Nuclear Operating Company

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

October 21, 2004
NOC-AE-04001753
10 CFR 50.80
10 CFR 50.90

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

ORIGINAL

South Texas Project
Units 1 and 2
Docket Nos. STN 50-498 and STN 50-499
Application for Order Approving Transfers of
Control of Licenses and Conforming License Amendments

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended (AEA or the Act), and 10 CFR 50.80, STP Nuclear Operating Company (STPNOC), acting on behalf of Texas Genco, LP (Texas Genco), the City of San Antonio, Texas, acting by and through the City Public Service Board, operating as City Public Service of San Antonio (CPS), and AEP Texas Central Company (TCC) (together, the Applicants), requests that the Nuclear Regulatory Commission (NRC) consent to the transfer of TCC's 25.2% undivided ownership interest in South Texas Project, Units 1 and 2 (STP) (TCC's ownership interest in STP) to STP owners Texas Genco and CPS. The Applicants currently anticipate that the following proportionate shares of TCC's ownership interest in STP will be transferred to Texas Genco and CPS: a 13.2% undivided ownership interest to Texas Genco and a 12% undivided ownership interest to CPS. The Applicants request NRC approval for such transfers. If, however, the transfer to either Texas Genco or CPS fails to take place, the party whose transfer has not failed to take place will be obligated, subject to the terms and conditions of a September 3, 2004 Purchase and Sale Agreement between TCC, CPS and Texas Genco (Purchase and Sale Agreement), to purchase all of TCC's ownership interest in STP. In that event, the Applicants request NRC approval for transfer of TCC's entire 25.2% interest to the party whose transfer is completed. Approval of the transfer of all or a portion of TCC's interest to either Texas Genco or CPS by a single Commission order, as requested herein, will avoid the potential need for consecutive, duplicative applications and Staff reviews in the event that the transfer of TCC's entire interest in STP is made to a single party and the transfer occurs in two stages. Pursuant to 10 CFR 50.90, the Applicants also request NRC approval of administrative amendments to the STP licenses pursuant to 10 CFR 50.92 and 10 CFR 2.1315 to conform the licenses to reflect the proposed transfers, at such time as such amendments become necessary because TCC has transferred its entire ownership interest in STP to Texas Genco and/or CPS.

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In addition to its 25.2% undivided ownership interest in STP, TCC has certain rights to participate in the corporate governance of STPNOC, a not-for-profit Texas corporation, which is the licensed operator of STP. A proportionate share of these rights will be assigned to each of Texas Genco and CPS, unless either Texas Genco or CPS acquires all of TCC's ownership interest in STP, in which case all of these rights will be assigned to the STP owner that acquires all of TCC's ownership interest. However, no single STP owner currently exercises control over STPNOC, and neither Texas Genco nor CPS will be able individually to exercise control over STPNOC as a result of the transfer to it of all or a portion of TCC's ownership interest in STP. Therefore, there will be no indirect transfer of control of STPNOC's licenses to operate STP on behalf of the owners. If the NRC concludes that the transfers of TCC's rights to participate in the governance of STPNOC also require prior NRC consent, such consent is hereby requested.

Through the attached Application, the Applicants request that the NRC consent to the transfers of control of all or a portion of TCC's interest in STP and the licenses held by TCC to each of Texas Genco and CPS. Texas Genco currently owns a 30.8% undivided interest in STP, and CPS currently owns a 28% undivided interest in STP. As a result of the currently anticipated sale of TCC's interest in STP, under which there will be the transfer of a 13.2% undivided ownership interest to Texas Genco and a 12% undivided ownership interest to CPS, these current STP owners will own total undivided interests in STP of 44% and 40%, respectively. In the event TCC's entire interest in STP is transferred to Texas Genco, Texas Genco and CPS will own total undivided interests of 56% and 28%, respectively. In the event TCC's entire interest in STP is transferred to CPS, Texas Genco and CPS will own total undivided interests of 30.8% and 53.2%, respectively.

