agencies, including the regulations described below and under "The ERCOT Market," "Capacity Auctions and Opportunity Sales — State-mandated Auctions" and "Environmental Matters — Regulation" below.

Federal Energy Regulatory Commission

In October 2003, the FERC granted exempt wholesale generator status to Texas Genco, LP, our wholly owned subsidiary that owns and operates our electric generating plants. As a result, we are exempt from substantially all provisions of the 1935 Act as long as we remain an exempt wholesale generator.

Nuclear Regulatory Commission

We are subject to regulation by the NRC with respect to the operation of the South Texas Project. This regulation involves testing, evaluation and modification of all aspects of plant operation in light of NRC safety and environmental requirements. Continuous demonstrations to the NRC that plant operations meet applicable requirements are also required. The NRC has the ultimate authority to determine whether any nuclear powered generating unit may operate.

We and the other owners of the South Texas Project are required by NRC regulations to estimate from time to time the amounts required to decommission that nuclear generating facility and are required to maintain funds to satisfy that obligation when the plant ultimately is decommissioned. CenterPoint Houston currently collects through its electric rates amounts calculated to provide sufficient funds at the time of decommissioning to discharge these obligations. Funds collected are deposited into nuclear decommissioning trusts. The beneficial ownership of the decommissioning trusts is held by us, as a licensee of the facility. While current funding levels exceed NRC minimum requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and waste burial. In the event that funds from the trusts are inadequate to decommission the facilities, CenterPoint Houston will be required to collect through rates or other authorized charges additional amounts required to fund our obligations relating to the decommissioning of the South Texas Project. For additional information regarding the decommissioning trust, please read "Our Generation Portfolio — South Texas Project — Decommissioning Trusts" above.

ENVIRONMENTAL MATTERS

Regulation

We are subject to a number of federal, state and local laws and regulations relating to the protection of the environment and the safety and health of company personnel and the public. These requirements relate to a broad range of our activities, including:

- the discharge of pollutants into the air, water and soil;
- the identification, generation, storage, handling, transportation, disposal, record keeping, labeling and reporting of, and the emergency response in connection with, hazardous and toxic materials and wastes, including asbestos, associated with our operations;
- noise emissions from our facilities; and
- safety and health standards, practices and procedures that apply to the workplace and the operation of our facilities.

In order to comply with these requirements, we may need to spend substantial amounts and devote other resources from time to time to:

- construct or acquire new equipment;
- acquire permits and/or marketable allowance or other emission credits for facility operations;
- modify or replace existing and proposed equipment; and
- clean up or decommission waste disposal areas, fuel storage and management facilities, and other locations and facilities, including generation facilities.

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

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

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

Air Emissions

As part of the 1990 amendments to the Federal Clean Air Act, requirements and schedules for compliance were developed for attainment of health-based standards. In furtherance of the Act's requirements, standards for NOx emissions, a product of the combustion process associated with power generation, have been finalized by the Texas Commission on Environmental Quality ("TCEQ"). These TCEQ standards, as well as provisions of the Texas electric restructuring law, require substantial reductions in NOx emissions from electric generating units. We are currently installing cost-effective controls at our generating plants to comply with these requirements. As of December 31, 2003, we have invested $664 million for NOx emissions controls and are planning to make additional expenditures of $131 million through 2007. Further revisions to these NOx standards may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards.

In 1998, the United States became a signatory to the United Nations Framework Convention on Climate Change (Kyoto Protocol). The Kyoto Protocol calls for developed nations to reduce their emissions of greenhouse gases. Carbon dioxide, which is a major byproduct of the combustion of fossil fuel, is considered to be a greenhouse gas. In 2002, President Bush withdrew the United States' support for the Kyoto Protocol while endorsing voluntary greenhouse gas reduction measures. Congress has also explored a number of other alternatives for regulating domestic greenhouse gas emissions. If the country re-enters and the United States Senate ultimately ratifies the Kyoto Protocol and/or if the United States Congress adopts other measures for the control of greenhouse gases, any resulting limitations on power plant carbon dioxide emissions could have a material adverse impact on all fossil fuel-fired electric generating facilities, including those belonging to us.

In July 2002, the White House sent to the United States Congress a Bill proposing the Clear Skies Act, which is designed to achieve long-term reductions of multiple pollutants produced from fossil fuel-fired power plants. If enacted, the Clear Skies Act would target reductions averaging 70% for sulfur dioxide (SO_2), NOx and mercury emissions and would create a gradually imposed market-based compliance program that would come into effect initially in 2008 with full compliance required by 2018. Fossil fuel-fired power plants owned by companies such as us would be affected by the adoption of this program, or other legislation currently pending in Congress addressing similar issues. To comply with such programs, we and other regulated entities could pursue a variety of strategies, including the installation of pollution controls, purchase of emission allowances, or the curtailment of operations. To date, Congress has not enacted the Clear Skies Act.

In response to Congressional inaction on the proposed Clear Skies Act, the Environmental Protection Agency (EPA) in December 2003 proposed the Interstate Air Quality Rule, which would require reductions in NOx and SO_2 similar to those found in the Clear Skies Act. However, in contrast to the Clear Skies Act, the Interstate Air Quality Rule affects emissions in 29 states in the eastern U.S., including Texas. As with the Clear Skies Act, emissions are reduced in two phases, and the reduction targets are similar, but are effective in 2010 and 2015 for both NOx and SO_2. EPA has announced an intent to finalize these rules in late 2004 or early 2005.

In December 2003, EPA proposed two alternatives for regulating emissions of mercury from coal-fired power plants in the U.S. A final rulemaking is scheduled to be adopted in December 2004. Under the first option, the EPA would set Maximum Achievable Control Technology (MACT) standards under Section 112 of the Clean Air Act, which would require mercury reductions on a facility-by-facility basis regardless of cost. The MACT standard requires reductions to be achieved by 2008, although it is possible that this compliance date will be delayed. The second option would regulate coal-fired power plants under Section 111 of the Clean

Air Act. Under this option, similar mercury reductions would be achieved on a national scale through a cap-and-trade program, allowing reductions to be made at the most economical locations, and not requiring reductions on a facility-by-facility basis. The MACT standard would require a reduction of about 30% from coal-fired facilities, which will require the installation of control equipment. The cap-and-trade rule would require deeper reductions, but may be more economical because it allows trading of emissions among facilities. The mercury cap-and-trade rule would be accomplished in two phases, in 2010 and 2015, with reduction levels set at approximately 50% and 70%, respectively. The cost of complying with the final rules is not yet known but is likely to be material.

In addition to mercury control from coal-fired boilers, the MACT rule, if adopted, would require the control of nickel emissions from oil-fired facilities. At this point, the impact of this proposal is uncertain, but is not expected to significantly affect our operations.

The EPA has also issued MACT standards for sources other than boilers used for power generation. The MACT rule for combustion turbines was issued in August 2003 and there is no impact on our existing facilities. The MACT rulemaking for engines and industrial boilers was issued in February 2004. These rules are not expected to have a significant impact on Texas Genco's operations.

Water

On February 16, 2004, the EPA signed final rules under Section 316(b) of the Clean Water Act relating to the design and operation of existing cooling water intake structures. The requirements to achieve compliance with this rule are subject to various factors, including the results of anticipated litigation, but we currently do not expect any capital expenditures required for compliance to be material.

The EPA and State of Texas periodically modify water quality standards and, where necessary, initiate total maximum daily load allocations for water bodies not meeting those standards. Such actions could cause our facilities to incur significant costs to comply with revised discharge permit limitations.

Nuclear Waste

Under the U.S. Nuclear Waste Policy Act of 1982, the federal government was to create a federal repository for spent nuclear fuel produced by nuclear plants like the South Texas Project. Also pursuant to that legislation a special assessment has been imposed on those nuclear plants to pay for the facility. Consistent with the Act, owners of nuclear facilities, including us and the other owners of the South Texas Project, entered into contracts setting out the obligations of the owners and U.S. Department of Energy (DOE). Since 1998, DOE has been in default on its obligations to begin moving spent nuclear fuel from reactors to the federal repository (which still is not completed). On January 28, 2004, we and the other owners of the South Texas Project, along with owners of other nuclear plants, filed a breach of contract suit against DOE in order to protect against the running of a statute of limitations.

Asbestos

As a result of their age, many of our facilities contain significant amounts of asbestos insulation, other asbestos-containing materials and lead-based paint. Existing state and federal rules require the proper management and disposal of these potentially toxic materials. We have developed a management plan that includes proper maintenance of existing non-friable asbestos installations, and removal and abatement of asbestos containing materials where necessary because of maintenance, repairs, replacement or damage to the asbestos itself. We have planned for the proper management, abatement and disposal of asbestos and lead-based paint at our facilities.

Our facilities are the subject of a number of lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been third party workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by us. We anticipate that additional claims

like those received may be asserted in the future, and we intend to continue our practice of vigorously contesting claims that we do not consider to have merit.

EMPLOYEES

As of December 31, 2003, we employed 1,511 people. Of these employees, 1,030 were covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 66 that expired in September 2003. Our bargaining unit employees have continued to work without interruption and we have not had any work interruptions since 1976. We continue to have a good relationship with the bargaining unit and we are actively negotiating to obtain a new agreement in 2004.

EXECUTIVE OFFICERS
(As of March 1, 2004)

Name	Age	Position
David M. McClanahan	54	Chairman and Director
David G. Tees	59	President, Chief Executive Officer and Director
Scott E. Rozzell	54	Executive Vice President, General Counsel, Corporate Secretary and Director
Gary L. Whitlock	54	Executive Vice President, Chief Financial Officer and Director
James S. Brian	56	Senior Vice President and Chief Accounting Officer
Joseph B. McGoldrick	50	Corporate Vice President, Strategic Planning

David M. McClanahan is the Chairman of our board of directors. Mr. McClanahan has also served on the board of directors and as the President and Chief Executive Officer of CenterPoint Energy since September 2002. He served as the Vice Chairman of Reliant Energy from October 2000 to September 2002 and as President and Chief Operating Officer of Reliant Energy's Delivery Group since 1999. He also served as the President and Chief Operating Officer of Reliant Energy HL&P from 1997 to 1999. He has served in various other executive capacities with CenterPoint Energy since 1986. He previously served as Chairman of the Board of Directors of ERCOT and Chairman of the Board of the University of St. Thomas. He currently serves on the boards of the Edison Electric Institute and the American Gas Association.

David G. Tees is our President and Chief Executive Officer and a member of our board of directors. He served as Senior Vice President, Generation Operations of Reliant Energy from 1998 through August 2002. He also served as Vice President of Energy Production of Reliant Energy HL&P from 1986 through 1998. Mr. Tees has also served on the executive committee of the Edison Electric Institute Energy Supply Subcommittee and presently represents CenterPoint Energy as a Research Advisory Committee Member of the Electric Power Research Institute and is the Chairman of the Board of the STP Nuclear Operating Company.

Scott E. Rozzell is our Executive Vice President, General Counsel and Corporate Secretary and a member of our board of directors. Mr. Rozzell has also served as the Executive Vice President, General Counsel and Corporate Secretary of CenterPoint Energy since September 2002. He served as Executive Vice President and General Counsel of the Delivery Group of Reliant Energy from March 2001 to September 2002. Prior to joining Reliant Energy, Mr. Rozzell was a senior partner in the law firm of Baker Botts L.L.P.

Gary L. Whitlock is our Executive Vice President and Chief Financial Officer and a member of our board of directors. Mr. Whitlock has also served as the Executive Vice President and Chief Financial Officer of CenterPoint Energy since September 2002. He served as Executive Vice President and Chief Financial Officer of the Delivery Group of Reliant Energy from July 2001 to September 2002. Mr. Whitlock served as the Vice President, Finance and Chief Financial Officer of Dow AgroSciences, a subsidiary of The Dow Chemical Company from 1998 to 2001.

James S. Brian is our Senior Vice President and Chief Accounting Officer. Mr. Brian has also served as the Senior Vice President and Chief Accounting Officer of CenterPoint Energy since August 2002. He served as Senior Vice President, Finance and Administration of the Delivery Group of Reliant Energy from 1999 to August 2002, and as Vice President and Chief Financial Officer of Reliant Energy HL&P from 1997 to 1999. He has served in various executive capacities with Reliant Energy since 1983.

Joseph B. McGoldrick is our Corporate Vice President, Strategic Planning. Mr. McGoldrick has also served as Corporate Vice President, Strategic Planning of CenterPoint Energy since September 2002. He served as Corporate Vice President, Strategic Planning of the Delivery Group of Reliant Energy from November 2001 to August 2002. He served as Senior Vice President, Finance & Administration for Reliant Energy Retail from 2000 to 2001. He has served in various executive capacities with Reliant Energy since 1993.

RISK FACTORS

Market Risks

Our revenues and results of operations are impacted by market risks that are beyond our control.

We sell electric generation capacity, energy and ancillary services in the ERCOT market. Under the Texas electric restructuring law, we and other power generators in Texas are not subject to traditional cost-based regulation and therefore may sell electric generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. As a result, we are not guaranteed any rate of return on our capital investments through mandated rates, and our revenues and results of operations depend, in large part, upon prevailing market prices for electricity in the ERCOT market. Market prices for electricity, generation capacity, energy and ancillary services may fluctuate substantially. Our gross margins are primarily derived from the sale of capacity entitlements associated with our large, solid fuel base-load generating units, including our Limestone and W. A. Parish facilities and our interest in the South Texas Project. The gross margins generated from payments associated with the capacity of these units are directly impacted by natural gas prices. Since the fuel costs for our base-load units are largely fixed under long-term contracts, they are generally not subject to significant daily and monthly fluctuations. Because natural gas is the marginal fuel for facilities serving the ERCOT market during most hours, gas prices have a significant influence on the price of electric power. As a result, the price customers are willing to pay for entitlements to our solid fuel-fired base-load capacity generally rises and falls with natural gas prices.

Market prices in the ERCOT market may also fluctuate substantially due to other factors. Such fluctuations may occur over relatively short periods of time. Volatility in market prices may result from:

- oversupply or undersupply of generation capacity;
- power transmission or fuel transportation constraints or inefficiencies;
- weather conditions;
- seasonality;
- availability and market prices for natural gas, crude oil and refined products, coal, lignite, enriched uranium and uranium fuels;
- changes in electricity usage;
- additional supplies of electricity from existing competitors or new market entrants as a result of the development of new generation facilities or additional transmission capacity;
- illiquidity in the ERCOT market;
- availability of competitively priced alternative energy sources;

- natural disasters, wars, embargoes, terrorist attacks and other catastrophic events; and
- federal and state energy and environmental regulation and legislation.

There is currently a surplus of generating capacity in the ERCOT market and we expect the market for wholesale power to be highly competitive.

The reserve margin in the ERCOT market has exceeded 30% since 2001, and the Texas Utility Commission and the ERCOT ISO have forecasted the reserve margin for 2004 to continue to exceed 30%. The commencement of commercial operation of new facilities in the ERCOT market has increased and will continue to increase the competitiveness of the wholesale power market, which could have a material adverse effect on our business, results of operations, financial condition and cash flows and the market value of our assets.

Our competitors include generation companies affiliated with Texas-based utilities, independent power producers, municipal and co-operative generators and wholesale power marketers. The unbundling of vertically integrated utilities into separate generation, transmission and distribution and retail businesses pursuant to the Texas electric restructuring law could result in a significant number of additional competitors participating in the ERCOT market. Some of our competitors may have greater financial resources, lower cost structures, more effective risk management policies and procedures, greater ability to incur losses, greater potential for profitability from ancillary services, or greater flexibility in the timing of their sale of generating capacity and ancillary services than we do.

We are subject to operational and market risks associated with our capacity auctions.

We have sold entitlements to a significant portion of our available 2004 and 2005 generating capacity in our capacity auctions held to date. Although our obligation to conduct contractually-mandated auctions terminated in January 2004, we currently remain obligated to sell 15% of our installed generation capacity and related ancillary services pursuant to state-mandated auctions and we expect to conduct future capacity auctions with respect to all or a part of our remaining capacity from time to time. In these auctions, we sell firm entitlements on a forward basis to capacity and ancillary services dispatched within specified operational constraints. Although we have reserved a portion of our aggregate net generation capacity from our capacity auctions for planned or forced outages at our facilities, unanticipated plant outages or other problems with our generation facilities could result in our firm capacity and ancillary services commitments exceeding our available generation capacity. As a result, an unexpected outage at one of our lower cost facilities could require us to run one of our higher cost plants or obtain replacement power from third parties in the open market in order to satisfy our obligations even though the energy payments for the dispatched power are based on the cost of our lower-cost facilities.

Operating Risks

The operation of our power generation facilities involves risks that could adversely affect our revenues, costs, results of operations and cash flows.

General. We are subject to various risks associated with operating our power generation facilities, any of which could adversely affect our revenues, costs, results of operations, financial condition and cash flows. These risks include:

- operating performance below expected levels of output or efficiency;
- breakdown or failure of equipment or processes;
- disruptions in the transmission of electricity;
- shortages of equipment, material or labor;
- labor disputes;

- fuel supply interruptions;
- limitations that may be imposed by regulatory requirements, including, among others, environmental standards;
- limitations imposed by the ERCOT ISO;
- violations of permit limitations;
- operator error; and
- catastrophic events such as fires, hurricanes, explosions, floods, terrorist attacks or other similar occurrences.

A significant portion of our facilities was constructed many years ago. Older generation equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep it operating at high efficiency and to meet regulatory requirements. This equipment is also likely to require periodic upgrading and improvement. Any unexpected failure to produce power, including failure caused by breakdown or forced outage, could result in reduced earnings.

The cost of repairing damage to our facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events 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 power generation facilities and fuel supply could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues and margins and limit our future growth prospects. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

We employ experienced personnel to maintain and operate our facilities and carry insurance to mitigate the effects of some of the operating risks described above. Our insurance policies, however, are subject to certain limits and deductibles and do not include business interruption coverage. Should one or more of the events described above occur, revenues from our operations may be significantly reduced or our costs of operations may significantly increase.

In December 2003, one of the three auxiliary standby diesel generators for Unit 2 at the South Texas Project failed during a routine test. The NRC allowed continued operation of Unit 2 while repairs to the generator were made. Repairs are expected to be completed before the end of a scheduled refueling outage on the unit in the spring of 2004. Should Unit 2 experience an unplanned shutdown prior to its scheduled outage, there is a risk that the NRC would not permit restarting the unit until the diesel generator was fully repaired. Our share of the ultimate cost of repairs to the diesel generator is estimated to be approximately $5 million and is expected to be substantially covered by insurance.

We rely on power transmission facilities that we do not own or control and are subject to transmission constraints within the ERCOT market. If these facilities fail to provide us with adequate transmission capacity, we may not be able to deliver wholesale electric power to our customers and we may incur additional costs.