The information contained in this Application demonstrates that Texas Genco and CPS possess the requisite qualifications to own, respectively, up to 56% and 53.2% undivided ownership interests in STP. The proposed transfers of control of TCC's interest will not result in any change in the role of STPNOC as the licensed operator of the facility and will not result in any changes to its technical qualifications. Finally, this request for transfers of control of licenses does not involve any entities that are owned, controlled, or dominated by a foreign entity.

In summary, the proposed transfers will be consistent with the requirements set forth in the Act, NRC regulations, and the relevant NRC licenses and orders. No physical changes will be made to STP and there will be no changes in the day-to-day operation of STP as a result of these transfers. The proposed transfers of control of the TCC licenses will not involve any changes to the current STP licensing basis. They will neither have any adverse impact on the public health and safety, nor be inimical to the common defense and security. The proposed transfers are merely transfers of ownership interests to current STP owners. The Applicants therefore respectfully request that the NRC consent to the transfers of control in accordance with 10 CFR 50.80.

The actual date for any transfer of control of TCC's 25.2% interest in STP to Texas Genco and/or CPS will be dependent upon the actual date of satisfying the conditions for closing the sale by TCC in accordance with the terms and conditions of the Purchase and Sale Agreement, including receipt of any other required regulatory approvals and rulings. In particular, the actual date for the transfer of control of TCC's interest in STP to CPS beyond the 12% currently contemplated, should it occur, will be contingent upon a determination that the transfer of TCC's remaining 13.2% undivided interest to Texas Genco will not take place. Likewise, the actual date for the transfer of control of TCC's interest in STP to Texas Genco beyond the 13.2% currently contemplated, should it occur, will be contingent upon a determination that the transfer of TCC's remaining 12% undivided interest to CPS will not take place. STPNOC will advise the Commission of any developments relevant to any such additional transfers.

The Applicants request that the NRC review this Application on a schedule that will permit the issuance of NRC consent to the transfers of control and conforming license amendments as soon as possible, and are prepared to work closely with the NRC Staff to help expedite the Application's review, but request approval by no later than March 15, 2005. Such consent should be immediately effective upon issuance and should permit the transfers of control at any time within twelve months of the date of approval of this Application. STPNOC will inform the NRC if there are any significant changes in the status of any other required approvals or any other developments that have an impact on the schedule.

This Application is also supported by information provided in a separate Application submitted on October 12, 2004, in connection with another transaction involving the indirect transfer of control of Texas Genco. That information includes a proprietary Attachment 5A to that application which provides Texas Genco's Projected Income Statement, including specific line items reflecting the projected operation of a 44% undivided ownership interest in STP, for the five-year period 2005-2009. The STPNOC Plant Operations Review Committee has reviewed this request for license amendments and has recommended its approval. STPNOC has notified the State of Texas in accordance with 10 CFR 50.91(b).

If there are any questions regarding this request for transfers of control of licenses, please contact John Conly at (361) 972-7336 or me at (361) 972-7800. 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 and Texas Genco; Robert K. Temple at City Public Service of San Antonio, P.O. Box 1771 San Antonio, TX 78296-1771 (physical address: 145 Navarro Street San Antonio, TX 78205) (rktemple@cps-satx.com) (tel: 210-353-3113) on behalf of CPS; and Jay E. Silberg at Shaw Pittman LLP, 2300 N Street, N.W., Washington, DC 20037, (jay.silberg@shawpittman.com) (tel: 202-663-8063) on behalf of TCC.

G. L. Parkey
Vice President, Generation and
Plant General Manager

jtc

Enclosure: Application

cc:

(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

Catherine L. Marco
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

James J. Nesrsta
Robert K. Temple
City Public Service

R. L. Balcom
Texas Genco, LP

C. A. Johnson
AEP Texas Central Company

Jon C. Wood
Cox Smith Matthews, Inc.

Chris Kirksey
City of Austin

Jay E. Silberg
Matias F. Travieso-Diaz
Shaw Pittman LLP

David H. Jaffe
U. S. Nuclear Regulatory Commission

Rocky Miracle
AEP

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, G. L. Parkey, being duly sworn, hereby depose and state that I am Vice President, Generation and Plant General Manager of STP Nuclear Operating Company (STPNOC); that I am duly authorized to submit to the Nuclear Regulatory Commission the attached Application for Order Approving Transfers of Control of Licenses and Conforming License Amendments; that I am familiar with the content thereof; and that the matters set forth therein with regard to STPNOC are true and correct to the best of my knowledge and belief.

G L Parkey

G. L. Parkey
Vice President, Generation and
Plant General Manager

STATE OF TEXAS	)
	)
COUNTY OF MATAGORDA	)

Subscribed and sworn to before me, a Notary Public in and for the State of Texas, this 21st day of October, 2004.

LOIS J. MILLS
Notary Public, State of Texas
My Commission Expires
JULY 27, 2007

Lois J. Mills

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 (Texas Genco), and as such exercises control over Texas Genco; that I am familiar with the content of the attached Application for Order Approving Transfers of Control of Licenses and Conforming License Amendments; and that the matters set forth therein with regard to Texas Genco and its affiliates are true and correct to the best of my knowledge and belief.

David G. Tees
Manager and President

STATE OF TEXAS	)
	)
COUNTY OF HARRIS	)

Subscribed and sworn to before me, a Notary Public in and for the State of Texas, this 19TH 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

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, Ronald B. Seidel, being duly sworn, hereby depose and state that I am Senior Vice President, Energy Supply, City Public Service of San Antonio (CPS); that I am familiar with the content of the attached Application for Order Approving Transfers of Control of Licenses and Conforming License Amendments; and that the matters set forth therein with regard to CPS are true and correct to the best of my knowledge and belief.

R B Seidel

Ronald B. Seidel
Senior Vice President, Energy Supply

STATE OF TEXAS	)
	)
COUNTY OF BEXAR	)

Subscribed and sworn to before me, a Notary Public in and for the State of Texas, this 19th day of October, 2004.

BRENDA MARTINEZ
NOTARY PUBLIC
STATE OF TEXAS
My Comm. Exp. 11-30-2004

Brenda Martinez

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, Robert P. Powers, being duly sworn, hereby depose and state that I am Executive Vice President - Generation of American Electric Power Company and a Vice President of AEP Texas Central Company (TCC); that I am familiar with the contents of the attached Application for Order Approving Transfers of Control of Licenses and Conforming License Amendments; and that the matters set forth therein with regard to TCC are true and correct to the best of my knowledge and belief.

Robert P. Powers

Robert P. Powers

STATE OF OHIO	)
	)
COUNTY OF FRANKLIN	)

Subscribed and sworn to before me, a Notary Public in and for the State of Ohio, this 21st day of October, 2004.

Linda Jeffries

Notary Public in and for the
State of Ohio

NOTARIAL SEAL
STATE OF OHIO

LINDA JEFFRIES
Notary Public, State of Ohio
My Commission Expires 10-29-06

My Commission expires 10/29/06

STP Nuclear Operating Company
South Texas Project Electric Generating Station P.O. Box 289 Wadsworth, Texas 77483

APPLICATION FOR ORDER APPROVING TRANSFERS OF CONTROL OF LICENSES AND CONFORMING LICENSE AMENDMENTS

October 21, 2004

submitted by

STP Nuclear Operating Company,
Texas Genco, LP,
City Public Service of San Antonio,
and
AEP Texas Central Company