We depend on transmission and distribution facilities owned and operated by our affiliate, CenterPoint Houston, and on transmission and distribution systems owned by others to deliver the wholesale electric power we sell from our power generation facilities to our customers, who in turn deliver power to the end users. If transmission is disrupted, or if transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale electric energy may be adversely impacted.

The single control area of the ERCOT market for 2004 is organized into five congestion zones, referred to as the North, Northeast, South, West and Houston zones. These congestion zones are determined by physical

constraints on the ERCOT transmission system that make it difficult or impossible at times to move power from a zone on one side of the constraint to the zone on the other side of the constraint. All but two of our facilities are located in the Houston congestion zone. Our Limestone facility is located in the North congestion zone and the South Texas Project is located in the South congestion zone. We sell a portion of the entitlements offered in our state-mandated auctions to customers located in congestion zones other than the Houston zone. Transmission congestion between these zones could impair our ability to schedule power for transmission across zonal boundaries, which are defined by the ERCOT ISO, thereby inhibiting our efforts to match our facility scheduled outputs with our customer scheduled requirements.

The ERCOT ISO has instituted rules that directly assign congestion costs to the parties causing the congestion. Therefore, power generators participating in the ERCOT market could be liable for the congestion costs associated with transferring power between zones. We schedule our anticipated requirements based on our own forecasted needs, which rely in part on demand forecasts made by our customers. These forecasts may prove to be inaccurate. We could be deemed responsible for congestion costs if we schedule delivery of power between congestion zones during times when the ERCOT ISO expects congestion to occur between the zones. If we are liable for congestion costs, our financial results could be adversely affected. For more information about the ERCOT market, please read "Our Business — The ERCOT Market" above.

Our results of operations, financial condition and cash flows could be adversely impacted by a disruption of our fuel supplies.

We rely primarily on natural gas, coal, lignite and uranium to fuel our generation facilities. We purchase our fuel from a number of different suppliers under long-term contracts and on the spot market. We sell firm entitlements to capacity and ancillary services. Therefore, any disruption in the delivery of fuel could prevent us from operating our facilities to meet our auction commitments, which could adversely affect our results of operations, financial condition and cash flows.

Delivery of natural gas to each of our natural gas-fired facilities typically depends on the natural gas pipelines or distributors for that location. As a result, we are subject to the risk that a natural gas pipeline or distributor may suffer disruptions or curtailments in our ability to deliver natural gas to it or that the amounts of natural gas we request are curtailed. These disruptions or curtailments could adversely affect our ability to operate our natural gas-fired generating facilities. We lease gas storage facilities capable of storing approximately 6.3 billion cubic feet of natural gas, of which 4.2 billion cubic feet is working capacity.

We purchase coal from a limited number of suppliers. Generally, we seek to maintain average coal reserves sufficient to operate our coal-fired facilities for 30 days. We also have long-term rail transportation contracts with two rail transportation companies to transport coal to our coal-fired facilities. Any extended disruption in our coal supply, including those caused by transportation disruptions, adverse weather conditions, labor relations or environmental regulations affecting our coal suppliers, could adversely affect our ability to operate our coal-fired facilities. We are also exposed to the risk that suppliers that have agreed to provide us with fuel could breach their obligations. Should these suppliers fail to perform, we may be forced to enter into alternative arrangements at then-current market prices. As a result, our results of operations, financial condition and cash flows could be adversely affected.

To date, we have sold a substantial portion of our auctioned capacity entitlements to subsidiaries of Reliant Resources. Accordingly, our results of operations, financial condition and cash flows could be adversely affected if Reliant Resources ceases to be a major customer or fails to meet its obligations.

By participating in our contractually-mandated auctions, subsidiaries of Reliant Resources have purchased entitlements to 79% of our sold 2004 capacity and 68% of our sold 2005 capacity. Reliant Resources has made these purchases either through the exercise of its contractual rights to purchase 50% of the entitlements we auctioned in our prior contractually-mandated auctions or through the submission of bids. In the event Reliant Resources ceases to be a major customer or fails to meet its obligations to us, our results of operations, financial condition and cash flows could be adversely affected. As of December 31, 2003, Reliant Resources' securities ratings are below investment grade. We have been granted a security interest in accounts

receivable and/or securitization notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to $250 million in purchase obligations.

We may incur substantial costs and liabilities as a result of our ownership of nuclear facilities.

We own a 30.8% interest in the South Texas Project, a nuclear powered generation facility. As a result, we are subject to the risks associated with the ownership and operation of nuclear facilities. These risks include:

- liabilities associated with the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations; and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines, shut down a unit, or both, depending upon our assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the NRC could necessitate substantial capital expenditures at nuclear plants. In addition, although we have no reason to anticipate a serious nuclear incident at the South Texas Project, if an incident were to occur, it could have a material adverse effect on our results of operations, financial condition and cash flows.

Other Risks

Our historical financial results covering periods prior to 2002 represent our results as part of an integrated utility operating in a regulated market and are not representative of our results as a separate company operating in the deregulated ERCOT market. Consequently, our future financial condition and results of operations are likely to vary materially from the financial condition and results of operations presented in the historical financial information included herein covering periods prior to 2002.

We have limited experience operating as a stand-alone wholesale electric power generation company in a deregulated market. Our generation facilities were formerly owned by Reliant Energy, which conveyed these facilities to us in accordance with a business separation plan adopted in response to the Texas electric restructuring law.

The historical financial information covering periods prior to 2002 does not reflect what our financial position, results of operations and cash flows would have been had our generation facilities been operated under the current deregulated ERCOT market. Although our generation facilities had a significant operating history at the time they were conveyed to us, the historical financial information relating to the operation of these facilities during periods prior to 2002 reflects the sale of the power generated by the facilities as part of an integrated utility at regulated rates. We currently sell the power generated by these facilities at market-based prices, and our revenues currently depend, in large part, upon prevailing market prices for electricity in the ERCOT market. To date, our capacity auctions have been consummated at market-based prices that have resulted in returns substantially below the historical regulated return on our facilities.

The historical financial information we have included herein also does not reflect what our financial position, results of operations and cash flows would have been had we been a separate entity during the periods presented. Our historical costs and expenses included in our financial statements reflect charges from Reliant Energy for centralized corporate services and operating infrastructure costs as well as allocated costs of capital. These allocations have been determined based on what we and Reliant Energy considered to be reasonable reflections of the utilization of services provided to us or for the benefits received by us. We may experience significant changes in our cost structure, capitalization and operations as a result of our separation from

Reliant Energy, including increased costs associated with reduced economies of scale and with being a publicly traded company.

We may not have access to sufficient capital in the amounts and at the times needed to finance our business.

To date, our capital has been provided by internally generated cash flows and borrowings from the CenterPoint Energy money pool. As a result of our certification by the FERC as an "exempt wholesale generator" under the 1935 Act, we can no longer participate in this money pool. CenterPoint Energy has established a second money pool in which Texas Genco and certain other unregulated subsidiaries of CenterPoint Energy can participate. In December 2003, we entered into a $75 million revolving credit facility. It is anticipated that we will meet our cash needs with a combination of funds from operations and borrowings under our revolving credit facility. Except in an emergency situation (in which CenterPoint Energy could provide funding pursuant to applicable SEC rules), CenterPoint Energy would be required to obtain approval from the SEC to issue and sell securities for purposes of funding our operations or for CenterPoint Energy to guarantee our securities. There is no assurance that CenterPoint Energy will have sufficient funds to meet our cash needs.

CenterPoint Energy's $2.3 billion bank facility limits our incurrence of indebtedness for borrowed money to an aggregate principal amount not to exceed $250 million outstanding at any time and requires that proceeds from the sale of any material portion of our assets, proportionate to CenterPoint Energy's ownership interest in us and subject to certain other requirements, be used to prepay indebtedness under such credit facility. Our new credit facility also limits our incurrence of additional secured indebtedness for borrowed money to a maximum of $175 million aggregate principal amount. Although we are not contractually bound by the limitations in CenterPoint Energy's bank facility, it is expected that CenterPoint Energy would likely cause its representatives on our board of directors to direct our business so as not to breach the terms of its facility.

We can give no assurances that our current and future capital structure, operating performance, financial condition and cash flows will permit us to access the capital markets or to obtain other financing as needed to meet our working capital requirements and projected future capital expenditures on favorable terms. The amount of any debt issuance by us is expected to be affected by the market's perception of our creditworthiness, market conditions and factors affecting our industry. Our projected future capital expenditures are substantial. Our ability to secure third party credit lines or other debt financing may be adversely impacted by the factors described in this section, including the nature of our business, which may lead to volatility in our financial results and cash flows. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Future Sources and Uses of Cash," in Item 7 of this report.

We are an 81% owned subsidiary of CenterPoint Energy. As a result of this relationship, the financial condition of CenterPoint Energy could affect our access to capital, our credit standing and our financial condition.

Our operations are subject to extensive regulation, including environmental regulation. If we fail to comply with applicable regulations or obtain or maintain any necessary governmental permit or approval, we may be subject to civil, administrative and/or criminal penalties that could adversely impact our results of operations, financial condition and cash flows.

Our operations are subject to complex and stringent energy, environmental and other governmental laws and regulations. The acquisition, ownership and operation of power generation facilities require numerous permits, approvals and certificates from federal, state and local governmental agencies. These facilities are subject to regulation by the Texas Utility Commission regarding non-rate matters. Existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or any of our generation facilities or future changes in laws and regulations may have a detrimental effect on our business.

Operation of the South Texas Project is subject to regulation by the NRC. This regulation involves testing, evaluation and modification of all aspects of plant operation in light of NRC safety and environmental requirements. Continuous demonstrations to the NRC that plant operations meet applicable requirements are also required. The NRC has the ultimate authority to determine whether any nuclear powered generating unit may operate.

Water for certain of our facilities is obtained from public water authorities. New or revised interpretations of existing agreements by those authorities or changes in price or availability of water may have a detrimental effect on our business.

Our business is subject to extensive environmental regulation by federal, state and local authorities. We are required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in operating our facilities. We may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements or with any other regulatory requirements that apply to our operations, we could be subject to administrative, civil and/or criminal liability and fines, and regulatory agencies could take other actions seeking to curtail our operations. These liabilities or actions could adversely impact our results of operations, financial condition and cash flows.

Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events occurs, our business, results of operations, financial condition and cash flows could be adversely affected.

We may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, we may not be able to operate our facilities or we may be required to incur additional costs. We are generally responsible for all on-site liabilities associated with the environmental condition of our power generation facilities, regardless of when the liabilities arose and whether the liabilities are known or unknown. These liabilities may be substantial.

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, commercial general liability insurance, boiler and machinery coverage and available replacement capacity in amounts that we consider appropriate. However, our insurance policies 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 at current costs or on commercially reasonable terms or that the insurance proceeds received for any loss of or any damage to any of our generation facilities will be sufficient to restore the loss or damage without negative impact on our results of operations, financial condition and cash flows.

We and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. Under the federal Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $10.6 billion as of December 31, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. We and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan. In addition, the security procedures at this facility have recently been enhanced to provide additional protection against terrorist attacks. All potential losses or liabilities associated with the South Texas Project may not be insurable, and the amount of insurance may not be sufficient to cover them.

Our revenues and results of operations are seasonal.

The demand for power in the ERCOT market is seasonal, with higher demand occurring during the warmer months. Accordingly, our customers are generally willing to pay higher prices for entitlements to our capacity during warmer months. As a result, our revenues and results of operations are subject to seasonality, with revenues being higher during the warmer months.

Risks Related to Our Relationships With CenterPoint Energy

CenterPoint Energy's plan to monetize its interest in us may adversely impact our operations and financial condition, and the trading price of Texas Genco's common stock.

CenterPoint Energy expects to monetize its 81% interest in Texas Genco in 2004 and has engaged a financial advisor to assist them in that pursuit. CenterPoint Energy plans to fully evaluate this option before seeking another alternative. CenterPoint Energy and Reliant Resources currently provide a variety of services to us pursuant to the agreements described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Related Party Transactions — Our Relationships with CenterPoint Energy" and "— Technical Services Agreement with Reliant Resources" in Item 7 of this report. These services agreements will terminate upon the sale of CenterPoint Energy's interest in Texas Genco. In such an event, we may be required to replace the services currently provided under arrangements with less favorable terms. Also, under the terms of our $75 million 365-day revolving credit facility, if CenterPoint Energy ceases to own, directly or indirectly, at least a 50% voting and economic interest in our wholly owned subsidiary Texas Genco, LP, an event of default will occur and any borrowings thereunder may become immediately due and payable. In addition, depending on the nature of any monetization transaction, the trading price of Texas Genco's common stock could be adversely affected.

We will be controlled by CenterPoint Energy as long as it owns a majority of Texas Genco's common stock, and our minority shareholders will be unable to affect the outcome of shareholder voting during that time.

As a result of the January 6, 2003 distribution, CenterPoint Energy indirectly owns approximately 81% of Texas Genco's outstanding common stock. As long as CenterPoint Energy owns a majority of our outstanding common stock, it will continue to be able to elect our entire board of directors, and our public shareholders, by themselves, will not be able to affect the outcome of any shareholder vote. In addition, CenterPoint Energy has stated that it is pursuing strategic alternatives for its ownership interest in us, including a possible sale, which could result in a third party becoming our majority shareholder. Our majority shareholder, subject to any fiduciary duty owed to our minority shareholders under Texas law, will be able to control all matters affecting us. In addition, our majority shareholder may enter into credit agreements, indentures or other contracts that limit the activities of its subsidiaries. While we would not likely be contractually bound by these limitations, our majority shareholder would likely cause its representatives on our board to direct our business so as not to breach any of these agreements.

We may have potential business conflicts of interest with CenterPoint Energy with respect to our past and ongoing relationships, and because of CenterPoint Energy's controlling ownership interest, we may not be able to resolve these conflicts on terms possible in arm's length transactions.

Conflicts of interest may arise between CenterPoint Energy and us in a number of areas relating to our past and ongoing relationships, including proceedings, actions and decisions of legislative bodies and administrative agencies, and our dividend policy. The agreements we have entered into with CenterPoint Energy may be amended in the future upon agreement of the parties. While we are controlled by CenterPoint Energy, CenterPoint Energy may be able to require us to amend these agreements. We may not be able to resolve any potential conflicts with CenterPoint Energy, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

Item 2. *Properties.*

Our central support facility includes office space, a maintenance shop, a chemical lab, a warehouse facility and a fleet maintenance garage. This facility includes a total of approximately 521,000 square feet of space, of which approximately 407,000 square feet is occupied by us and approximately 114,000 square feet is leased to Reliant Resources. We also lease approximately 7,100 square feet at CenterPoint Energy's principal office building.

In addition, we lease or own various real property and facilities relating to our generation assets and other vacant real property unrelated to our generation assets. We have described our principal generation and support facilities under "Our Generation Portfolio" in Item 1 of this report, which description is incorporated herein by reference. We believe we have satisfactory title to our facilities in accordance with standards generally accepted in the electric power industry, subject to exceptions that, in our opinion, would not have a material adverse effect on the use or value of the facilities.

All of our real and tangible properties, subject to certain exclusions, are currently subject to the lien of a First Mortgage Indenture (the Mortgage) dated December 23, 2003 between JPMorgan Chase Bank, as trustee, and our wholly owned subsidiary, Texas Genco, LP. As of December 31, 2003, we had issued $75 million aggregate principal amount of first mortgage bonds under the Mortgage as collateral to secure our obligations under our $75 million 364-day revolving credit facility.

Item 3. *Legal Proceedings.*

We are, from time to time, a party to litigation arising in the normal course of our business, most of which involves contract disputes or claims for personal injury and property damage incurred in connection with our operations. We are not currently involved in any litigation that we expect will have a material adverse effect on our financial condition, results of operations and cash flows. For a description of a number of lawsuits involving claims of asbestos exposure at properties owned by us, please read "Environmental Matters — Asbestos" in Item 1 of this report, which description is incorporated herein by reference.

During 2003, we and CenterPoint Energy were engaged in a dispute with Northwestern Resources Co. (NWR), the supplier of fuel to the Limestone electric generation facility, over the terms and pricing at which NWR supplies fuel to that facility under a 1999 settlement agreement between the parties and under ancillary obligations. Both sides to the dispute initiated lawsuits, but in January 2004, we reached a settlement with NWR under which we agreed to dismiss those lawsuits and under which NWR would continue to provide certain quantities of lignite at specified prices during the period from 2004 to 2007, after which time the pricing would revert to pricing provided for under the 1999 settlement.

Item 4. *Submission of Matters to a Vote of Security Holders.*

There were no matters submitted to the vote of our security holders during the fourth quarter of 2003.

PART II

Item 5. *Market for Common Stock and Related Stockholder Matters.*

As of February 29, 2004, Texas Genco's common stock was held by approximately 51,362 shareholders of record. Texas Genco's common stock is listed on the New York Stock Exchange and is traded under the symbol "TGN."

On January 6, 2003, CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of Texas Genco common stock to CenterPoint Energy's shareholders of record as of the close of business on December 20, 2002, the record date for the distribution. Our common stock began trading regular-way on the New York Stock Exchange on January 7, 2003. Accordingly, no high and low sales price information is available for any full quarterly period in 2002.

The following table sets forth the high and low sales prices of the common stock of Texas Genco on the New York Stock Exchange composite tape during the periods indicated, as reported by *Bloomberg*, and the cash dividends declared in these periods. Cash dividends paid aggregated $1.00 per share in 2003.

	Market Price		Dividend Declared Per Share
	High	Low	
2003			
First Quarter			$0.25
January 7		$10.50	
March 10	$18.58		
Second Quarter			$0.25
April 21		$16.20	
June 19	$23.99		
Third Quarter			$0.25
July 22		$21.56	
September 2	$25.70		
Fourth Quarter			$0.25
October 3		$23.40	
December 22	$32.71		

The closing market price of our common stock on December 31, 2003 was $32.50 per share.

While we intend to pay regular quarterly cash dividends on our common stock, our board of directors will determine the amount of future dividends in light of:

- applicable legal requirements;
- our earnings and cash flows;
- our financial condition; and
- other factors our board of directors deems relevant.

CenterPoint Energy currently owns approximately 81% of Texas Genco's outstanding common stock which has been pledged to secure any obligations of CenterPoint Energy under its $2.3 billion credit facility executed in October 2003.