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

APPLICATION FOR ORDER APPROVING TRANSFERS OF CONTROL OF LICENSES AND CONFORMING LICENSE AMENDMENTS

TABLE OF CONTENTS

I. INTRODUCTION

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended (AEA or the Act), and 10 CFR 50.80, STP Nuclear Operating Company (STPNOC), acting on behalf of Texas Genco, LP (Texas Genco), the City of San Antonio, Texas, acting by and through the City Public Service Board, operating as City Public Service of San Antonio (CPS), and AEP Texas Central Company (TCC) (together, the Applicants), requests that the Nuclear Regulatory Commission (NRC) consent to the transfer of TCC's 25.2% undivided ownership interest in South Texas Project, Units 1 and 2 (STP) (TCC's ownership interest in STP) to STP owners Texas Genco and CPS. The Applicants currently anticipate that the following proportionate shares of TCC's ownership interest in STP will be transferred to Texas Genco and CPS: a 13.2% undivided ownership interest to Texas Genco and a 12% undivided ownership interest to CPS. The Applicants request NRC approval for such transfers. If, however, the transfer of either Texas Genco or CPS fails to take place, the party whose transfer has not failed will be obligated, subject to the terms and conditions of a September 3, 2004 Purchase and Sale Agreement between TCC, CPS and Texas Genco (Purchase and Sale Agreement), to purchase all of TCC's ownership interest in STP. In that event, the Applicants request NRC approval for transfer of TCC's entire 25.2% interest to the party whose transfer is completed. Approval of the transfer of all or a portion of TCC's interest to either Texas Genco or CPS by a single NRC order, as requested herein, will avoid the potential need for consecutive, duplicative applications and Staff reviews in the event that the transfer of TCC's entire interest in STP is made to a single party and the transfer occurs in two stages. Pursuant to 10 CFR 50.90, the Applicants also request NRC approval of administrative amendments to the STP licenses pursuant to 10 CFR 50.92 and 10 CFR 2.1315 to conform the licenses to reflect the proposed transfers, at such time as such amendments are necessary. In a separate Application dated October 12, 2004, Texas Genco has sought NRC consent to an indirect transfer of control of its STP licenses in connection with a transaction involving GC Power Acquisition LLC (GC Power).[1] Issues relating to the GC Power Application should be addressed separately in connection with NRC's review of that request and each Application should be processed separately without regard to the timing or outcome of NRC's review of the other. To the extent that the NRC deems GC Power's potential future indirect interest in STP (through ownership of Texas Genco's parent companies) material to the approvals sought in this Application, those issues are addressed in the separate GC Power Application. Rather than conducting duplicative reviews of these issues, the approvals sought in this Application can rely upon the fact that, in order to become relevant to the approvals sought here, any such issues will have been reviewed and addressed by NRC in connection with the approvals sought in the GC Power Application.

Should the transfer of a 12% interest in STP from TCC to CPS be completed in advance of completion of the transfer of TCC's remaining 13.2% interest in STP to Texas Genco, or should the transfer of a 13.2% interest in STP from TCC to Texas Genco be completed in advance of completion of the transfer of TCC's remaining 12% interest in STP to CPS, it will not yet be necessary to amend the existing licenses for STP Units 1 and 2 as, in either case, following the transfer TCC will still remain an STP owner. At such time, however, as both anticipated transfers of proportionate shares of TCC's interest in STP to Texas Genco and CPS have occurred, or if TCC ultimately transfers its entire 25.2% interest to Texas Genco or CPS, then at such time as the transfer(s) to either Texas Genco or CPS of all of TCC's ownership interest in STP has (have) occurred, administrative amendments to the STP licenses pursuant to

1 This "GC Power Application" was submitted by STPNOC letter dated October 12, 2004 (NOC-AE-04001801).

10 CFR 50.92 and 10 CFR 2.1315 to conform the licenses to reflect the transfer of TCC's entire interest in STP will be necessary.

In addition to its 25.2% undivided ownership interest in STP, TCC has certain rights to participate in the corporate governance of STPNOC, a not-for-profit Texas corporation, which is the licensed operator of STP. A proportionate share of these rights will be assigned to each of Texas Genco and CPS, unless either Texas Genco or CPS acquires all of TCC's ownership interest in STP, in which case all of these rights will be assigned to the STP owner that acquires all of TCC's ownership interest. However, no single STP owner currently exercises control over STPNOC and neither Texas Genco nor CPS will be able individually to exercise control over STPNOC as a result of the transfer to it of TCC's ownership interest in STP. Therefore, there will be no indirect transfer of control of STPNOC's licenses to operate STP on behalf of the owners. Even if Texas Genco obtains TCC's entire 25.2% interest and thus controls a 56% ownership interest in STP, or if CPS obtains TCC's entire 25.2% interest and thus controls a 53.2% ownership interest in STP, neither will be able individually to exercise control over STP because significant decisions by STP owners are required to be made by at least two STP owners having at least a combined 60% interest in STP. Accordingly, as further described below, neither Texas Genco nor CPS will be able to control decisionmaking by the STP owners. If the NRC concludes that the transfer of all or a portion of TCC's rights to participate in the governance of STPNOC to Texas Genco or CPS also requires prior NRC consent, such consent is hereby requested.