Item 6. *Selected Financial Data.*

The following tables present our selected financial data. The data set forth below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our historical financial statements and the notes to those statements included in this report. Our selected financial data for each of the five years in the period ended December 31, 2003 are derived from our financial statements. Our financial statements for periods prior to January 1, 2002 are presented on a carve-out basis and represent the historical financial position, results of operations and net cash flows of the historically regulated generation-related business of Reliant Energy. Therefore, the historical information included in our financial statements is not indicative of our future performance and does not reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone wholesale electric power generation company in a deregulated market during the periods presented. Prior to January 1, 2002, our historical financial information reflects the sale of power generated by our facilities as part of an integrated utility at regulated rates. Since January 1, 2002, we have sold power at market-based prices in capacity auctions. In addition, our historical costs and expenses reflect charges from CenterPoint Energy for centralized corporate services and operating infrastructure costs as well as allocated costs of capital through August 31, 2002. We may experience significant changes in our cost structure, capitalization and operations as a result of our separation from CenterPoint Energy, including increased costs associated with reduced economies of scale, obtaining third-party financing and being a publicly traded company.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
			(In millions)		
Income Statement Data:					
Revenues	$2,816	$3,334	$3,411	$1,541	$2,002
Expenses:					
Fuel costs	1,170	1,644	1,304	989	1,098
Purchased power	395	753	1,223	94	73
Operation and maintenance	384	393	402	391	411
Depreciation and amortization	393	151	154	157	159
Taxes other than income taxes	79	63	63	43	39
Total	2,421	3,004	3,146	1,674	1,780
Operating Income (Loss)	395	330	265	(133)	222
Other Income	14	1	2	3	2
Interest Expense, net	71	59	65	26	2
Income (Loss) Before Income Taxes and Extraordinary Item	338	272	202	(156)	222
Income Tax Expense (Benefit)	113	100	74	(63)	71
Income (Loss) Before Extraordinary Item	225	172	128	(93)	151
Extraordinary Item, net of tax(1)	(518)	—	—	—	—
Cumulative Effect of Accounting Change, net of tax(2)	—	—	—	—	99
Net Income (Loss)	$ (293)	$ 172	$ 128	$ (93)	$ 250
Income (Loss) Before Cumulative Effect of Accounting Change	$(3.66)	$ 2.15	$ 1.60	$(1.16)	$ 1.89
Cumulative Effect of Accounting Change	—	—	—	—	1.24
Net Income (Loss)(3)	$(3.66)	$ 2.15	$ 1.60	$(1.16)	$ 3.13

(1) Represents a loss related to an accounting impairment of certain generating facilities.

(2) 2003 net income includes the cumulative effect of an accounting change resulting from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" ($99 million after-tax gain, or $1.24

earnings per basic and diluted share). For additional information related to the cumulative effect of accounting change, please read Note 2(j) to our consolidated financial statements.

(3) The earnings per share figures are computed by dividing the net income (loss) for each period by 80 million, the number of shares of Texas Genco common stock outstanding after the 80,000-for-one stock split declared by Texas Genco's Board of Directors, as effected on December 18, 2002.

	Year Ended December 31,		
	2001	2002	2003
	(In millions)		
Statement of Cash Flow Data:			
Cash provided by (used in):			
Operating Activities	$ 236	$(140)	$ 387
Investing Activities	(409)	(258)	(157)
Financing Activities	173	398	(186)

	December 31,				
	1999	2000	2001	2002	2003
			(In millions)		
Balance Sheet Data:					
Property, Plant and Equipment, net	$3,698	$3,782	$4,020	$4,096	$4,126
Total Assets	4,029	4,147	4,438	4,508	4,640
Capitalization(1)	2,331	2,323	2,624	—	—
Shareholders' Equity(1)	—	—	—	2,824	3,033

(1) Upon the restructuring of Reliant Energy pursuant to its business separation plan, effective August 31, 2002, our equity structure was changed to reflect the contribution of CenterPoint Energy's electric generating facilities to us.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion and analysis should be read in combination with our consolidated financial statements and notes contained in Item 8 herein.

OVERVIEW

We are a wholesale electric power generating company that owns 60 generating units at 11 electric power generation facilities located in Texas. We also own a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating station with two 1,250 megawatt (MW) nuclear generating units. As of December 31, 2003, the aggregate net generating capacity of our portfolio of assets was 14,153 megawatts (MW), of which 2,988 MW of gas-fired capacity was currently mothballed. We expect that 777 MW of this amount will remain mothballed through April 2004 and the other 2,211 MW will remain mothballed through April 2005. The decision to mothball these units was based on the lack of demand for these types of units in our July and September 2003 capacity auctions combined with high forecasted reserve margins in the Electric Reliability Council of Texas (ERCOT) market. We sell electric generation capacity, energy and ancillary services in the ERCOT market, which is the largest power market in the State of Texas and encompasses the majority of the population centers in the State of Texas. ERCOT facilitates reliable grid operations for approximately 85% of the demand for power in the state.

Our Separation from CenterPoint Energy

Legislation enacted by the Texas legislature in 1999 (Texas electric restructuring law) required the restructuring of electric utilities in Texas in order to separate their power generation, transmission and distribution, and retail electric provider businesses into separate units. In March 2001, the Public Utility

Commission of Texas (Texas Utility Commission) approved a business separation plan for Reliant Energy, Incorporated (Reliant Energy) involving the separation of Reliant Energy's generation, transmission and distribution, and retail businesses into three separate companies. Effective August 31, 2002, Reliant Energy consummated a restructuring transaction (the Restructuring) in accordance with its business separation plan in which it, among other things:

- conveyed all of its electric generating facilities to us;
- became a subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy); and
- converted into a limited liability company named CenterPoint Energy Houston Electric, LLC (CenterPoint Houston).

Although our portfolio of generating facilities was formerly owned by the unincorporated electric utility division of Reliant Energy, for convenience we describe our business as if we had owned and operated our generation facilities prior to the date they were conveyed to us. The book value of the net assets conveyed to us by Reliant Energy on August 31, 2002 was approximately $2.8 billion.

CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and its subsidiaries. In October 2003, the Federal Energy Regulatory Commission (FERC) granted exempt wholesale generator (EWG) status to Texas Genco, LP, our wholly owned subsidiary that owns and operates our electric generating plants. As a result, we are exempt from substantially all provisions of the 1935 Act. We will remain exempt for so long as Texas Genco, LP remains an exempt wholesale generator. SEC approval would be required, however, for CenterPoint Energy to issue and sell securities for the purpose of funding our operations, or for CenterPoint Energy to guarantee our securities. Also, SEC policy precludes us from borrowing from CenterPoint Energy's utility subsidiaries.

On January 6, 2003, CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of Texas Genco's common stock to CenterPoint Energy's shareholders (the Distribution). As used herein, CenterPoint Energy also refers to the former Reliant Energy for dates prior to the Restructuring.

Our Power Generation Business

Our energy costs consist primarily of fuel costs associated with consuming nuclear fuel, gas, oil, lignite and coal to generate electricity, as well as our power purchases from the wholesale marketplace. The recent deregulation of the ERCOT market has impacted our energy costs in several ways. As a result of requirements under the Texas electric restructuring law and the terms of our agreements with CenterPoint Energy, we have been obligated to sell through capacity auctions substantially all of our available capacity and related ancillary services through 2003. Beginning in 2004, we can market the 85% of our capacity as we deem appropriate based upon market conditions, which may include a combination of auctions and bilateral contracts. In the auctions described above, we sell on a forward basis firm entitlements to capacity and ancillary services dispatched within specified operational constraints. Although we have reserved a portion of our aggregate net generation capacity from our capacity auctions for planned or forced outages at our facilities, unanticipated plant outages or other unforeseen problems with our generation facilities could result in our firm capacity and ancillary services commitments exceeding our available generation capacity. As a result, we could be required to obtain replacement power from third parties in the open market to satisfy our firm commitments that could involve the incurrence of significant additional costs. Accordingly, high wholesale power prices for replacement power in the ERCOT market could increase our energy costs and affect earnings and net cash flow. In addition, an unexpected outage at one of our lower cost facilities could require us to run one of our higher cost plants in order to satisfy our obligations which could have a significant effect on our operating income.

In 2003, the market-based prices established in our capacity auctions continued to strengthen, but remained below historical regulated returns on our facilities. However, we have seen significant improvement in auction prices for our 2003, 2004 and 2005 capacity entitlements. Since the pricing of generation products is

sensitive to natural gas prices, higher natural gas prices throughout 2003 have positively influenced the prices in our capacity auctions. Because we have a significant amount of low-cost base-load solid fuel and nuclear generating units, higher natural gas prices generally increase the margin of our base-load capacity entitlements since prospective purchasers face higher-cost gas-fired generation alternatives. With the higher market prices and our efforts to reduce our operating costs, we have experienced improved profitability during 2003 compared to 2002. However, we do not expect this improvement will reach the levels of our historical regulated returns in the near future due in part to the current surplus of generating capacity in the ERCOT market and changes to the economic conditions affecting our industry that have occurred since our base-load facilities were originally constructed, including the development of high efficiency gas-fired generating units.

High reserve margins are expected to continue in the ERCOT market. With an increasingly competitive wholesale energy market, the composition and level of our operation and maintenance expense is likely to change as we continually evaluate the value of various units based on their fuel source, heat rate and dispatch type.

We were unable to sell some of the 2003 capacity that we have offered in our state-mandated auctions. However, we believe that we have complied with the requirements under the applicable state-mandated auction rules, including re-offering the unsold capacity in subsequent auctions.

EXECUTIVE SUMMARY

2003 Highlights

In 2003, we reported net income of $250 million as compared to a net loss of $93 million in 2002. Revenues significantly increased in 2003 as compared to 2002 due to higher capacity revenue for base-load products, the sales of surplus air emission allowances and higher energy revenues, which more than offset higher fuel and purchased power costs. Operation and maintenance expenses increased primarily due to higher costs associated with planned and several unplanned unit outages as well as higher pension and insurance expenses. These increases were partially offset by expenses incurred in the fourth quarter of 2002, which did not recur in 2003, the most significant of which was an early retirement program. Net income for 2003 includes a $99 million after-tax ($152 million pre-tax) non-cash gain ($1.24 per diluted share) from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) as further discussed below under "— Consolidated Results of Operations."

2004 Outlook

In our capacity auctions held through February 2004, we have sold capacity entitlements to approximately 85% of our available 2004 base-load capacity and 24% of our available 2005 base-load capacity. As a result, we have contracted for approximately $1 billion of total revenue with respect to our 2004 capacity and approximately $533 million of total revenue with respect to our 2005 capacity. We expect to conduct auctions to sell additional capacity entitlements with respect to our 2004 and 2005 capacity during March 2004. Sales of additional surplus air emission allowances are anticipated in 2004. Studies are underway to determine longer-term strategies, including selling capacity through contractual agreements as well as auctions and evaluating financial hedging policies. Financial performance in 2004 and beyond is highly dependent on continued strong wholesale electricity prices, as well as acceptable levels of planned and unplanned outages.

In December 2003, one of the three auxiliary standby diesel generators for Unit 2 at the South Texas Project failed during a routine test. The NRC allowed continued operation of Unit 2 while repairs to the generator were made. Repairs are expected to be completed before the end of a scheduled refueling outage on the unit in the spring of 2004. Should Unit 2 experience an unplanned shutdown prior to its scheduled outage, there is a risk that the NRC would not permit restarting the unit until the diesel generator was fully repaired. Our share of the ultimate cost of repairs to the diesel generator is estimated to be approximately $5 million and is expected to be substantially covered by insurance.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

Our past earnings and results of operations are not necessarily indicative of our future earnings and results of operations. Any of the following factors could adversely affect our business prospects, financial condition, operating results and cash flows:

- state and federal legislative and regulatory actions or developments, including deregulation; re-regulation and restructuring of the ERCOT market; and changes in, or application of, environmental and other laws or regulations to which we are subject;
- the timing and extent of changes in commodity prices, particularly natural gas;
- the effects of competition, including the extent and timing of the entry of additional competitors in the ERCOT market;
- the results of our capacity auctions;
- weather variations and other natural phenomena;
- financial distress of our customers, including Reliant Resources;
- our access to capital and credit; and
- other factors discussed in this report under "Risk Factors" in Item 1 of this report.

CONSOLIDATED RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations have been derived from our historical financial statements and the notes to those financial statements included herein, which we refer to collectively as "our financial statements." Our financial statements were developed using a number of assumptions to separate our operations from those of Reliant Energy, which until January 1, 2002, operated our generation assets together with its transmission and distribution facilities and retail operations as a vertically integrated utility company. Please read Note 1 to our financial statements for a discussion of these assumptions and the methodologies used to prepare our financial statements. The historical financial information for 2001 included in our financial statements may not be indicative of our future performance and does not reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone wholesale electric power generation company in a deregulated market during the periods presented.

Prior to January 1, 2002, our revenues were calculated by unbundling the generation component of revenue from CenterPoint Energy's historical bundled rate for the generation and transmission, distribution and sale of energy and adding any additional generation-related revenues of CenterPoint Energy, such as wholesale activities that include ancillary services, trading and capacity sales.

	Year Ended December 31,		
	2001	2002	2003
		(in thousands)	
Revenues:			
Revenues	$3,410,945	$ —	$ —
Energy revenues	—	1,093,714	1,221,348
Capacity and other revenues	—	447,261	781,020
Total	3,410,945	1,540,975	2,002,368
Expenses:			
Fuel costs	1,303,981	989,560	1,098,269
Purchased power	1,222,552	93,841	72,509
Operation and maintenance	401,677	391,465	411,940
Depreciation and amortization	154,248	156,740	159,010
Taxes other than income taxes	63,378	42,930	38,681
Total	3,145,836	1,674,536	1,780,409
Operating Income (Loss)	265,109	(133,561)	221,959
Other Income	2,100	3,423	2,176
Interest Expense	(65,017)	(25,637)	(1,583)
Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Change	202,192	(155,775)	222,552
Income Tax Benefit (Expense)	(73,804)	62,832	(71,286)
Income (Loss) Before Cumulative Effect of Accounting Change	128,388	(92,943)	151,266
Cumulative Effect of Accounting Change, net of tax	—	—	98,910
Net Income (Loss)	$ 128,388	$ (92,943)	$ 250,176
Basic and Diluted Earnings Per Share:			
Income (Loss) Before Cumulative Effect of Accounting Change	$ 1.60	$ (1.16)	$ 1.89
Cumulative Effect of Accounting Change, net of tax	—	—	1.24
Net Income (Loss)	$ 1.60	$ (1.16)	$ 3.13
Power Sales (in GWh)	—	51,463	47,374

2003 Compared to 2002. Our income before cumulative effect of accounting change increased $244 million in 2003 compared to 2002 primarily due to increased operating margins ($357 million) from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, partially offset by increased fuel costs due to higher natural gas prices and by lower sales volumes. We were able to partially mitigate the higher cost of natural gas by switching to fuel oil on some of our flexible natural gas units, as well as benefiting from reductions in coal and lignite costs on our base-load units resulting from renegotiated supply agreements and increased utilization of spot purchases. Additionally, the sale of surplus air emission allowances, which is expected to recur in 2004, contributed to the increase in operating margins ($16 million). Partially offsetting the increase in operating margins was a higher level of operation and maintenance expense primarily related to higher pension and insurance expenses ($21 million) and planned and unplanned outages ($11 million). These increases in operation and maintenance expense were partially offset by expenses incurred in 2002, which did not recur in 2003, the most significant of which were in connection with an early retirement program and business separation costs ($28 million). Interest expense decreased $24 million in 2003 as compared to 2002 primarily due to the allocation of interest through the date of the Restructuring (August 31, 2002) based on the remaining electric utility debt not specifically identified with CenterPoint Energy's transmission and distribution utility upon deregulation, and the repayment of intercompany borrowings in 2003. Our effective tax rate for 2002 and 2003 was 40.3% and 32.0%, respectively. We reported a pre-tax loss for 2002 compared to pre-tax income for 2003. The 2002 pre-tax loss caused permanent differences that would normally decrease the effective rate to instead increase it. For 2003, our effective tax rate reflects reduced benefits from the amortization of investment tax credits.

In connection with the adoption of SFAS No. 143, we have identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations which supply the Limestone electric generation facility. The net difference between the amounts determined under SFAS No. 143 and the previous method of accounting for estimated mine reclamation costs was $37 million and has been recorded as a cumulative effect of accounting change. Upon adoption of SFAS No. 143, we reversed $115 million of previously recognized removal costs as a cumulative effect of accounting change. Net income for 2003 includes a $99 million after-tax ($152 million pre-tax) non-cash gain ($1.24 per diluted share) from the adoption of SFAS No. 143. For additional discussion of the adoption of SFAS No. 143, please read Note 2(j) to our consolidated financial statements.

2002 Compared to 2001. Our net income decreased $221 million in 2002 compared to 2001 primarily due to decreased revenues resulting from the change from a regulated environment in 2001 to the deregulated ERCOT market ($1.9 billion). Our 2001 revenue was derived based on actual recoverable operating expenses plus an allowed regulatory rate of return based on the rate base while our 2002 revenue was derived from open market sales of capacity and energy at auction and spot market prices. Additionally, fuel and purchased power expenses decreased primarily due to lower natural gas prices and a reduction in overall demand for output from our facilities ($1.4 billion). Operation and maintenance expense decreased primarily due to an absence of major maintenance outages at certain of our plants ($36 million in 2001), which was partially offset by costs related to an early retirement program implemented in 2002 ($12 million), business separation expenses ($7 million) and computer systems necessary for operation in the deregulated market ($6 million). Taxes other than income taxes decreased primarily due to lower tax valuations of generation assets ($20 million). Interest expense decreased $39 million or 60% for the year ended December 31, 2002 from the comparable 2001 period. The decrease was due to the change from the allocation method based on capital structure used to calculate interest expense in 2001 to the allocation of interest in 2002 based on the remaining electric utility debt not specifically identified with CenterPoint Energy's transmission and distribution utility upon deregulation. In connection with the Restructuring and the conveyance of all of CenterPoint Energy's electric generating facilities to us in August 2002, we did not assume any of CenterPoint Energy's long-term debt. The effective tax rates for 2002 and 2001 were 40.3% and 36.5%, respectively. The increase in the effective rate for 2002 compared to 2001 was primarily the result of a reduced benefit from the amortization of investment tax credits, offset by a decrease in state income taxes. Our state tax liability changed from an income-based tax for 2001, to a capital-based tax for 2002, primarily as a result of the 2002 pre-tax loss, which resulted in the reporting of the state tax as a component of the pre-tax loss for 2002 compared to reporting the state tax expense as a component of income tax expense for 2001.

RELATED PARTY TRANSACTIONS

Our Relationships with CenterPoint Energy

Separation Agreement. In connection with the Distribution, we entered into a separation agreement with CenterPoint Energy. This agreement contains provisions governing our relationship with CenterPoint Energy following the Distribution and specifies the related ancillary agreements between us and CenterPoint Energy. In addition, the separation agreement provides for cross-indemnities intended to place sole financial responsibility on us and our subsidiaries for all liabilities associated with the current and historical business and operations we conduct, regardless of the time those liabilities arose, and to place sole financial responsibility for liabilities associated with CenterPoint Energy's other businesses with CenterPoint Energy and its other subsidiaries. The separation agreement also contains indemnification provisions under which we and CenterPoint Energy each indemnify the other with respect to breaches by the indemnifying party of the separation agreement or any ancillary agreements.

Transition Services Agreement. We have entered into a transition services agreement with CenterPoint Energy under which CenterPoint Energy will provide us through the earlier of such time as all services under the agreement are terminated or CenterPoint Energy ceases to own a majority of Texas Genco's common stock, various corporate support services that include accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs and human resources, as well as information technology services and other previously shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics. These services consist generally of the same types of services as have been provided on an intercompany basis prior to the distribution. The charges we will pay for the services will be on a basis generally intended to allow CenterPoint Energy to recover the fully allocated direct and indirect costs of providing the services, plus all out-of-pocket costs and expenses, but without any profit to CenterPoint Energy, except to the extent routinely included in traditional utility cost of capital.

Tax Allocation Agreement. We are members of the CenterPoint Energy consolidated group for tax purposes, and we will continue to file a consolidated federal income tax return with CenterPoint Energy while CenterPoint Energy retains its 81% interest in us. Accordingly, we have entered into a tax allocation agreement with CenterPoint Energy to govern the allocation of U.S. income tax liabilities and to set forth agreements with respect to certain other tax matters. Generally, if there are tax adjustments related to us which relate to a tax return filed for a period when we were a member of the CenterPoint Energy consolidated group, we are responsible for any increased taxes and we will receive the benefit of any tax refunds.

Employee Benefit Plans. Our eligible employees currently participate in CenterPoint Energy's employee benefit plans and programs in accordance with the terms and conditions of such plans and programs, as may be amended or terminated by CenterPoint Energy at any time. Additionally, CenterPoint Energy expects that a separate pension plan will be established for us in 2005. If this occurs, we will receive an allocation of assets from the CenterPoint Energy pension plan pursuant to rules and regulations under the Employee Retirement Income Security Act of 1974 and record its pension obligations in accordance with SFAS No. 87, "Employer's Accounting for Pensions." It is anticipated that a plan established for us will be under-funded and that such under-funding could be significant. Changes in interest rates and the market values of the securities held by the CenterPoint Energy pension plan during 2004 could materially, positively or negatively, change the funding status of a plan established for us.

Technical Services Agreement with Reliant Resources

Under a technical services agreement, Reliant Resources is obligated to provide engineering and technical support services and environmental, safety and industrial health services to support the operation and maintenance of our facilities. We have notified Reliant Resources that its obligation to provide these services will be terminated effective May 31, 2004. Under the agreement, Reliant Resources is also obligated to provide systems, technical, programming and consulting support services and hardware maintenance (but excluding plant-specific hardware) necessary to provide dispatch planning, dispatch, and settlement and

communication with the ERCOT independent system operator, as well as general information technology services for us. A project is currently underway to identify manpower requirements, evaluate systems alternatives, define costs and develop time lines for replacement of those services considered necessary under the current overall technical services agreement with Reliant Resources. The fees Reliant Resources charges for these services are designed to allow it to recover its fully allocated direct and indirect costs and to obtain reimbursement of all out-of-pocket expenses. Expenses associated with capital investment in systems and software that benefit both the operation of Reliant Resources' facilities and our facilities will be allocated on an installed MW basis.

The overall technical services agreement, while cancelable by us in whole or in part, will terminate in its entirety on the first to occur of:

- CenterPoint Energy's sale of its 81% interest in us, or a sale by us of all or substantially all of our assets; or
- May 31, 2005, provided that we may extend the term of this agreement until December 31, 2005.

South Texas Project Decommissioning Trusts

We are the beneficiary of decommissioning trusts that have been established to provide funding for decontamination and decommissioning of the South Texas Project in which we own a 30.8% interest. CenterPoint Houston collects, through rates or other authorized charges to its electric utility customers, amounts designated for funding the decommissioning trusts, and deposits these amounts into the decommissioning trusts. Upon decommissioning of the facility, in the event funds from the trusts are inadequate, CenterPoint Houston or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code additional amounts required to fund our obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trusts, the excess will be refunded to the ratepayers of CenterPoint Houston or its successor.

Director Relationships

Our Chairman, David M. McClanahan, is also a director and the chief executive officer of CenterPoint Energy. In addition, two of our directors, Scott E. Rozzell and Gary L. Whitlock, are executive officers of CenterPoint Energy. As a result, these directors may need to recuse themselves and not participate in board meetings where actions are taken in connection with transactions or other relationships involving both companies.

LIQUIDITY AND CAPITAL RESOURCES

Historical Cash Flows

The net cash provided by/used in our operating, investing and financing activities for 2001, 2002 and 2003 is as follows (in millions):

	Year Ended December 31,		
	2001	2002	2003
Cash provided by (used in):			
Operating activities	$ 236	$(140)	$ 387
Investing activities	(409)	(258)	(157)
Financing activities	173	398	(186)

Cash Provided by Operating Activities

Net cash provided by operating activities in 2003 increased $527 million compared to 2002 primarily as a result of higher capacity auction prices, which were driven by higher gas prices. This increase was partially offset by higher income taxes paid of $71 million.

Net cash provided by operating activities in 2002 decreased $376 million compared to 2001. The decrease primarily resulted from lower revenues in the deregulated ERCOT market, increased accounts receivable from the sale of power in the 2002 deregulated electricity market and lower taxes paid of $69 million.

Cash Used in Investing Activities

Net cash used in investing activities decreased $101 million during 2003 compared to 2002 primarily related to a reduction in NOx emissions control expenditures.

Net cash used in investing activities decreased $151 million during 2002 compared to 2001 primarily related to completion of a major portion of the NOx work on our solid fuel units at W.A. Parish in 2001 and the re-scheduling of the NOx installation on our gas units.

Cash Provided by Financing Activities

Cash provided by financing activities decreased $584 million during 2003 compared to 2002 primarily as a result of common stock dividends paid in 2003 and repayments of intercompany borrowings owed to CenterPoint Energy.

Cash provided by financing activities increased $225 million during 2002 compared to 2001 as a result of net transfers from CenterPoint Energy to support our various requirements for working capital and capital expenditures.

Future Sources and Uses of Cash

We expect our liquidity and capital requirements will be affected by our:

- capital requirements related to environmental compliance and other maintenance projects;
- dividend policy;
- debt service requirements; and
- working capital requirements.

On December 31, 2003, we had temporary external investments of $45 million.

In December 2003, Texas Genco, LP, one of our subsidiaries, entered into a 364-day $75 million bank credit facility with a seven-bank syndicate. Proceeds from the revolving credit facility will be used to meet ongoing working capital requirements and for general corporate purposes. Borrowings under the facility may be made at the London interbank offered rate (LIBOR) plus 150 basis points. The facility is secured by a series of first mortgage bonds issued by our wholly owned subsidiary, Texas Genco LP, in an aggregate principal amount of $75 million under a First Mortgage Indenture (the Mortgage) dated December 23, 2003 between JPMorgan Chase Bank, as trustee, and Texas Genco, LP. All of our real and tangible properties, subject to certain exclusions, are currently subject to the lien of the Mortgage. Under the terms of the facility, if CenterPoint Energy ceases to own, directly or indirectly, at least a 50% voting and economic interest in Texas Genco, LP, an event of default will occur and any borrowings thereunder may become immediately due and payable. We believe that our cash flows from operations and our external borrowing capability will be sufficient to meet the operational needs of our business for the next twelve months. As of December 31, 2003, there were no borrowings outstanding under the revolving credit facility.

CenterPoint Energy's $2.3 billion bank facility limits our incurrence of indebtedness for borrowed money to an aggregate principal amount not to exceed $250 million outstanding at any time and requires that proceeds from the sale of any material portion of our assets, proportionate to CenterPoint Energy's ownership

interest in us and subject to certain other requirements, be used to prepay indebtedness under such credit facility. Our new credit facility also limits our incurrence of additional secured indebtedness for borrowed money to a maximum of $175 million aggregate principal amount. Although we are not contractually bound by the limitations in CenterPoint Energy's bank facility , it is expected that CenterPoint Energy would likely cause its representatives on our board of directors to direct our business so as not to breach the terms of its facility.

CenterPoint Energy is a registered holding company under the 1935 Act. In October 2003, the FERC granted exempt wholesale generator status to Texas Genco, LP, our wholly owned subsidiary that owns and operates our electric generating plants. As a result, we are exempt from substantially all provisions of the 1935 Act as long as we remain an exempt wholesale generator.

Capital Requirements. The following table sets forth our capital expenditures requirements for 2003, and estimates of our capital requirements for 2004 through 2008 (in millions).

	2003	2004	2005	2006	2007	2008
Environmental capital requirements	$107	$42	$ 33	$ 43	$ 14	$ —
Other capital requirements	44	52	96	106	88	62
Total capital requirements	$151	$94	$129	$149	$102	$ 62

Contractual Obligations. The following table sets forth estimates of our contractual obligations as of December 31, 2003 to make future payments for 2004 through 2008 and thereafter (in millions):

Contractual Obligations	Total	2004	2005	2006	2007	2008	2009 and thereafter
Fuel commitments	$1,474	$309	$251	$256	$248	$162	$248
Operating lease commitments	99	11	11	10	10	10	47

We have identified retirement obligations for nuclear decommissioning at the South Texas Project and the lignite mine operations which supply our Limestone electric generation facility. We have recorded liabilities as required by SFAS No. 143 of $188 million for the nuclear decommissioning and $6 million for the lignite mine as of December 31, 2003. CenterPoint Houston is required to fund $2.9 million a year to trusts established to fund our share of the decommissioning costs for the South Texas Project. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to CenterPoint Houston's transmission and distribution customers. For additional information on asset retirement obligations and the nuclear decommissioning trusts, please read Notes 2(j) and 8(c) to our consolidated financial statements, respectively.

Revenues derived from our capacity auctions come from two sources: capacity payments and energy payments. Energy payments consist of a variety of charges related to the fuel and ancillary services scheduled through our auctioned capacity entitlements. We bill for these energy payments on a monthly basis in arrears. We expect future collected energy payments will cover all of our future fuel commitments.

Cash Flows From Operations — Reliant Resources as a Significant Customer. To date, we have sold a substantial portion of our auctioned capacity entitlements to subsidiaries of Reliant Resources. Pursuant to a Master Power Purchase and Sale Agreement (as amended) with a subsidiary of Reliant Resources related to power sales in the ERCOT market, we have been granted a security interest in accounts receivable and/or notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to $250 million in purchase obligations. For more information regarding the impact that Reliant Resources' financial condition may have on our cash flows, please read "Risk Factors" in Item 1 of this report.

Intercompany Borrowings. As a result of our certification by the FERC as an "exempt wholesale generator" under the 1935 Act, CenterPoint Energy has established a second money pool in which we, CenterPoint Energy and certain other unregulated subsidiaries of CenterPoint Energy can participate. Except in an emergency situation (in which CenterPoint Energy could provide funding pursuant to applicable SEC

rules), CenterPoint Energy would be required to obtain approval from the SEC to issue and sell securities for purposes of funding our operations or for CenterPoint Energy to guarantee any of our securities. There is no assurance that CenterPoint Energy will have sufficient funds to meet our cash needs.

Pension Plan. As discussed in Note 6(b) to the consolidated financial statements, we participate in CenterPoint Energy's qualified non-contributory pension plan covering substantially all employees. Pension expense for 2004 is estimated to be $12 million based on an expected return on plan assets of 9.0% and a discount rate of 6.25% as of December 31, 2003. 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. Additionally, we expect that a separate pension plan will be established for us in 2005. If this occurs, we will receive an allocation of assets from the CenterPoint Energy pension plan pursuant to rules and regulations under the Employee Retirement Income Security Act of 1974 and record our pension obligations in accordance with SFAS No. 87, "Employer's Accounting for Pensions". It is anticipated that a plan established for us will be under-funded and that such under-funding could be significant. Changes in interest rates and the market values of the securities held by the CenterPoint Energy pension plan during 2004 could materially, positively or negatively, change the funding status of a plan established for us.

OFF-BALANCE SHEET FINANCING

Other than operating leases, we have no off-balance sheet financing arrangements.

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 reasonable likely to occur could have a material impact on the presentation of our financial condition or results of operations. We base our estimates on historical experience and on various other assumptions that we believe are 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. Our significant accounting policies are discussed in Note 2 to our consolidated financial statements. We believe the following accounting policies involve the application of critical accounting estimates. Accordingly, these accounting estimates have been reviewed and discussed with the audit committee of the board of directors.

Allocation Methodologies Used to Derive Our Financial Statements On a Carve-Out Basis

In 2001, we employed various allocation methodologies to separate the results of operations and financial condition of the generation-related portion of CenterPoint Energy's business from CenterPoint Energy's historical financial statements in order to prepare our financial statements. For 2001, revenues were allocated based on actual costs plus an allowed regulatory rate of return based on regulated invested capital granted to CenterPoint Energy's electric utility by the Texas Utility Commission. The allowed regulatory rate of return was 9.844% for 2001. Expenses, such as fuel, purchased power, operations and maintenance, and depreciation and amortization, and assets, such as property, plant and equipment, and inventory, were specifically identified by function and allocated accordingly for our operations. We used various allocations to disaggregate other common expenses, assets and liabilities between our operations and CenterPoint Energy's regulated transmission and distribution operations. We calculated interest expense based upon an allocation methodology that charged us with financing and equity costs from CenterPoint Energy in proportion to our share of total net assets prior to the effects of deregulation discussed below. These methodologies reflect the impact of

deregulation on our assets and liabilities as of June 30, 1999; however, all existing regulatory assets which are expected to be recovered in the true-up proceeding by our affiliated transmission and distribution utility, CenterPoint Houston, after deregulation have been excluded from these financial statements.

Beginning January 1, 2002, CenterPoint Energy's generation business was segregated from its electric utility as a separate reporting business segment and began selling electricity in the ERCOT market at prices determined by the market. Accordingly, for 2002 and 2003, net income reflects the results of market prices for power. Included in operations for 2002 and 2003 are allocations from CenterPoint Energy for corporate services that included accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs and human resources, as well as information technology services and other previously shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics.

Management believes the estimates inherent in these allocation methodologies to be reasonable. Had we actually existed as a separate company, our results could have significantly differed from those presented herein. In addition, the historical financial information included in our financial statements is not indicative of our future performance and does not reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone wholesale electric power generation company in a deregulated market during the periods presented.

Impairment of Long-Lived Assets

We review the carrying value of our long-lived assets, including identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Unforeseen events and changes in circumstances and market condition and material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows, regulatory matters and operating costs could negatively affect the fair value of our assets and result in an impairment charge.

Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques. Changes in any of these assumptions could result in an impairment charge.

The fair value of our assets could be materially affected by a change in the estimated future cash flows for these assets. We estimate future cash flows using a probability-weighted approach based on the fair value of our common stock, operating projections and estimates of how long we will retain these assets.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2(j) to the consolidated financial statements for a discussion of new accounting pronouncements that affect us.

Item 7A. *Qualitative and Quantitative Disclosures About Market Risk.*

Interest Rate Risk

As discussed in Note 8(c) to our consolidated financial statements, CenterPoint Houston contributed $14.8 million in 2001 to trusts established to fund our share of the decommissioning costs for the South Texas Project. In 2002 and 2003, CenterPoint Houston contributed $2.9 million to these trusts. The securities held by the trusts for decommissioning costs had an estimated fair value of $189 million as of December 31, 2003, of which approximately 37% were debt securities that subject us to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 2003, the decrease in fair value of the debt securities would be approximately $1 million.

Equity Market Value Risk

As discussed above under "— Interest Rate Risk," CenterPoint Houston contributes to trusts established to fund our share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of December 31, 2003. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 2003, the resulting loss in fair value of these securities would be approximately $12 million. Currently, the risk of an economic loss is mitigated as discussed above under "— Interest Rate Risk."

Commodity Price Risk

Our gross margins are dependent upon the market price for power in the ERCOT market. Our gross margins are primarily derived from the sale of capacity entitlements associated with our large, solid fuel base-load generating units, including our Limestone and W.A. Parish facilities and our interest in the South Texas Project. The gross margins generated from payments associated with the capacity of these units are directly impacted by natural gas prices. Since the fuel costs for our base-load units are largely fixed under long-term contracts, they are generally not subject to significant daily and monthly fluctuations. However, the market price for power in the ERCOT market is directly affected by the price of natural gas. Because natural gas is the marginal fuel of facilities serving the ERCOT market during most hours, its price has a significant influence on the price of electric power. As a result, the price customers are willing to pay for entitlements to our solid fuel base-load capacity generally rises and falls with natural gas prices.