As discussed below, Texas Genco currently owns a 30.8% undivided interest in STP and CPS currently owns a 28% undivided interest in STP. An additional owner, the City of Austin, Texas owns a 16% undivided interest in STP. To the extent that the owners exert control over

STP, decisions are made by an Owners Committee under the Amended and Restated South Texas Project Participation Agreement (STP Participation Agreement). Voting weight on this committee is in proportion to each owner's interest in STP. The STP Participation Agreement requires, with limited exceptions, that "[a]ll matters coming under the authority of the Owners Committee shall be decided by agreement of the representatives of two or more Participants having in excess of sixty percent (60%) interest in the Generating Unit or Units affected by the decision." As a result of the TCC ownership transfer, either or both of Texas Genco and CPS will own at least 40% and hence either or both will acquire an effective "veto" regarding such decisions. However, under no circumstances will either be able individually to exercise control over such decisions. In addition, STPNOC will continue to be governed by a Board of Directors and neither Texas Genco nor CPS will exercise control over this Board of Directors.[2]

There is no change expected in the executive management of STPNOC.

STP is composed of two 1,268 megawatt electric (MWe) (net) (3,853 MWt) nuclear power plants, 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. Four STP owners currently each own an undivided ownership interest in the two units, in the following percentages:

Texas Genco	30.8
CPS	28.0
TCC	25.2
City of Austin, Texas	16.0

2 STPNOC is governed by a Board of Directors comprised of a representative of each of the current owners plus STPNOC's Chief Executive Officer. Voting is by majority of a quorum, with the voting being per capita, not weighted by percent ownership.

These same entities pay corresponding shares of the costs of operating STP and have certain rights with respect to the governance of STPNOC.

Following the currently anticipated transfers, three STP owners will each own an undivided ownership interest in STP, in the following percentages:

Texas Genco	44.0
CPS	40.0
City of Austin, Texas	16.0

In the event the entire TCC interest is transferred to Texas Genco, three STP owners will each own an undivided ownership interest in STP, in the following percentages:

Texas Genco	56.0
CPS	28.0
City of Austin, Texas	16.0

In the event the entire TCC interest is transferred to CPS, three STP owners will each own an undivided ownership interest in STP, in the following percentages:

Texas Genco	30.8
CPS	53.2
City of Austin, Texas	16.0

The information contained in this Application demonstrates that Texas Genco and CPS possess the requisite qualifications to own their respective undivided ownership interests in STP. The proposed transfers of control of TCC's interest will not result in any change in the role of STPNOC as the licensed operator of the facility and will not result in any changes to its technical qualifications. In addition, Texas Genco and CPS will remain financially qualified to own their respective interests. Finally, this request for consent to transfers of control of licenses does not involve any entities that are owned, controlled, or dominated by a foreign entity.