Item 8. *Financial Statements and Supplementary Data of the Company.*

TEXAS GENCO HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED OPERATIONS
(Thousands of Dollars)

	Year Ended December 31,		
	2001	2002	2003
Revenues:			
Revenues	$3,410,945	$ —	$ —
Energy revenues	—	1,093,714	1,221,348
Capacity and other revenues	—	447,261	781,020
Total	3,410,945	1,540,975	2,002,368
Expenses:			
Fuel costs	1,303,981	989,560	1,098,269
Purchased power	1,222,552	93,841	72,509
Operation and maintenance	401,677	391,465	411,940
Depreciation and amortization	154,248	156,740	159,010
Taxes other than income taxes	63,378	42,930	38,681
Total	3,145,836	1,674,536	1,780,409
Operating Income (Loss)	265,109	(133,561)	221,959
Other Income	2,100	3,423	2,176
Interest Expense	(65,017)	(25,637)	(1,583)
Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Change	202,192	(155,775)	222,552
Income Tax Benefit (Expense)	(73,804)	62,832	(71,286)
Income (Loss) Before Cumulative Effect of Accounting Change	128,388	(92,943)	151,266
Cumulative Effect of Accounting Change, net of tax	—	—	98,910
Net Income (Loss)	$ 128,388	$ (92,943)	$ 250,176
Basic and Diluted Earnings Per Share:			
Income (Loss) Before Cumulative Effect of Accounting Change	$ 1.60	$ (1.16)	$ 1.89
Cumulative Effect of Accounting Change, net of tax	—	—	1.24
Net Income (Loss)	$ 1.60	$ (1.16)	$ 3.13

See Notes to the Company's Consolidated Financial Statements

TEXAS GENCO HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	December 31, 2002	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 578	$ 44,558
Customer accounts receivable	68,604	78,122
Accounts receivable, other	4,544	3,716
Inventory	156,167	169,692
Taxes receivable	4,368	—
Prepayments and other current assets	4,024	2,304
Total current assets	238,285	298,392
Property, Plant and Equipment, net	4,095,637	4,125,595
Other Assets:		
Nuclear decommissioning trust	162,576	189,182
Other	11,584	26,462
Total other assets	174,160	215,644
Total Assets	$4,508,082	$4,639,631
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable, affiliated companies, net	$ 22,654	$ 7,802
Accounts payable, fuel	76,399	68,747
Accounts payable, other	43,877	40,165
Notes payable, affiliated companies, net	86,184	—
Taxes and interest accrued	42,959	107,605
Deferred capacity auction revenue	48,721	86,853
Other	15,918	17,579
Total current liabilities	336,712	328,751
Other Liabilities:		
Accumulated deferred income taxes, net	813,246	844,545
Unamortized investment tax credit	170,569	150,533
Nuclear decommissioning reserve	139,664	187,997
Benefit obligations	15,751	18,399
Accrued mine reclamation costs	39,765	6,000
Notes payable, affiliated companies, net	18,995	—
Other	149,337	70,245
Total other liabilities	1,347,327	1,277,719
Commitments and Contingencies (Note 8)		
Shareholders' Equity	2,824,043	3,033,161
Total Liabilities and Shareholders' Equity	$4,508,082	$4,639,631

See Notes to the Company's Consolidated Financial Statements

TEXAS GENCO HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED CASH FLOWS
(Thousands of Dollars)

	Year Ended December 31,		
	2001	2002	2003
Cash Flows from Operating Activities:			
Net income (loss)	$ 128,388	$ (92,943)	$ 250,176
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	154,248	156,740	159,010
Fuel-related amortization	16,740	25,113	23,385
Deferred income taxes	(29,194)	(27,161)	8,693
Investment tax credit	(13,106)	(12,144)	(10,876)
Cumulative effect of accounting change	—	—	(98,910)
Changes in other assets and liabilities:			
Accounts receivable	(19,554)	(34,975)	(8,690)
Inventory	(16,483)	24,082	(13,525)
Taxes receivable	—	(4,368)	4,368
Accounts payable	(95,490)	(75,659)	(11,364)
Accounts payable, affiliate	19,743	(25,772)	(14,852)
Taxes and interest accrued	60,608	(79,728)	64,646
Accrued reclamation costs	8,505	11,334	5,907
Benefit obligations	2,453	(17,423)	2,648
Deferred revenue from capacity auctions	—	48,721	38,132
Other current assets	(491)	(1,016)	1,720
Other current liabilities	(665)	1,257	1,661
Other long-term assets	(5,822)	15,757	678
Other long-term liabilities	26,209	(51,756)	(15,866)
Net cash provided by (used in) operating activities	236,089	(139,941)	386,941
Cash Flows from Investing Activities:			
Capital expenditures and other	(409,002)	(257,630)	(156,963)
Net cash used in investing activities	(409,002)	(257,630)	(156,963)
Cash Flows from Financing Activities:			
Payment of common stock dividends	—	—	(80,000)
Net change in capitalization activity	172,913	292,970	—
Increase (decrease) in short-term notes payables, affiliate	—	86,184	(86,184)
Increase (decrease) in long-term notes payable, affiliate	—	18,995	(18,995)
Debt issuance costs	—	—	(819)
Net cash provided by (used in) financing activities	172,913	398,149	(185,998)
Net Increase in Cash and Cash Equivalents	—	578	43,980
Cash and Cash Equivalents at Beginning of Period	—	—	578
Cash and Cash Equivalents at End of Period	$ —	$ 578	$ 44,558
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest	$ 64,267	$ 4,270	$ 8,506
Income taxes (refunds)	60,963	(7,749)	63,623

See Notes to the Company's Consolidated Financial Statements

TEXAS GENCO HOLDINGS, INC.

STATEMENTS OF CONSOLIDATED CAPITALIZATION AND SHAREHOLDERS' EQUITY
(Thousands of Dollars)

	Capital Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Total Shareholders' Equity	Capitalization	Total Capitalization and Shareholders' Equity
Balance as of December 31, 2000	$—	$ —	$ —	$ —	$2,322,715	$2,322,715
Net income(1)	—	—	—	—	128,388	128,388
Net transfers from parent	—	—	—	—	172,913	172,913
Balance as of December 31, 2001	—	—	—	—	2,624,016	2,624,016
Net loss(2)	—	—	(54,460)	(54,460)	(38,483)	(92,943)
Net transfers from parent	1	2,878,502	—	2,878,503	(2,585,533)	292,970
Balance as of December 31, 2002	1	2,878,502	(54,460)	2,824,043	—	2,824,043
Net income(2)	—	—	250,176	250,176	—	250,176
Common stock dividends — $1.00 per share	—	—	(80,000)	(80,000)	—	(80,000)
Net transfers from parent	—	38,942	—	38,942	—	38,942
Balance as of December 31, 2003	$ 1	$2,917,444	$115,716	$3,033,161	$ —	$3,033,161

(1) Net income included in Capitalization for 2001 reflects the net income derived from the allocation of revenue, operating expenses, other income, interest expense and income tax expense from the rate regulated electric utility of Reliant Energy, Incorporated, (Reliant Energy) the predecessor of CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which was comprised of transmission and distribution, generation and retail components. For further discussion related to the basis of presentation, See Note 1.

(2) Beginning January 1, 2002, Reliant Energy's electric generation business was segregated in an unincorporated division from its other electric utility operations as a separate reporting business segment. In June 1999, the Texas legislature enacted a law that substantially amended the regulatory structure governing electric utilities in Texas in order to encourage retail electric competition (the Texas electric restructuring law). Under the Texas electric restructuring law, the Company and other power generators in Texas ceased to be subject to traditional cost-based regulation on January 1, 2002. Since that date, the Company has been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. Accordingly, for 2002, net loss reflects revenue received from market-based power sales. Retained deficit at December 31, 2002 reflects the Company's net loss since August 31, 2002, the date of the restructuring as discussed in Note 1. The Company's net loss prior to the restructuring is reflected as a component of capitalization.

See Notes to the Company's Consolidated Financial Statements

TEXAS GENCO HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

Background. In June 1999, the Texas legislature enacted an electric restructuring law which substantially amended the regulatory structure governing electric utilities in Texas in order to encourage retail electric competition. In December 2001, the shareholders of Reliant Energy, Incorporated (Reliant Energy) approved a restructuring proposal that was submitted in response to the Texas electric restructuring law and pursuant to which Reliant Energy would, among other things, (1) convey its Texas electric generation assets to an affiliated company, (2) become an indirect, wholly owned subsidiary of a new public utility holding company, CenterPoint Energy, Inc. (CenterPoint Energy), (3) be converted into a Texas limited liability company named CenterPoint Energy Houston Electric, LLC (CenterPoint Houston) and (4) distribute the capital stock of its operating subsidiaries to CenterPoint Energy. Texas Genco Holdings, Inc. (Texas Genco or the Company) represents the portfolio of generating facilities owned during the periods presented by these financial statements by the unincorporated electric utility division of Reliant Energy.

On August 24, 2001, Reliant Energy incorporated Texas Genco, a Texas corporation, as a wholly owned subsidiary. In February 2002, the Company issued 1,000 shares of its $1.00 par value common stock to Reliant Energy in exchange for $1,000. In February 2002, Reliant Energy made a capital contribution of $3,000 to the Company. During the period ended June 30, 2002, Reliant Energy made a capital contribution of $14,000 to the Company for payment of general and administrative expenses associated with maintaining its corporate structure. The Company did not conduct any activities other than those mentioned above through August 31, 2002.

Effective August 31, 2002, Reliant Energy completed the restructuring described above. As a result, on that date Reliant Energy conveyed all of its electric generating facilities to the Company, which was accounted for as a business combination of entities under common control. The Company subsequently became an indirect wholly owned subsidiary of CenterPoint Energy. CenterPoint Energy is subject to regulation by the Securities and Exchange Commission as a "registered holding company" under the Public Utility Holding Company Act of 1935, as amended (1935 Act). As used herein, CenterPoint Energy also refers to the former Reliant Energy for dates prior to the restructuring. In October 2003, the Federal Energy Regulatory Commission (FERC) granted exempt wholesale generator status to Texas Genco, LP, the Company's wholly owned subsidiary that owns and operates its electric generating plants. As a result, the Company is exempt from substantially all provisions of the 1935 Act as long as it remains an exempt wholesale generator.

As of January 1, 2002, CenterPoint Energy's electric utility unbundled its businesses in order to separate its power generation, transmission and distribution, and retail electric businesses into separate units. Under the Texas electric restructuring law, as of January 1, 2002, the Company ceased to be subject to traditional cost-based regulation. Since that date, the Company has been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility is required to sell at auction firm entitlements to 15% of the output of its installed generating capacity on a forward basis for varying terms of up to two years (state-mandated auctions). The Company's first state-mandated auction was held in September 2001 for power delivered beginning January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Public Utility Commission of Texas (Texas Utility Commission) determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial customers in CenterPoint Houston's service area is being served by retail electric providers not affiliated with CenterPoint Energy. Reliant Resources, Inc. (Reliant Resources) is deemed to be an affiliate of CenterPoint Energy for purposes of this test.

Basis of Presentation. The consolidated financial statements include the operations of Texas Genco Holdings, Inc. and its subsidiaries, which manage and operate the Company's electric generation operations. The consolidated financial statements of the Company are presented on a carve-out basis, and present the historical financial position, results of operations and net cash flows of the historically regulated generation-

related business of CenterPoint Energy, and are not indicative of the financial position, results of operations or net cash flows that would have existed had the Company been an independent company operating in the Texas deregulated electricity market (ERCOT market) for the year ended December 31, 2001. Beginning January 1, 2002, CenterPoint Energy's generation business was segregated from CenterPoint Energy's electric utility as a separate reporting business segment and began selling electricity in the ERCOT market at prices determined by the market. Accordingly, for 2002 and 2003, net income (loss) reflects the results of market prices for power. Included in operations for 2002 and 2003 are allocations from CenterPoint Energy for corporate services that included accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs and human resources, as well as information technology services and other previously shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics.

Certain information in these consolidated financial statements as of December 31, 2002 and for each of the years in the two-year period ended December 31, 2002 relating to the results of operations and financial condition was derived from the historical financial statements of CenterPoint Energy which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Various allocation methodologies were employed during these periods to separate the results of operations and financial condition of the generation-related portion of CenterPoint Energy's business from CenterPoint Energy's historical financial statements. For 2001, revenues were allocated based on the allowed regulatory rate of return on regulated invested capital granted to CenterPoint Energy's electric utility by the Texas Utility Commission. The allowed regulatory rate of return was 9.844% for 2001. Expenses during 2001, such as fuel, purchased power, operations and maintenance and depreciation and amortization, and assets, such as property, plant and equipment and inventory, were specifically identified by function and allocated accordingly for the Company's operations. Various allocations were used to disaggregate other common expenses, assets and liabilities between the Company and CenterPoint Energy's regulated transmission and distribution operations as of December 31, 2001 and for the two-year period then ended. Interest expense was calculated based upon an allocation methodology that charged the Company with financing and equity costs from CenterPoint Energy in proportion to its share of total net assets. Interest expense in 2002 through August 31, 2002 was allocated based upon the remaining electric utility debt not specifically identified with Reliant Energy's transmission and distribution utility upon deregulation. Effective with the restructuring of Reliant Energy, no long-term debt was assumed by the Company and interest is incurred on borrowings from CenterPoint Energy. These methodologies reflect the impact of deregulation on the Company's assets and liabilities as of June 30, 1999; however, all existing regulatory assets which are expected to be recovered by the transmission and distribution utility after deregulation have been excluded from these consolidated financial statements.

Management believes these allocation methodologies to be reasonable. Had the Company actually existed as a separate company, its results could have significantly differed from those presented herein. In addition, future results of operations, financial position and net cash flows are expected to materially differ from the historical results presented.

On January 6, 2003, CenterPoint Energy distributed approximately 19% of the 80 million shares of Texas Genco's common stock that were then outstanding to CenterPoint Energy's shareholders. Earnings per share has been presented as if the 80 million shares were outstanding for all historical periods in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share."

(2) Summary of Significant Accounting Policies

(a) Reclassifications and Use of Estimates

Certain amounts from the previous years have been reclassified to conform to the 2003 presentation of financial statements. These reclassifications do not affect net income.

The process of preparing financial statements in conformity with GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Also, such estimates relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. In addition to these estimates, see Note 1 (Background and Basis of Presentation) for a discussion of the estimates used and methodologies employed to derive the Company's historical financial statements.

(b) Inventory

Inventory consists principally of materials and supplies, coal and lignite, natural gas and fuel oil. Inventories used in the production of electricity are valued at the lower of average cost or market except for coal and lignite, which are valued under the last-in, first-out method. Below is a detail of inventory:

	December 31,	
	2002	2003
	(In thousands)	
Materials and supplies	$ 92,869	$ 92,409
Coal and lignite	42,791	49,835
Natural gas	16,733	21,340
Fuel oil	3,774	6,108
Total inventory	$156,167	$169,692

(c) Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost. Repair and maintenance costs are charged to the appropriate expense accounts as incurred. Property, plant and equipment includes the following:

	Estimated Useful Lives (Years)	December 31,	
		2002	2003
		(In thousands)	
Gas-fired generation facilities	30–60	$ 2,274,317	$ 2,277,591
Coal and lignite-fired generation facilities	50	3,820,208	3,934,683
Nuclear generation facilities	40	2,561,239	2,635,999
Nuclear fuel		344,003	356,037
Other	5–50	610,573	630,594
Total		9,610,340	9,834,904
Accumulated depreciation and amortization		(5,514,703)	(5,709,309)
Property, plant and equipment, net		$ 4,095,637	$ 4,125,595

Prior to the restructuring described in Note 1 (Background and Basis of Presentation), substantially all of the Company's physical assets used in the conduct of the business and operations of electric generation were subject to liens securing CenterPoint Energy's First Mortgage Bonds. In connection with the restructuring, these assets were released from the liens. All of the Company's real and tangible properties, subject to certain exclusions, are currently subject to the lien of a First Mortgage Indenture (the Mortgage) dated December 23, 2003 between JPMorgan Chase Bank, as trustee, and the Company's wholly owned subsidiary, Texas Genco, LP. As of December 31, 2003, Texas Genco, LP had issued $75 million aggregate principal amount of first mortgage bonds under the Mortgage to secure obligations under the Company's $75 million 364-day revolving credit facility. (See Note 3).

For further information regarding removal costs previously recorded as a component of accumulated depreciation, see Note 2(j).

(d) Depreciation and Amortization

Depreciation is computed using the straight-line method based on economic lives. Depreciation and amortization expense for 2001, 2002 and 2003 was $154 million, $157 million and $159 million, respectively.

(e) Capitalized Interest

Capitalized interest is reflected as a reduction to interest expense in the Statements of Consolidated Operations. During the years ended December 31, 2001, 2002 and 2003, the Company capitalized interest of $4 million, $7 million and $9 million, respectively.

(f) Long-lived Assets and Intangibles

The Company periodically evaluates long-lived assets when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions. No impairment has been recorded in any of the three years in the period ended December 31, 2003.

(g) Revenue Recognition

Prior to January 1, 2002, revenues were derived based on actual costs plus an allowed regulatory rate of return based on regulated invested capital. For the periods subsequent to January 1, 2002, the Company has been accounted for as a separate business segment of CenterPoint Energy selling electricity to wholesale purchasers in the ERCOT market. Accordingly, revenues represent actual results of CenterPoint Energy's generation business segment in 2002 operating in a deregulated market. Beginning January 1, 2002, the Company has two primary components of revenue: (1) capacity payments, which entitles the owner to power, and (2) energy payments, which are intended to cover the costs of fuel for the actual electricity produced. Capacity payments are billed and collected one month prior to actual energy deliveries and are recorded as deferred revenue until the month of actual energy delivery. At that point, the deferred revenue is reversed, and both capacity and energy payment revenues are recognized. Prior to 2002, all purchased power was part of the total load used to serve retail customers of the integrated utility. Beginning in 2002, fuel costs and purchased power are costs incurred to support sales of energy in the state-mandated auctions and contractually-mandated auctions required by the Texas Utility Commission, and the corresponding revenues are recorded as energy revenues.

(h) Income Taxes

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

(i) Statement of Consolidated Cash Flows

For purposes of reporting cash flows, the Company considers cash equivalents to be short-term, highly liquid investments readily convertible to cash.

(j) New Accounting Pronouncements

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be recognized as a liability is incurred and capitalized as part of the cost of the related tangible long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

The Company has identified retirement obligations for nuclear decommissioning at the South Texas Project Electric Generating Station (South Texas Project) and for lignite mine operations which supply the Limestone electric generation facility. Prior to adoption of SFAS No. 143, the Company had recorded liabilities for nuclear decommissioning and the reclamation of the lignite mine. Liabilities were recorded for estimated decommissioning obligations of $140 million and $40 million for reclamation of the lignite at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, the Company reversed the $140 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of $99 million offset by accumulated depreciation of $36 million as well as a retirement obligation of $187 million. The $16 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 is being deferred as a liability as the recovery of nuclear decommissioning costs continues to be regulated by the Texas Utility Commission. Accordingly, any difference between assets and liabilities associated with nuclear decommissioning are recorded as a receivable or liability as such amount will be funded by or returned to customers of CenterPoint Houston or its successor. The Company also reversed the $40 million it had previously recorded for the mine reclamation and recorded a plant asset of $1 million as well as a retirement obligation of $4 million. The $37 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 was recorded as a cumulative effect of accounting change. The Company has also identified other asset retirement obligations that cannot be estimated because the assets associated with the retirement obligations have an indeterminate life.

The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the year ended December 31, 2003:

	Balance, January 1, 2003	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Balance, December 31, 2003
			(In millions)			
Nuclear decommissioning	$187	—	—	$1	—	$188
Lignite mine	4	—	—	2	—	6
	$191	—	—	$3	—	$194

The following represents the pro-forma effect on the Company's net income for the year ended December 31, 2002, as if the Company had adopted SFAS No. 143 as of January 1, 2002 (in millions, except per share amounts):

	Year Ended December 31, 2002
Net loss as reported	$ (93)
Pro-forma net loss	(86)
Diluted earnings per share:	
Net loss as reported	$(1.16)
Pro-forma net loss	(1.07)

The following represents the Company's asset retirement obligations on a pro-forma basis as if it had adopted SFAS No. 143 as of December 31, 2002:

	As Reported	Pro-forma
	(In millions)	
Nuclear decommissioning	$140	$187
Lignite mine	40	4
Total	$180	$191

The Company has previously recognized removal costs as a component of depreciation expense. As of December 31, 2002, these removal costs of $115 million have been reclassified from accumulated depreciation to other long-term liabilities in the Consolidated Balance Sheet. Upon adoption of SFAS No. 143, the Company reversed $115 million of previously recognized removal costs as a cumulative effect of accounting change. The total cumulative effect recognized upon adoption of SFAS No. 143 was $99 million after-tax ($152 million pre-tax).

On December 23, 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132(R)). This standard increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. Companies will be required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. SFAS No. 132(R) also requires companies to disclose various elements of pension and postretirement benefit costs in interim-period financial statements for quarters beginning after December 15, 2003. The Company has adopted the disclosure requirements of SFAS No. 132(R) in Note 6 to these consolidated financial statements.

In December 2003, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) which will become effective in 2006. The Act contains incentives for the Company, if it continues to provide prescription drug benefits for its retirees, through the provision of a non-taxable reimbursement to the Company of specified costs. The Company has many different alternatives available under the Act, and, until clarifying regulations are issued with respect to the Act, the Company is unable to determine the financial impact. On January 12, 2004, the FASB issued FASB Staff Position (FSP) FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FAS 106-1)." In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending and that guidance, when issued, may require the Company to change previously reported information.

(3) Short-Term Borrowings

In December 2003, Texas Genco, LP, a subsidiary of the Company, entered into a 364-day $75 million bank credit facility with a seven-bank syndicate. As of December 31, 2003, there were no borrowings outstanding under the revolving credit facility. Proceeds from the revolving credit facility will be used to meet ongoing working capital requirements and for general corporate purposes. Borrowings under the facility may be made at the London interbank offered rate (LIBOR) plus 150 basis points. The facility is secured by a series of first mortgage bonds issued by Texas Genco LP, in an aggregate principal amount of $75 million under a First Mortgage Indenture (the Mortgage) dated December 23, 2003 between JPMorgan Chase Bank, as trustee, and Texas Genco, LP. All of the Company's real and tangible properties, subject to certain exclusions, are currently subject to the lien of the Mortgage. Under the terms of the facility, if CenterPoint Energy ceases to own, directly or indirectly, at least a 50% voting and economic interest in Texas Genco, LP, an event of default will occur and any borrowings thereunder may become immediately due and payable. Texas Genco's revolving credit facility contains various business and financial covenants. Texas Genco is currently in compliance with the covenants under the credit agreement.

(4) Related Party Transactions and Major Customers

As of December 31, 2002, the Company had $86 million in short-term borrowings and $19 million in long-term borrowings from CenterPoint Energy and its subsidiaries. Such borrowings were used for working capital purposes. Interest expense associated with the borrowings for 2002 was $7 million. As of December 31, 2003, the Company had no short-term or long-term borrowings from CenterPoint Energy and its subsidiaries. As of December 31, 2002, the weighted average interest rate on the borrowings was 6.2%. In addition, through August 31, 2002, $25 million of interest expense was allocated to the Company related to the remaining electric utility debt not specifically identified with CenterPoint Energy's transmission and distribution utility upon deregulation. Interest expense associated with the borrowings during 2003 was $7 million.

As of December 31, 2002, the Company had net accounts payable to affiliates of $23 million. As of December 31, 2003, the Company had net accounts payable to affiliates of $8 million.

During 2002 and 2003, the sales and services by the Company to Reliant Resources and its subsidiaries totaled $1 billion and $1.4 billion, respectively. During 2002 and 2003, sales and services by the Company to CenterPoint Energy and its affiliates totaled $53 million and $-0-, respectively.

During 2002 and 2003, the sales and services by the Company to a major customer other than Reliant Resources totaled $226 million and $205 million, respectively.

During 2002 and 2003, purchases of natural gas by the Company from CenterPoint Energy and its affiliates were $41 million and $29 million, respectively.

CenterPoint Energy provides some corporate services to the Company. The costs of services have been directly charged to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had the Company not been an affiliate. Amounts charged to the Company for these services were $47 million for 2002 and $32 million in 2003 and are included primarily in operation and maintenance expenses.

Separation Agreement. In connection with the distribution by CenterPoint Energy to its shareholders of 19% of the Company's outstanding common stock, the Company entered into a separation agreement with CenterPoint Energy. This agreement contains provisions governing the Company's relationship with CenterPoint Energy following the distribution and specifies the related ancillary agreements between the Company and CenterPoint Energy. In addition, the separation agreement provides for cross-indemnities

intended to place sole financial responsibility on the Company and its subsidiaries for all liabilities associated with the current and historical business and operations the Company conducts, regardless of the time those liabilities arose, and to place sole financial responsibility for liabilities associated with CenterPoint Energy's other businesses with CenterPoint Energy and its other subsidiaries. The separation agreement also contains indemnification provisions under which the Company and CenterPoint Energy each indemnify the other with respect to breaches by the indemnifying party of the separation agreement or any ancillary agreements.

Tax Allocation Agreement. The Company is a member of the CenterPoint Energy consolidated group for tax purposes, and the Company will continue to file a consolidated federal income tax return with CenterPoint Energy while CenterPoint Energy retains its 81% interest in the Company. Accordingly, the Company has entered into a tax allocation agreement with CenterPoint Energy to govern the allocation of U.S. income tax liabilities and to set forth agreements with respect to certain other tax matters. Generally, if there are tax adjustments related to the Company which relate to a tax return filed for a period when the Company was a member of the CenterPoint Energy consolidated group, the Company is responsible for any increased taxes and the Company will receive the benefit of any tax refunds.

(5) Jointly Owned Electric Utility Plant

The Company owns a 30.8% interest in the South Texas Project, which consists of two 1,250 MW nuclear generating units, and bears a corresponding 30.8% share of capital and operating costs associated with the project. The South Texas Project is owned as a tenancy in common among the Company and three other co-owners, with each owner retaining its undivided ownership interest in the two nuclear-fueled generating units and the electrical output from those units. The Company is severally liable, but not jointly liable, for the expenses and liabilities of the South Texas Project. CenterPoint Energy and the other three co-owners organized STP Nuclear Operating Company (STPNOC) to operate and maintain the South Texas Project. STPNOC is managed by a board of directors comprised of one director appointed by each of the four owners, along with the chief executive officer of STPNOC. The Company's share of direct expenses of the South Texas Project is included in the corresponding operating expense categories in the accompanying financial statements. As of December 31, 2002 and 2003, Texas Genco's total utility plant for the South Texas Project was $385 million and $431 million, respectively, (net of $2.2 billion accumulated depreciation which includes an impairment loss recorded in 1999 of $745 million). As of December 31, 2002 and 2003, Texas Genco's investment in nuclear fuel was $42 million (net of $302 million amortization) and $40 million (net of $316 million amortization), respectively.

(6) Employee Benefit Plans

(a) Incentive Compensation Plans

During 2003, the Company established a long-term incentive compensation plan (LICP) that provides cash-based performance units to key employees of the Company. The Company's compensation cost related to this plan was less than $1 million for 2003.

(b) Pension

Substantially all of the Company's employees participate in CenterPoint Energy's qualified non-contributory pension plan. The benefit accrual is in the form of a cash balance of a specified percentage of annual pay plus accrued interest. CenterPoint Energy's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. Pension expense is allocated to the Company based on covered employees. Assets of the plan are not segregated or restricted by CenterPoint Energy's participating subsidiaries and accrued obligations for the Company employees would be the obligation of the retirement plan if the Company were to withdraw. Pension benefit was $1 million for the year ended December 31, 2001. The Company recognized pension expense of

$15 million (including $9 million of non-recurring early retirement expenses) and $17 million for the years ended December 31, 2002 and 2003, respectively.

In addition to the plan, the Company participates in CenterPoint Energy's non-qualified pension plan, which allows participants to retain the benefits to which they would have been entitled under the non-contributory 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 less than $1 million in 2001, 2002 and 2003.

(c) Savings Plan

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

Savings plan benefit expense was $6 million, $9 million and $7 million for the years ended December 31, 2001, 2002 and 2003, respectively.

(d) Postretirement Benefits

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

On January 12, 2004, the FASB issued FAS 106-1. In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending and that guidance, when issued, may require the Company to change previously reported information.

The net postretirement benefit cost includes the following components:

	Year Ended December 31.		
	2001	2002	2003
	(In millions)		
Service cost — benefits earned during the period	$ 1	$ 1	$ 1
Interest cost on projected benefit obligation	6	3	3
Expected return on plan assets	(4)	(1)	(2)
Net amortization	4	1	2
Benefit enhancement	—	3	—
Net postretirement benefit cost	$ 7	$ 7	$ 4

The Company used the following assumptions to determine net postretirement benefit costs:

	Year Ended December 31,		
	2001	2002	2003
Discount rate	7.50%	7.25%	6.75%
Expected return on plan assets	10.0%	9.5%	9.0%

In determining net periodic benefit costs, the Company uses fair value, as of the beginning of the year, as its basis for determining expected return on plan assets.

The following table displays the change in the benefit obligation, the fair value of plan assets and amounts included in the Company's Consolidated Balance Sheets as of December 31, 2002 and 2003 for the Company's postretirement benefit plans:

	December 31,	
	2002	2003
	(In millions)	
Change in Benefit Obligation		
Accumulated benefit obligation, beginning of year	$ 89	$ 41
Service cost	1	1
Interest cost	3	3
Benefits paid	—	(2)
Participant contributions	—	1
Plan amendments	3	(1)
Transfer to affiliate	(52)	—
Actuarial (gain) loss	(3)	1
Accumulated benefit obligation, end of year	$ 41	$ 44
Change in Plan Assets		
Plan assets, beginning of year	$ 37	$ 15
Benefits paid	—	(2)
Employer contributions	1	1
Participant contributions	—	1
Transfer to affiliate	(22)	—
Actual investment return	(1)	3
Plan assets, end of year	$ 15	$ 18
Reconciliation of Funded Status		
Funded status	$ (26)	$ (26)
Unrecognized transition obligation	8	7
Unrecognized prior service cost	13	11
Unrecognized actuarial loss	(5)	(5)
Net amount recognized at end of year	$ (10)	$ (13)
Amounts Recognized in Balance Sheets		
Benefit obligations	$ (10)	$ (13)
Net amount recognized at end of year	$ (10)	$ (13)

	December 31, 2002	December 31, 2003
	(In millions)	
Actuarial Assumptions		
Discount rate	6.75%	6.25%
Expected long-term rate of return on assets	9.0%	8.5%
Healthcare cost trend rate assumed for the next year	11.25%	10.50%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.5%	5.5%
Year that the rate reaches the ultimate trend rate	2011	2011
Measurement date used to determine plan obligations and assets	December 31, 2002	December 31, 2003

Assumed healthcare cost trend rates have a significant effect on the reported amounts for the Company's postretirement benefit plans. However, the effects of a 1% change in the assumed healthcare cost trend rate would change obligations and the total of service and interest costs by less than $1 million.

The following table displays the weighted average asset allocations as of December 31, 2002 and 2003 for the Company's postretirement benefit plan:

	December 31, 2002	December 31, 2003
Domestic equity securities	35%	41%
International equity securities	8	9
Debt securities	54	48
Cash	3	2
Total	100%	100%

In managing the investments associated with the postretirement benefit plan, the Company's objective is to preserve and enhance the value of plan assets while maintaining an acceptable level of volatility. These objectives are expected to be achieved through an investment strategy, which manages liquidity requirements while maintaining a long-term horizon in making investment decisions and efficient and effective management of plan assets.

As part of the investment strategy discussed above, the Company has adopted and maintains the following asset allocation targets for its postretirement benefit plan:

Domestic equity securities	27-37%
International equity securities	5-15%
Debt securities	53-63%
Cash	0-2%

The expected rate of return assumption was developed by reviewing the targeted asset allocations and historical index performance of the applicable asset classes over a 15-year period, adjusted for investment fees and diversification effects.

The Company expects to contribute $1 million to its postretirement benefits plan in 2004.

(e) Postemployment Benefits

The Company participates in CenterPoint Energy's plan which provides postemployment benefits for former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily healthcare and life insurance benefits for participants in the long-term disability plan). Postemployment benefits costs were less than $1 million for 2001 and 2002 and totaled $1 million for 2003.

(f) Other Non-Qualified Plans

The Company participates in CenterPoint Energy's non-qualified deferred compensation plans that provide benefits payable to directors, officers and certain key employees or their designated beneficiaries at specified future dates, upon termination, retirement or death. Benefit payments are made from the general assets of the Company. During 2001, 2002 and 2003, benefit expense relating to these programs was less than $1 million each year. Included in "Benefit Obligations" in the accompanying Consolidated Balance Sheets at both December 31, 2002 and 2003 was $4 million of liabilities relating to the deferred compensation plans.

(g) Other Employee Matters

As of December 31, 2003, the Company employed 1,511 people. Of these employees, 1,030 were covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 66 that expired in September 2003. The Company's bargaining unit employees have continued to work without interruption and the Company has not had any work interruptions since 1976. The Company continues to have a good relationship with the bargaining unit and is actively negotiating to obtain a new agreement in 2004.

(7) Income Taxes

The Company's current and deferred components of income tax expense (benefit) were as follows:

	Year Ended December 31,		
	2001	2002	2003
	(In millions)		
Current			
Federal	$ 91	$(24)	$73
State	25	—	—
Total current	116	(24)	73
Deferred			
Federal	(42)	(39)	(2)
State	—	—	—
Income tax expense (benefit)	$ 74	$(63)	$71

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

	Year Ended December 31,		
	2001	2002	2003
		(In millions)	
Income (loss) before income taxes	$202	$(156)	$223
Federal statutory rate	35%	35%	35%
Income tax expense (benefit) at statutory rate	71	(55)	78
Increase (decrease) in tax resulting from:			
State income taxes, net of federal income tax benefit	16	—	—
Amortization of investment tax credit	(13)	(8)	(7)
Excess deferred taxes	(4)	—	—
Other, net	4	—	—
Total	3	(8)	(7)
Income tax expense (benefit)	$ 74	$ (63)	$ 71
Effective Rate	36.5%	40.3%	32.0%

The Company's tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases were as follows:

	December 31,	
	2002	2003
	(In millions)	
Deferred tax assets:		
Non-current:		
Employee benefits	$ 4	$ 11
Environmental reserves	14	2
Other	4	4
Total non-current deferred tax assets	22	17
Deferred tax liabilities:		
Non-current:		
Depreciation	829	853
Other	6	9
Total non-current deferred tax liabilities	835	862
Accumulated deferred income taxes, net	$813	$845

The Company is included in the consolidated income tax returns of CenterPoint Energy. CenterPoint Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. The 1997 through 2000 consolidated federal income tax returns are currently under audit.

(8) Commitments and Contingencies

(a) Fuel and Purchased Power Commitments

Fuel commitments include several long-term coal, lignite and natural gas contracts, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities in

the Company's Consolidated Balance Sheets as of December 31, 2003 as these contracts meet the SFAS No. 133 exception to be classified as normal purchases contracts or do not meet the definition of a derivative. Minimum payment obligations related to coal and transportation agreements and lignite mining and lease agreements that extend through 2012 are approximately $309 million in 2004, $251 million in 2005, $256 million in 2006, $248 million in 2007 and $162 million in 2008. Purchase commitments related to purchased power are not material to the Company's operations. As of December 31, 2003, the pricing provisions in some of these contracts were above market.

(b) Lease Commitments

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2003, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions).

2004	$11
2005	11
2006	10
2007	10
2008	10
2009 and beyond	47
Total	$99

Total lease expense for all operating leases was $10 million, $11 million and $11 million during 2001, 2002 and 2003, respectively.

(c) Environmental, Legal and Other

Clean Air Standards. The Texas electric restructuring law and regulations adopted by the Texas Commission on Environmental Quality (TCEQ) in 2001 require substantial reductions in emission of oxides of nitrogen (NOx) from electric generating units. The Company is currently installing cost-effective controls at its generating plants to comply with these requirements. Through December 31, 2003, the Company has invested $664 million for NOx emission control, and plans to make expenditures of up to approximately $131 million through 2007. Further revisions to these NOx standards may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards.

Asbestos. The Company has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit.

Nuclear Insurance. The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Under the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $10.6 billion as of December 31, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. The Company and the other owners currently

maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to $100.6 million per reactor. The owners are jointly and severally liable at a rate not to exceed $10 million per incident per year. In addition, the security procedures at this facility have been enhanced to provide additional protection against terrorist attacks.

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

Nuclear Decommissioning. CenterPoint Houston contributed $14.8 million in 2001 to trusts established to fund the Company's share of the decommissioning costs for the South Texas Project. CenterPoint Houston contributed $2.9 million in 2002 and 2003 to these trusts. There are various investment restrictions imposed upon the Company by the Texas Utility Commission and the United States Nuclear Regulatory Commission (NRC) relating to the Company's nuclear decommissioning trusts. The Company and CenterPoint Energy have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of $189 million as of December 31, 2003, of which approximately 37% were fixed-rate debt securities and the remaining 63% were equity securities. In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission and distribution customers.

Joint Operating Agreement with City of San Antonio. The Company has a joint operating agreement with the City Public Service Board of San Antonio to share savings from the joint dispatching of each party's generating assets. Dispatching the two generating systems jointly results in savings of fuel and related expenses due to a more efficient utilization of each party's lowest cost resources. The two parties currently share equally the savings resulting from joint dispatch. The agreement terminates in 2009.

(9) Unaudited Quarterly Data

Summarized quarterly financial data is as follows:

	Year Ended December 31, 2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In millions, except per share data)			
Revenues	$ 326	$ 414	$ 526	$ 275
Operating income (loss)	(52)	(29)	7	(59)
Net income (loss)	(35)	(18)	3	(43)
Basic and diluted earnings per share	$(0.43)	$(0.23)	$0.04	$(0.54)

	Year Ended December 31, 2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In millions, except per share data)			
Revenues	$ 359	$ 578	$ 657	$ 408
Operating income (loss)	(17)	50	125	64
Income (loss) before cumulative effect of accounting change	(11)	33	82	47
Cumulative effect of accounting change, net of tax	99	—	—	—
Net income	88	33	82	47
Basic and diluted earnings per share:				
Income (loss) before cumulative effect of accounting change	$(0.14)	$0.42	$1.03	$0.58
Cumulative effect of accounting change, net of tax	1.24	—	—	—
Net income	$ 1.10	$0.42	$1.03	$0.58

(10) Subsequent Event

On February 5, 2004, the Company's board of directors declared a quarterly cash dividend of $0.25 per share of common stock payable on March 19, 2004 to shareholders of record as of the close of business on February 26, 2004.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Texas Genco Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Texas Genco Holdings, Inc., (the Company), as of December 31, 2002 and 2003, and the related statements of consolidated operations, cash flows and capitalization and shareholders' equity for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(j) to the consolidated financial statements, on January 1, 2003, the Company recorded asset retirement obligations to conform to Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

DELOITTE & TOUCHE LLP

Houston, Texas
March 12, 2004

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2003 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART III

Item 10. *Directors and Executive Officers.*

The information called for by Item 10, to the extent not set forth in "Executive Officers" in Item 1 of this Form 10-K, is or will be set forth in the definitive proxy statement relating to Texas Genco's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 10 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 11. *Executive Compensation.*

The information called for by Item 11 is or will be set forth in the definitive proxy statement relating to Texas Genco's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 11 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

The information called for by Item 12 is or will be set forth in the definitive proxy statement relating to Texas Genco's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 12 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 13. *Certain Relationships and Related Transactions.*

The information called for by Item 13 is or will be set forth in the definitive proxy statement relating to Texas Genco's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 14. *Principal Accountant Fees and Services.*

The information called for by Item 14 is or will be set forth in the definitive proxy statement relating to Texas Genco's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy

statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 14 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

PART IV

Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K.*

(a)(1) *Financial Statements.*

(a)(2) *Financial Statement Schedules for the Three Years Ended December 31, 2003*

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

I, II, III, IV and V.