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

TCC offered for sale, through auction, its electric generation facilities as provided for under Texas electric restructuring legislation (Texas Senate Bill 7). TCC received and accepted an offer from Cameco Corporation to purchase its interest in STP.[3] The offer from Cameco Corporation and TCC's acceptance of that offer triggered certain rights of first refusal, contained in the STP Participation Agreement and held by the other STP owners, to purchase the interest being offered for sale. STP owners Texas Genco and CPS exercised their respective rights of first refusal to acquire TCC's ownership interest in STP, and they entered into a Purchase and Sale Agreement with TCC. Pursuant to the provisions of the STP Participation Agreement and the terms of the Purchase and Sale Agreement, Texas Genco will acquire a proportionate part of TCC's interest equating to a 13.2% undivided ownership interest in STP and CPS will acquire a proportionate part of TCC's interest equating to a 12% undivided ownership interest in STP.[4] Pursuant to the Purchase and Sale Agreement, "in the event that there is a termination as to the Texas Genco Purchased Interest [in STP from TCC], CPS shall purchase all of the STP Interest and the CPS Purchased Interest (and its Proportionate Share) shall equal 100% of the [TCC] STP Interest." Also, "in the event that there is a termination as to the CPS Purchased Interest [in STP from TCC], Texas Genco shall purchase all of the STP Interest and the Texas Genco Purchased Interest (and its Proportionate Share) shall equal 100% of the [TCC] STP Interest." Thus, the

[3] On April 21, 2004, STPNOC filed an NRC license transfer application on behalf of TCC and Cameco South Texas Project LP (Cameco STP), a subsidiary of Cameco Corporation, in anticipation of the sale of TCC's interest in STP to Cameco STP (NOC-AE-04001712) (hereinafter, the "April 21, 2004, NRC license transfer application").

[4] On June 10, 2004, STPNOC requested that the NRC Staff suspend its review of the April 21, 2004, NRC license transfer application (NOC-AE-04001740) based upon the exercise by Texas Genco and CPS of their rights of first refusal to acquire TCC's ownership interest in STP. The April 21, 2004, license transfer application was later withdrawn by letter dated September 15, 2004 (NOC-AE-04001790).

Purchase and Sale Agreement prescribes terms under which, if the transfer of the proportionate part of TCC's interest in STP to Texas Genco does not take place, CPS will acquire the entire interest being sold by TCC, or if the transfer of the proportionate part of TCC's interest in STP to CPS does not take place, Texas Genco will acquire the entire interest being sold by TCC. In either case, following the closing of either of these transfer alternatives TCC will no longer have any interest in STP.

Texas Genco currently sells its *pro rata* share of electricity from STP at wholesale, and, whether Texas Genco acquires an additional 13.2% or 25.2% ownership interest in STP, it intends to sell its additional *pro rata* share of electricity from STP at wholesale. CPS currently serves its native load customers with its *pro rata* share of electricity from STP, and whether CPS acquires an additional 12% or 25.2% ownership interest in STP, it intends to serve its native load customers with its additional *pro rata* share of electricity from STP.

III. GENERAL CORPORATE INFORMATION REGARDING THE TEXAS GENCO ENTITIES

Detailed information regarding the business and management of the Texas Genco Entities (defined below) is provided in the 2003 Annual Report for Texas Genco Holdings, Inc. (TGN) (Attachment 4). However, certain key information is provided below. This information is not affected by the proposed transfer that is the subject of this Application. Potential changes in the general corporate information regarding Texas Genco are addressed separately in the GC Power Application and are not implicated by the consents requested in this application.

A. Names

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

Together, these entities are referred to herein as the Texas Genco Entities.

B. Address

1111 Louisiana, Houston, TX 77002.

C. 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 60 generating units at eleven electric power generation facilities located in Texas, plus a 30.8% interest in STP. TGN sells electric generation capacity, energy, and ancillary services within the Electric Reliability Council of Texas (ERCOT) market. The ERCOT market consists of the majority of the population centers in Texas and transmission facilities utilized to provide reliable grid operations for approximately 85% of the demand for power in the state.

D. Organization and Management

1. States of Establishment and Place of Business

TGN was incorporated in Texas in August 2001, and Texas is its principal place of business. Texas Genco is a Texas limited partnership that is wholly owned indirectly by TGN. Texas Genco LP, LLC is a Delaware limited liability corporation, which directly owns 99% of Texas Genco. Texas Genco GP, LLC is a Texas limited liability corporation, which directly owns 1% of Texas Genco (refer to Figure 1). Texas is the principal place of business for all of the Texas Genco Entities.

2. Directors, Executive Officers

The following individuals, all of whom are U.S. citizens, are the directors of TGN:

J. Evans Attwell
Donald R. Campbell
Robert J. Cruikshank
Patricia A. Hemingway Hall
David M. McClanahan
Scott E. Rozzell
David G. Tees
Gary L. Whitlock

The following individuals, all of whom are U.S. citizens, are the executive officers of TGN:

David M. McClannahan, Chairman
David G. Tees, President & Chief Executive Officer
Scott E. Rozzell, Executive Vice President, General Counsel & Corporate Secretary
Gary L. Whitlock, Executive Vice President & Chief Financial Officer
James S. Brian, Senior Vice President & Chief Accounting Officer

The following individual, a U.S. citizen, is the Manager of Texas Genco GP, LLC, which is the General Partner that manages and controls Texas Genco:

David G. Tees, Manager

The following individuals, all of whom are U.S. citizens, are the executive officers of Texas Genco GP, LLC:

David G. Tees, President and Chief Executive Officer
Scott E. Rozzell, Executive Vice President General Counsel and Secretary
Gary L. Whitlock, Executive Vice President and Chief Financial Officer
James S. Brian, Senior Vice President and Chief Accounting Officer
Walter L. Fitzgerald, Vice President and Controller
Marc Kilbride,Vice President and Treasurer
Michael A. Reed, Vice President
Rufus S. Scott, Vice President, Deputy General Counsel and Assistant Secretary
Jerome D. Svatek, Vice President, Asset Management
Richard B. Dauphin, Assistant Secretary
Linda Geiger, Assistant Treasurer

The following individual, a U.S. citizen, is the only officer for Texas Genco LP, LLC:

Patricia F. Genzel, President and Secretary

Texas Genco is a limited partnership and 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, David G. Tees.

IV. GENERAL CORPORATE INFORMATION REGARDING CPS

A. Name

City of San Antonio, Texas, acting by and through the City Public Service Board, operating as City Public Service of San Antonio (CPS).

B. Address

145 Navarro
San Antonio, TX 78205

Mailing Address:

P.O. Box 1771
San Antonio, TX 78296-1771

C. Description of Business or Occupation

CPS is the nation's largest municipally-owned energy company providing both natural gas and electric service to residential and business customers in a service territory that includes the city of San Antonio and certain surrounding areas. CPS serves more than 600,000 electric customers and more than 300,000 natural gas customers in and around the eighth largest city in the United States. Proceeds from CPS remain in San Antonio and account for more than one-fourth of the city's annual operating budget for police and fire protection, street improvements, parks, and other services. CPS has earned the highest financial rating of any electric system in the nation.

D. Organization and Management

1. State of Establishment and Place of Business

The gas and electric system which is now CPS was acquired by the City of San Antonio, Texas in 1942.

2. Board of Trustees, Executive Officers

In accordance with certain bond ordinances, the CPS Board of Trustees governs the natural gas and electric utility. The Board consists of the Mayor of San Antonio, as an ex-officio member, and four citizens representing the four geographical quadrants of the city of San Antonio, located in Bexar County, Texas. Trustees must reside within the CPS quadrant that they represent. The following individuals, all of whom are U.S. citizens, are the members of the CPS Board of Trustees:

Aurora Ortega-Geis, Chairman
Alvaro Sanchez, Jr., Vice Chairman
Ed Garza, Mayor of San Antonio and *ex officio* member
Clayton T. Gay, Jr.
Stephen S. Hennigan

The CPS Board of Trustees appoints CPS's General Manager and CEO, who in turn appoints the appropriate staff to help manage the utility. The following individuals, all of whom are U.S. citizens, are the senior management team of CPS:

Milton B. Lee, General Manager & CEO
Kenneth C. Emery, Jr., Information Management and Shared Services
Ronald B. Seidel, Energy Supply
Alfonso R. Lujan, Electric Delivery Systems
Richard E. Williamson, Financial & Corporate Services, Treasurer, & Chief Financial Officer
N. Beth Emery, General Counsel & Secretary

V. FOREIGN OWNERSHIP OR CONTROL

CPS is owned by the City of San Antonio, Texas, and as such, CPS is neither owned, controlled, nor dominated by any foreign entity. All of the officers and trustees of CPS are United States citizens.