(a)(3) *Exhibits*

See Index of Exhibits on page 66.

(b) *Reports on Form 8-K*

On October 21, 2003, we filed a Current Report on Form 8-K dated October 21, 2003 in which we furnished information under Item 12 of that form relating to our third quarter 2003 earnings.

On December 12, 2003, we filed a Current Report on Form 8-K dated December 11, 2003 in which we announced that on December 9, 2003, one of three standby diesel generators at Unit 2 of the South Texas Project nuclear facility experienced a failure during a routine monthly surveillance test.

On January 29, 2004, we filed a Current Report on Form 8-K dated January 23, 2004 in which we announced that Reliant Resources, Inc. had notified CenterPoint Energy that it would not exercise its option to purchase CenterPoint Energy's 81% interest in Texas Genco Holdings, Inc.

On February 12, 2004, we filed a Current Report on Form 8-K dated February 12, 2004 in which we furnished information under Item 12 of that form relating to our fourth quarter and full year 2003 earnings.

On March 3, 2004, we filed a Current Report on Form 8-K dated March 3, 2004 to furnish under Item 9 of that form a slide presentation we expect will be presented to various members of the financial and investment community from time to time.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, the State of Texas, on the 12th day of March, 2004.

TEXAS GENCO HOLDINGS, INC.
(Registrant)

By: /s/ DAVID G. TEES
David G. Tees
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 12, 2004.

Signature	Title
/s/ DAVID G. TEES (David G. Tees)	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ GARY L. WHITLOCK (Gary L. Whitlock)	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
/s/ JAMES S. BRIAN (James S. Brian)	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ J. EVANS ATTWELL (J. Evans Attwell)	Director
/s/ DONALD R. CAMPBELL (Donald R. Campbell)	Director
/s/ ROBERT J. CRUIKSHANK (Robert J. Cruikshank)	Director
/s/ PATRICIA A. HEMINGWAY HALL (Patricia A. Hemingway Hall)	Director
/s/ DAVID M. MCCLANAHAN (David M. McClanahan)	Director
/s/ SCOTT E. ROZZELL (Scott E. Rozzell)	Director

TEXAS GENCO HOLDINGS, INC.

EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K
For Fiscal Year Ended December 31, 2003

INDEX OF EXHIBITS

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

Exhibit Number		Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
3.1	—	Amended and Restated Articles of Incorporation	Texas Genco Holdings, Inc.'s ("Texas Genco") Form 10-K for the year ended December 31, 2002	1-31449	3.1
3.2	—	Amended and Restated Bylaws	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449	3.2
4.1	—	Specimen Stock Certificate	Texas Genco's registration statement on Form 10	1-31449	4.1
10.1	—	Separation Agreement between CenterPoint Energy, Inc. ("CenterPoint Energy") and Texas Genco effective as of August 31, 2002	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449	10.1
10.2	—	Texas Genco Option Agreement	CenterPoint Energy Houston Electric, LLC's (formerly Reliant Energy, Incorporated) ("REI") quarterly report on Form 10-Q for the quarter ended March 31, 2001	1-3187	10.4
10.3	—	Transition Services Agreement between CenterPoint Energy and Texas Genco effective as of August 31, 2002	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449	10.3
10.4	—	Technical Services Agreement	CenterPoint Houston's quarterly report on Form 10-Q for the quarter ended March 31, 2001	001-31449	10.3
10.5	—	Tax Allocation Agreement between CenterPoint Energy and Texas Genco effective as of August 31, 2002	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449	10.5
10.6(a)	—	Executive Benefit Plan of CenterPoint and First and Second Amendments thereto effective as of June 1, 1982, July 1, 1984 and May 7, 1986, respectively	Houston Industries Incorporated's ("HI") Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1), (a)(2) and (a)(3)
10.6(b)	—	Third Amendment to Exhibit 10.6(a) dated September 17, 1999	REI's Form 10-K for the year ended December 31, 2000	1-3187	10(a)(2)
10.7(a)	—	Executive Life Insurance Plan of CenterPoint effective as of January 1, 1994	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(q)
10.7(b)	—	First Amendment to Exhibit 10.7(a) effective as of January 1, 1994	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10
10.7(c)	—	Second Amendment to Exhibit 10.7(a) effective as of August 6, 1997	REI's Form 10-K for the year ended December 31, 1997	1-3187	10(s)(3)

Exhibit Number		Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
10.8(a)	—	Long-Term Incentive Compensation Plan of CenterPoint effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
10.8(b)	—	First Amendment to Exhibit 10.8(a) effective as of January 1, 1990	HI's Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
10.8(c)	—	Second Amendment to Exhibit 10.8(a) effective as of December 22, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(u)(3)
10.8(d)	—	Third Amendment to Exhibit 10.8(a) effective as of August 6, 1997	REI's Form 10-K for the year ended December 31, 1997	1-3187	10(m)(4)
10.9	—	Retention Agreement effective October 15, 2001 between REI and David G. Tees	REI's Form 10-K for the year ended December 31, 2001	1-3187	10(jj)
10.10(a)	—	Deferred Compensation Plan of CenterPoint effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
10.10(b)	—	First Amendment to Exhibit 10.10(a) effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
10.10(c)	—	Second Amendment to Exhibit 10.10(a) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
10.10(d)	—	Third Amendment to Exhibit 10.10(a) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
10.10(e)	—	Fourth Amendment to Exhibit 10.10(a) effective as of December 1, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
10.10(f)	—	Fifth Amendment to Exhibit 10.10(a) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
10.10(g)	—	Sixth Amendment to Exhibit 10.10(a) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
10.10(h)	—	Seventh Amendment to Exhibit 10.10(a) effective as of December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(d)
10.10(i)	—	Eighth Amendment to Exhibit 10.10(a) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(d)
10.10(j)	—	Ninth Amendment to Exhibit 10.10(a) effective in part August 6, 1997, in part October 1, 1997 and in part January 1, 1998	REI's Form 10-K for the year ended December 31, 1997	1-3187	10(1)(10)
10.10(k)	—	Tenth Amendment to Exhibit 10.10(a) effective as of September 3, 1997	REI's Form 10-K for the year ended December 31, 1997	1-3187	
10.11	—	Assignment and Assumption Agreement for the Technical Services Agreement entered into as of August 31, 2002, by and between Texas Genco, LP and REI	Texas Genco's registration statement on Form 10	1-31449	10.11

Exhibit Number		Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
10.12	—	Undertaking to Comply with Certain Provisions of Option Agreement entered into as of August 31, 2002 by Texas Genco	Texas Genco's registration statement on Form 10	1-31449	10.12
10.13	—	Amendment No. 1 to Texas Genco Option Agreement dated February 21, 2003	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449	10.13
10.14	—	$75,000,000 revolving credit facility dated as of December 23, 2003 among Texas Genco, LP and the banks named therein	CenterPoint Energy Inc.'s ("CNP") Form 10-K for the year ended December 31, 2003	1-31447	10(pp)(1)
10.15	—	First mortgage indenture, dated as of December 23, 2003 among Texas Genco, LP and JPMorgan Chase Bank, as trustee	CNP's Form 10-K for the year ended December 31, 2003	1-31447	10(pp)(2)
10.16	—	First supplemental indenture to Exhibit 10.15 dated as of December 23, 2003	CNP's Form 10-K for the year ended December 31, 2003	1-31447	10(pp)(3)
10.17	—	Pledge Agreement, dated as of October 7, 2003, executed in connection with Credit Agreement, dated as of October 7, 2003, among CenterPoint Energy and the banks named therein	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.9
10.18	—	CenterPoint Energy 1985 Deferred Compensation Plan, as amended and restated effective January 1, 2003	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.1
10.19	—	CenterPoint Energy Deferred Compensation Plan, as amended and restated effective January 1, 2003	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.2
10.20	—	CenterPoint Energy Short Term Incentive Plan, as amended and restated effective January 1, 2003	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.3
10.21	—	CenterPoint Energy Executive Benefits Plan, as amended and restated effective January 1, 2003	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.4
10.22	—	CenterPoint Energy Executive Life Insurance Plan, as amended and restated effective June 18, 2003	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.5
10.23	—	Texas Genco Holdings, Inc. Performance Unit Plan effective January 1, 2003	Texas Genco's Form 10-Q for the quarter ended September 30, 2003	1-31449	10.7
21.1	—	Subsidiaries of Texas Genco	Texas Genco's registration statement on Form 10	1-31449	21.1
†31.1	—	Rule 13a-14(a)/15d-14(a) Certification of David G. Tees			
†31.2	—	Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock			
†32.1	—	Section 1350 Certification of David G. Tees			
†32.2	—	Section 1350 Certification of Gary L. Whitlock			

Attachment 3

Biographical Summaries for the Chief Executive Officer and Board of Managers of GC Power Acquisition LLC

Biographical Summaries of CEO and Board of Mangers of GC Power Acquisition LLC

Chief Executive Officer

Jack A. Fusco is the Chief Executive Officer of GC Power Acquisition LLC. Prior to GC Power, Mr. Fusco served as President, Chief Executive Officer and Director of Orion Power Holdings, Inc. (NYSE:ORN) a publicly traded company. He was a key participant in the formation of Orion and authored Orion's initial investment thesis, strategy and business plan in early 1997. After raising seed capital from funds managed by Goldman, Sachs & Company's Principal Investment Area and Constellation Energy Group, Mr. Fusco incorporated Orion in March 1998 and located its headquarters in Baltimore, Maryland. Under Mr. Fusco's vision and leadership, the Company rapidly grew into one of the largest independent power generators in the United States, investing over $4 billion in capital. Over a span of three years, Orion raised over $4.4 billion of capital from the private and public markets with over one-third of the company's ownership in public hands. By the end of year 2001, Orion's gross revenues exceeded $1 billion, its employee base was approximately 1,000 professionals and it owned and operated 85 power plants located in six states. In September 2001, Orion agreed to merge with Reliant Resources, Inc. (NYSE:RRI) of Houston, Texas for an equity consideration of approximately $2.9 billion cash and an assumption of all of Orion's debt. At the completion of the merger, Orion's founding shareholders earned a compounded annualized return of over 55%.

Prior to the establishment of Orion Power, Mr. Fusco was Vice President of the Fixed Income Commodity and Currency Division for Goldman, Sachs & Co. Mr. Fusco specialized in wholesale electric commodity trading and marketing while at Goldman, Sachs & Co. Prior to his tenure with Goldman, Sachs, & Co., Mr. Fusco was Executive Director for International Development and Operations for Pacific Gas & Electric's nonregulated subsidiary. In that role, he was responsible for the development and implementation of PG&E's International Business Strategy and the launching of International Generating Company (InterGen), an international independent power producer focused on emerging markets. Mr. Fusco has over 20 years of electric utility experience, predominantly in the power generation sector.

Mr. Fusco is a native of California and holds a B.S. in Mechanical Engineering from California State University of Sacramento and is a registered professional mechanical engineer in the state of California. He currently resides in Annapolis, MD.

Board of Managers

Philip U. Hammarskjold has been a Managing Director at Hellman & Friedman for nine years. Mr. Hammarskjold's leads Hellman & Friedman's investment activities in the energy industry and the professional and marketing services industries. He led Hellman & Friedman's investments in Digitas, Inc. and Upromise, Inc., and was instrumental in Hellman & Friedman's investment in Young & Rubicam, Inc. Mr. Hammarskjold is a Director of Digitas, Inc. and Upromise, Inc., and was formerly a Director of Young & Rubicam, Inc.

Prior to joining Hellman & Friedman in 1992, Mr. Hammarskjold was employed by the Mergers & Acquisition Advisory Department of Dominguez Barry Samuel Montagu in Sydney, Australia and previously by the Merchant Banking Department of Morgan Stanley & Co. in New York.

A native of Philadelphia, PA, Mr. Hammarskjold graduated Summa Cum Laude from Princeton University and the Harvard Business School, where he was a Baker Scholar. He currently resides in San Francisco, CA.

Michael MacDougall is a principal of Texas Pacific Group (TPG). Mr. MacDougall has been with TPG since 2002. Mr. MacDougall is one of the leaders of TPG's general industrial investing effort with a focus on the energy and power and chemicals sectors. Mr. MacDougall was involved in TPG's investment in KRATON Polymers LLC and in TPG's announced agreements to invest in Portland General and Texas Genco. Mr. MacDougall is a member of the board of directors of KRATON Polymers LLC.

Prior to joining TPG in 2002, Mr. MacDougall was a Vice President in the Principal Investment Area of Goldman, Sachs & Co., where he focused on merchant banking investments. From 1997 to 1999, Mr. MacDougall was an associate in the Investment Banking Division of Goldman, Sachs & Co., specializing in leveraged acquisitions. Mr. MacDougall was also an assistant brand manager in the Paper Division of Procter & Gamble.

A native of Los Angles, Mr. MacDougall received his MBA, with distinction, from Harvard Business School. Mr. MacDougall received his BBA, with highest honors, from the University of Texas at Austin. Mr. MacDougall currently resides in San Francisco, CA.

David I. Foley is a Principal in the Private Equity group of The Blackstone Group (Blackstone). Mr. Foley has been involved in the execution of several of Blackstone's investments and leads Blackstone's investment activities in the energy industry. Mr. Foley currently serves as a Director of Premcor (NYSE: PCO), Kosmos Energy, Foundation Coal Holdings, and Mega Bloks (TSE: MB).

Before joining Blackstone in 1995, Mr. Foley worked with AEA Investors, where he worked on several of the firm's private equity investments. Mr. Foley also worked as a consultant for the Monitor Company, a management consulting firm.

A native of Chicago, Mr. Foley received a BA and MA in Economics from Northwestern University, where he graduated with high distinction, and received an MBA with distinction from Harvard Business School. He currently resides in New York, NY.

Marc Lipschultz is a Member of Kohlberg Kravis Roberts & Co. ("KKR"), one of the world's largest private equity firms. Mr. Lipschultz has been with KKR since 1995. Mr. Lipschultz is one of the leaders of the energy industry group at KKR and was involved in KKR's investment in International Transmission Holdings and the announced agreements to invest in UniSource Energy Corporation and Texas Genco. In addition, Mr. Lipschultz is a member of the board of directors of The Boyds Collection Limited (NYSE: FOB).

A native of St. Paul, MN, Mr. Lipschultz has an AB from Stanford University, with honors and distinction, Phi Beta Kappa, and an MBA, with high distinction, Baker Scholar, from Harvard Business School. He currently resides in New York, NY.

Attachment 4

10 CFR 2.390 Affidavits of David G. Tees and Jack A. Fusco

UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
South Texas Project Units 1 and 2	)	

AFFIDAVIT

I, David G. Tees, Manager and President of Texas Genco GP, LLC, which is the General Partner of Texas Genco, LP, do hereby affirm and state:

1. I am authorized to execute this affidavit on behalf of Texas Genco, LP.

2. Texas Genco, LP is providing information in support of its Application for Order Approving Indirect Transfer of Control of Licenses. The documents being provided in Attachments 5A, 6A, and 7A contain financial projections and proprietary business information related to the ownership and operation of Texas Genco, LP's generation assets, including the South Texas Project Electric Generating Station. These documents constitute proprietary commercial and financial information that should be held in confidence by the NRC pursuant to the policy reflected in 10 NRC §§ 2.390(a)(4) and 9.17(a)(4), because:

   i. This information is and has been held in confidence by Texas Genco, LP.

   ii. This information is of a type that is customarily held in confidence by Texas Genco, LP, and there is a rational basis for doing so because the information contains sensitive financial information concerning projected revenues and operating expenses of Texas Genco, LP.

   iii. This information is being transmitted to the NRC voluntarily and in confidence.

   iv. This information is not available in public sources and could not be gathered readily from other publicly available information.

   v. Public disclosure of this information would create substantial harm to the competitive position of Texas Genco, LP by disclosing to its competitors data

related to internal business planning, including financial projections and proprietary business information.

vi. Accordingly, Texas Genco, LP requests that the designated documents be withheld from public disclosure pursuant to the policy reflected in 10 CFR §§ 2.390(a)(4) and 9.17(a)(4).

David G. Tees

STATE OF TEXAS)
)
COUNTY OF Harris)

Subscribed and sworn to me, a Notary Public, in and for the State of Texas, this 8th day of October, 2004.

Notary Public in and for the State of Texas

ROSE GALLARDO
Notary Public, State of Texas
My Commission Expires
March 23, 2008

UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
South Texas Project Units 1 and 2	)	

AFFIDAVIT

I, Jack A. Fusco, Chief Executive Officer of GC Power Acquisition LLC (GC Power), do hereby affirm and state:

1. I am authorized to execute this affidavit on behalf of GC Power.

2. GC Power is providing information in support of its Application for Order Approving Indirect Transfer of Control of Licenses. The documents being provided in Attachments 5A, 6A, and 7A contain financial projections and proprietary business information related to the ownership and operation of Texas Genco, LP's generation assets, including the South Texas Project Electric Generating Station. These documents constitute proprietary commercial and financial information that should be held in confidence by the NRC pursuant to the policy reflected in 10 NRC §§ 2.390(a)(4) and 9.17(a)(4), because:

   i. This information is and has been held in confidence by GC Power.

   ii. This information is of a type that is customarily held in confidence by GC Power, and there is a rational basis for doing so because the information contains sensitive financial information concerning projected revenues and operating expenses of GC Power.

   iii. This information is being transmitted to the NRC voluntarily and in confidence.

   iv. This information is not available in public sources and could not be gathered readily from other publicly available information.

   v. Public disclosure of this information would create substantial harm to the competitive position of GC Power by disclosing to its competitors data related to internal business planning, including financial projections and proprietary business information.

3. Accordingly, GC Power requests that the designated documents be withheld from public disclosure pursuant to the policy reflected in 10 CFR §§ 2.390(a)(4) and 9.17(a)(4).

Jack A. Fusco

Jack A. Fusco

STATE OF TEXAS)
)
COUNTY OF Harris)

Subscribed and sworn to me, a Notary Public, in and for the State of Texas, this 6TH day of October, 2004.

Lynne E. Purdue

Notary Public in and for the State of Texas

LYNNE E. PURDUE
Notary Public, State of Texas
My Commission Expires
March 30, 2008

Attachment 5

Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for Texas Genco Holdings, Inc. for the Period between the Closing of the Fossil Assets Acquisition and the Closing of the Nuclear Assets Acquisition

(Non-Proprietary Versions)

Texas Genco — NRC Application

Pro Forma Balance Sheet, Texas Genco Holdings Inc. (Subsidiary of CenterPoint Energy)

ASSETS	For the Period 30-Jun-04
Current Assets:	
Cash & cash equivalents	
Accounts receivable	
Fuel stock	
Materials & supplies, at average cost	
Prepayments and other current assets	
Total current assets	
Electric Property, Plant & Equipment - at cost:	
Electric plant in service	
Construction work in progress	
Total electric plant	
Accum prov for depreciation & amortization	
Total property, plant & equipment - net	
Other Assets:	
Nuclear decommissioning trust	
Deferred debits	
Unamortized debt costs	
Intangibles	
Total deferred debits	
Assets	
CAPITALIZATION AND LIABILITIES	
Current Liabilities:	
Revolving credit facility	
Accounts payable	
Net AR and AP - Associated Co.	
Taxes and interest accrued	
Deferred revenue	
Current portion of long-term debt	
Other	
Total current liabilities	
New senior term loan facility	
New senior delayed draw term loan	
New senior second-priority secured notes	
Total Long-term debt	
Accumulated deferred income taxes*	
Unamortized investment tax credit*	
Benefit obligations	
Nuclear Decommissioning Reserve	
Accrued reclamation costs	
Other	
Total Liabilities	
Capitalization:	
Equity	
Capitalization & Liabilities	

Notes:

(1) Expected to be $95MM upon the close of the Initial Acquisition (November 2004), pro forma for the ROFR acquisition

(2) Allocation of purchase price subject to confirmation by valuation consultants

(3) Texas Genco Holdings does not expect to draw on this revolver. Texas Genco expects to have approximaely $402MM of cash at the close of the Initial Acquisition and hence will fund the dividend and ROFR acquisition out of this cash, leaving approximately $95MM of cash on the balance sheet

Texas Genco **NRC Application**

Income Statement - Texas Genco Holdings Inc. (Subsidiary of Centerpoint Energy) (1)

(Millions)

	Fiscal Year Ending December 31				
	2005 [2]	2006	2007	2008	2009
Revenues					
Fuel and Purchased Power					
Gross Margin					
Operations & Maintenance					
General & Administrative					
Taxes Other than Income Taxes					
Nuclear Fuel Amortization Add-Back[3]					
EBITDA					
Depreciation & Amortization					
Nuclear Fuel Amortization					
EBIT					
Other Income / (Expense)					
Interest Expense					
Interest Income					
EBT					
Tax Expense					
Net Income					

Notes:

(1) Pro Forma for AEP ROFR acquisition (44.0% ownership in STP)

(2) Assumes STP acquisition closes 12/31/04

(3) Add-back is done strictly for presentation purposes (to show EBITDA); removed in line item below

Texas Genco **NRC Application**

Cash Flow Statement - Texas Genco Holdings Inc. (Subsidiary of Centerpoint Energy) (1)

(Millions)

	Fiscal Year Ending December 31				
	2005 [2]	2006	2007	2008	2009
Cash Flows From Operating Activities					
Net Income					
Depreciation & Amortization					
Amortization of Fuel-Costs					
Deferred Taxes & ITC					
Non-Cash Pension Expense					
Change in Working Capital					
Change in Pension Liabilities					
Change in Other Assets & Liabilities					
Cash Flows From Operating Activities					
Capital Expenditures					
Mandatory Debt Repayment					
Free Cash Flow					

Notes:

(1) Pro Forma for AEP ROFR acquisition (44.0% ownership in STP)

(2) Assumes STP acquisition closes 12/31/04

Composition of Revenue Projections - Texas Genco Holdings Inc. (Subsidiary of Centerpoint Energy)

	Fiscal Year Ending December 31				
	2005 [1][2]	2006	2007	2008	2009
Fixed Price Forward Sales					
MW					
Average Price ($/MWhr)					
Revenue (MM)					
Merchant Sales					
MW					
Gas Price Forecast for Merchant Sales					
Achieved Merchant Heat Rate South Zone (btu/kW)					
Average Price ($/MWhr)					
Revenue (MM)					
Total Sales					
MW					
Average Price ($/MWhr)					
Revenue (MM)					
Capacity					
MW					
Capacity Factor					
% of Total Revenue Sold Forward					

Notes:

(1) Assumes STP acquisition closes December, 31 2004; assumes AEP ROFR closes on or before December 31, 2004.

(2) Average owned capacity for 2005 is 825 MW.

Attachment 6

Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for the Consolidated Business of GC Power Acquisition LLC

(Non-Proprietary Versions)

Texas Genco — NRC Application

Pro Forma Balance Sheet, GC Power Acquisition LLC (Consolidated)

ASSETS	For the Period 30-Jun-04
Current Assets:	
Cash & cash equivalents	
Accounts receivable	
Fuel stock	
Materials & supplies, at average cost	
Prepayments and other current assets	
Total current assets	
Electric Property, Plant & Equipment - at cost:	
Electric plant in service	
Construction work in progress	
Total electric plant	
Accum prov for depreciation & amortization	
Total property, plant & equipment - net	
Other Assets:	
Nuclear decommissioning trust	
Deferred debits	
Unamortized debt costs	
Intangibles	
Total deferred debits	
Assets	
CAPITALIZATION AND LIABILITIES	
Current Liabilities:	
New revolving credit facility	
Accounts payable	
Net AR and AP - Associated Co.	
Taxes and interest accrued	
Deferred revenue	
Current portion of long-term debt	
Other	
Total current liabilities	
New senior term loan facility	
New senior delayed draw term loan	
New senior second-priority secured notes	
Total Long-term debt	
Accumulated deferred income taxes*	
Unamortized investment tax credit*	
Benefit obligations	
Nuclear Decommissioning Reserve	
Accrued reclamation costs	
Other	
Total Liabilities	
Capitalization:	
Equity	
Capitalization & Liabilities	

Note:

(1) Allocation of purchase price subject to confirmation by valuation consultants

Texas Genco **NRC Application**

Income Statement - GC Power Acquisition LLC (Consolidated)[1]

(Millions)

	Fiscal Year Ending December 31				
	2005 [2]	2006	2007	2008	2009
Revenues					
Fuel and Purchased Power					
Gas Plant Capacity Payments					
Gross Margin					
Operations & Maintenance					
General & Administrative					
Taxes Other than Income Taxes					
Nuclear Fuel Amortization Add-Back[3]					
EBITDA					
Depreciation & Amortization					
Nuclear Fuel Amortization					
EBIT					
Other Income / (Expense)					
Interest Expense					
Interest Income					
EBT					
Tax Expense					
Net Income					

Notes:

(1) Pro Forma for AEP ROFR acquisition (44.0% ownership in STP)

(2) Assumes STP acquisition closes 12/31/04

(3) Add-back is done strictly for presentation purposes (to show EBITDA); removed in line item below

Texas Genco **NRC Application**

Cash Flow Statement - GC Power Acquisition LLC (Consolidated)[1]

(Millions)

	Fiscal Year Ending December 31				
	2005 [2]	2006	2007	2008	2009
Cash Flows From Operating Activities					
Net Income					
Depreciation & Amortization					
Amortization of Fuel-Costs					
Deferred Taxes & ITC					
Non-Cash Pension Expense					
Tax Distributions					
Change in Working Capital					
Change in Pension Liabilities					
Change in Other Assets & Liabilities					
Cash Flows From Operating Activities					
Capital Expenditures					
Mandatory Debt Repayment					
Free Cash Flow					

Notes:

(1) Pro Forma for AEP ROFR acquisition (44.0% ownership in STP)

(2) Assumes STP acquisition closes 12/31/04

Composition of Revenue Projections - GC Power Acquisition LLC (Consolidated)

	Fiscal Year Ending December 31				
	2005 [1][3]	2006	2007	2008	2009
Fixed Price Forward Sales					
MW					
Average Price ($/MWhr)					
Revenue (MM)					
Merchant Sales					
MW					
Gas Price Forecast for Merchant Sales					
Achieved Merchant Heat Rate Across Zones (btu/kW)					
Average Price ($/MWhr)					
Revenue (MM)					
Total Sales					
MW					
Average Price ($/MWhr)					
Revenue (MM)					
Capacity					
MW [2]					
Capacity Factor					
% of Total Revenue Sold Forward					

Notes:

(1) Assumes STP acquisition closes December, 31 2004; assumes AEP ROFR closes on or before December 31, 2004.

(2) Average owned capacity for 2005 is 4,881 MW.

(3) Hedged generation and revenue numbers in 2009 reflect gas collar at $3.75 multiplied by market heat rate

Attachment 7

Pro forma Balance Sheet, Projected Income and Cash Flow Statements, and Composition of Revenue Projections for Texas Genco, LP after the Closing of the Nuclear Assets Acquisition

(Non-Proprietary Versions)

ASSETS	For the Period 30-Jun-04
Current Assets:	
Cash & cash equivalents	
Accounts receivable	
Fuel stock	
Materials & supplies, at average cost	
Prepayments and other current assets	
Total current assets	
Electric Property, Plant & Equipment - at cost:	
Electric plant in service	
Construction work in progress	
Total electric plant	
Accum prov for depreciation & amortization	
Total property, plant & equipment - net	
Other Assets:	
Nuclear decommissioning trust	
Deferred debits	
Unamortized debt costs	
Intangibles	
Total deferred debits	
Assets	
CAPITALIZATION AND LIABILITIES	
Current Liabilities:	
New revolving credit facility	
Accounts payable	
Net AR and AP - Associated Co.	
Taxes and interest accrued	
Deferred revenue	
Current portion of long-term debt	
Other	
Total current liabilities	
New senior term loan facility	
New senior delayed draw term loan	
New senior second-priority secured notes	
Total Long-term debt	
Accumulated deferred income taxes*	
Unamortized investment tax credit*	
Benefit obligations	
Nuclear Decommissioning Reserve	
Accrued reclamation costs	
Other	
Total Liabilities	
Capitalization:	
Equity	
Capitalization & Liabilities	

Note:
(1) Allocation of purchase price subject to confirmation by valuation consultants

Texas Genco **NRC Application**

Income Statement - Texas Genco LP (Subsidiary of GC Power) (1)

(Millions)

	Fiscal Year Ending December 31				
	2005 [2]	2006	2007	2008	2009
Revenues					
Fuel and Purchased Power					
Gross Margin					
Operations & Maintenance					
General & Administrative					
Taxes Other than Income Taxes					
Nuclear Fuel Amortization Add-Back [3]					
EBITDA					
Depreciation & Amortization					
Nuclear Fuel Amortization					
EBIT					
Other Income / (Expense)					
Interest Expense					
Interest Income					
EBT					
Tax Expense					
Net Income					

Notes:

(1) Pro Forma for AEP ROFR acquisition (44.0% ownership in STP)

(2) Assumes STP acquisition closes 12/31/04

(3) Add-back is done strictly for presentation purposes (to show EBITDA); removed in line item below

Texas Genco **NRC Application**

Cash Flow Statement - Texas Genco LP (Subsidiary of GC Power) (1)

(Millions)

	Fiscal Year Ending December 31				
	2005 [2]	2006	2007	2008	2009
Cash Flows From Operating Activities					
Net Income					
Depreciation & Amortization					
Amortization of Fuel-Costs					
Deferred Taxes & ITC					
Non-Cash Pension Expense					
Change in Working Capital					
Change in Pension Liabilities					
Change in Other Assets & Liabilities					
Cash Flows From Operating Activities					
Capital Expenditures					
Mandatory Debt Repayment					
Free Cash Flow					

Notes:

(1) Pro Forma for AEP ROFR acquisition (44.0% ownership in STP)

(2) Assumes STP acquisition closes 12/31/04

Texas Genco | NRC Application

Composition of Revenue Projections - STP, Centerpoint Ownership

	Fiscal Year Ending December 31				
	2005 (1)(2)	2006	2007	2008	2009
Fixed Price Forward Sales					
MW					
Average Price ($/MWhr)					
Revenue (MM)					
Merchant Sales					
MW					
Gas Price Forecast for Merchant Sales					
Achieved Merchant Heat Rate South Zone (btu/kW)					
Average Price ($/MWhr)					
Revenue (MM)					
Total Sales					
MW					
Average Price ($/MWhr)					
Revenue (MM)					
Capacity					
MW					
Capacity Factor					
% of Total Revenue Sold Forward					

Notes:

(1) Assumes STP acquisition closes December, 31 2004; assumes AEP ROFR closes on or before December 31, 2004.

(2) Average owned capacity for 2005 is 825 MW.

Attachment 8

2004 Decommissioning Funding Status Report

Nuclear Operating Company
South Texas Project Electric Generating Station P.O. Box 289 Wadsworth, Texas 77483

March 29, 2004
NOC-AE-04001699
File No.: G25
10CFR50.75

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

South Texas Project
Units 1 and 2
Docket Nos. STN 50-498, STN 50-499
Decommissioning Funding Status Report - 2003

Pursuant to 10CFR50.75(f), the South Texas Project submits the attached reports on the status of funds available for decommissioning Units 1 and 2. The reports were prepared for the following co-owners of the South Texas Project:

- Texas Genco, LP; and
- AEP Texas Central Company.

These co-owners are in the process of changing the terms of ownership of their respective shares in the South Texas Project. Consequently, this report satisfies the annual reporting requirements of 10CFR50.75(f)(1).

The attached reports provide the following information for the affected co-owners:

- Estimated amount of decommissioning funds required;
- Amount accumulated by the end of calendar year 2003;
- A schedule of the annual amounts remaining to be collected;
- Assumptions used regarding rates of escalation in decommissioning cost, rates of earnings on decommissioning funds, and rates of other factors used in funding projections;
- Contracts upon which the owners rely pursuant to 10CFR50.75(e)(1)(v);
- Modifications to method of providing financial fund assurance; and
- Material changes to trust agreements.

If there are any questions, please contact me at (361) 972-8085.

Frank H. Mallen
General Manager,
Financial Support

Attachments:
2003 Decommissioning Funding Status Report – Texas Genco, LP
2003 Decommissioning Funding Status Report – AEP Texas Central Company

STI #31716722

cc:
(paper copy)

Bruce S. Mallett
Regional Administrator, Region IV
U.S. Nuclear Regulatory Commission
611 Ryan Plaza Drive, Suite 400
Arlington, Texas 76011-8064

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

Richard A. Ratliff
Bureau of Radiation Control
Texas Department of Health
1100 West 49th Street
Austin, TX 78756-3189

Jeffrey Cruz
U. S. Nuclear Regulatory Commission
P. O. Box 289, Mail Code: MN116
Wadsworth, TX 77483

C. M. Canady
City of Austin
Electric Utility Department
721 Barton Springs Road
Austin, TX 78704

(electronic copy)

A. H. Gutterman, Esquire
Morgan, Lewis & Bockius LLP

L. D. Blaylock
City Public Service

Michael K. Webb
U. S. Nuclear Regulatory Commission

R. L. Balcom
Texas Genco, LP

A. Ramirez
City of Austin

C. A. Johnson
AEP Texas Central Company

Jon C. Wood
Matthews & Branscomb

ATTACHMENT 1

SOUTH TEXAS PROJECT

2003 DECOMMISSIONING FUNDING STATUS REPORT

TEXAS GENCO, LP

TEXAS GENCO, LP
30.8% Ownership of South Texas Project Unit 1
2003 DECOMMISSIONING FUNDING STATUS REPORT

As provided in 10CFR50.75(f)(1), each power reactor licensee is required to report to the NRC on a calendar year basis, beginning on March 31, 1999, and every 2 years thereafter or annually if the reactor is part of a merger or acquisition, on the status of its decommissioning funding for each reactor or share of reactor it owns. Please refer to the responses below for the requested information:

1. The minimum decommissioning fund estimate, pursuant to 10CFR50.75(b) and (c)[1]:

   Total Required: $111,249,600

   Required by 12/31/2003: $ 39,087,697

2. The amount accumulated at the end of the calendar year preceding the date of the report for items included in 10CFR50.75(b) and (c):

   $ 83,459,419

3. A schedule of the annual amounts remaining to be collected for items in 10CFR50.75(b) and (c):

   Amount remaining: $47,532,562

   Number of years to collect: 23.6

4. The assumptions used regarding escalation in decommissioning cost, rates of earnings on decommissioning funds, and rates of other factors used in funding projections:

   Escalation factor: 3.01%

   Net earnings rate (after taxes and fees): 4.64% to 5.20%

5. Any contracts upon which the licensee is relying pursuant to 10CFR50.75(e)(1)(v):

   None

6. Any modifications to a licensee's current method of providing financial assurance occurring since the last submitted report:

   None

7. Any material changes to the decommissioning trust agreements:

   None

---

[1]The NRC formulas in section 10CFR50.75(c) include only those decommissioning costs incurred by licensees to remove a facility or site safely from service, and reduce residual radioactivity to levels that permit: (1) release of the property for unrestricted use and termination of the license; or (2) release of the property under restricted conditions and termination of the license. The cost of dismantling or demolishing non-radiological systems and structures is not included in the NRC decommissioning cost estimates. The costs of managing and storing spent fuel on site until transfer to DOE are not included in the cost formulas.

TEXAS GENCO, LP
30.8% Ownership of South Texas Project Unit 2
2003 NRC DECOMMISSIONING FUNDING STATUS REPORT

As provided in 10CFR50.75(f)(1), each power reactor licensee is required to report to the NRC on a calendar year basis, beginning on March 31, 1999, and every 2 years thereafter or annually if the reactor is part of a merger or acquisition, on the status of its decommissioning funding for each reactor or share of reactor it owns. Please refer to the responses below for the requested information:

1. The minimum decommissioning fund estimate, pursuant to 10CFR50.75(b) and (c)[1]:

   Total Required: **$111,249,600**

   Required by 12/31/2003: **$38,059,074**

2. The amount accumulated at the end of the calendar year preceding the date of the report for items included in 10CFR50.75(b) and (c):

   $111,838,360

3. A schedule of the annual amounts remaining to be collected for items in 10CFR50.75(b) and (c):

   Amount remaining: **$22,241,937**

   Number of years to collect: **24.9**

4. The assumptions used regarding escalation in decommissioning cost, rates of earnings on decommissioning funds, and rates of other factors used in funding projections:

   Escalation factor: **3.01%**

   Net earnings rate (after taxes and fees): **4.64% to 5.20%**

5. Any contracts upon which the licensee is relying pursuant to 10 CFR 50.75(e)(1)(v):

   None

6. Any modifications to a licensee's current method of providing financial assurance occurring since the last submitted report:

   None

7. Any material changes to trust agreements:

   None

---

[1]The NRC formulas in section 10CFR50.75(c) include only those decommissioning costs incurred by licensees to remove a facility or site safely from service, and reduce residual radioactivity to levels that permit: (1) release of the property for unrestricted use and termination of the license; or (2) release of the property under restricted conditions and termination of the license. The cost of dismantling or demolishing non-radiological systems and structures is not included in the NRC decommissioning cost estimates. The costs of managing and storing spent fuel on site until transfer to DOE are not included in the cost formulas.