TGN and its indirect parent company, CenterPoint Energy, are publicly traded companies, and their securities are traded on the NYSE and widely held. Section 13 of the Securities and Exchange Act of 1934, as amended, 15 U.S.C. § 78m(d), requires that a person or entity that owns or controls more than 5% of the stock of a company must file notice with the Securities and Exchange Commission (SEC). Based upon its review of the relevant filings with the SEC, TGN and CenterPoint Energy are not aware of any alien, foreign corporation, or foreign government that holds more than 5% of the securities of TGN or CenterPoint Energy. All of the directors and officers of CenterPoint Energy and the Texas Genco Entities are United States citizens. As such, there is no reason to believe that either TGN or CenterPoint Energy is owned, controlled, or dominated by any alien, foreign corporation, or foreign government. To the extent the NRC deems the proposed GC Power indirect interest in STP through its ownership of TGN material to its finding of no foreign ownership or control in reviewing this Application, such issues are addressed separately in the GC Power Application.

Thus, the transfers of all or a portion of TCC's ownership interest in STP to CPS and/or Texas Genco will not result in any foreign ownership, domination, or control of STP within the meaning of the AEA.

VI. TECHNICAL QUALIFICATIONS

The technical qualifications of STPNOC are not affected by the proposed transfers of control of all or a portion of TCC's 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 transfers of control of TCC's ownership interest in STP. STPNOC will at all times remain the licensed operator of STP and there will be no changes in the STPNOC senior management team resulting from the proposed license transfers.

VII. FINANCIAL QUALIFICATIONS OF TEXAS GENCO

A. Projected Operating Revenues and Operating Costs

Historical financial information regarding TGN and its subsidiaries is in its 2003 Annual Report that is appended as Attachment 4. Additional information regarding the financial qualifications of Texas Genco is provided in Section VI.A.1 of the GC Power Application, as well as the proprietary Attachment 5A to that application. The information provided in Section VI.A.1 of the GC Power Application, together with its Attachment 5A, is incorporated by reference as if fully set forth herein. That information establishes that Texas Genco possesses, or has reasonable assurance of obtaining, the funds necessary to cover its increased *pro rata* share of the estimated operating costs associated with up to a total 44% undivided ownership interest in STP for the period of the licenses 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). By extrapolation, this same information supports a finding that Texas Genco possesses, or has reasonable assurance of obtaining, the funds necessary to cover its increased *pro rata* share of the estimated operating costs associated with up to a total 56% undivided ownership interest in STP for the period of the licenses.

To the extent the NRC deems the proposed GC Power indirect interest in STP through its ownership of TGN material to its findings regarding financial qualifications in its review of this Application, such issues are addressed separately in the GC Power Application.

B. Decommissioning Funding

The financial qualifications of Texas Genco to own up to a total 56% undivided ownership interest in STP are further demonstrated by the fact that Texas Genco will receive a proportionate share of TCC's decommissioning trust funds that corresponds with the interest in STP being acquired. Texas Genco will also continue to maintain its existing decommissioning trust funds for its 30.8% interest. 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)(1). Texas Genco will maintain separate sub-accounts within the trusts to account for balances in the trusts attributable to its existing 30.8% interest in STP and the newly acquired interest from TCC.

TCC currently provides decommissioning funding assurance for its share of STP by maintaining external nuclear decommissioning trust funds in accordance with 10 CFR 50.75(e)(1)(ii). The status of TCC's decommissioning funding as of December 31, 2003, was reported to the NRC in Attachment 2 to STPNOC's letter (NOC-AE-04001699) dated March 29, 2004. These funds are sinking funds, with contributions made periodically based on collections from an established regulatory charge mechanism described further below.

A proportionate share of the funds accumulated in the TCC nuclear decommissioning trust funds as of the date of closing will be transferred to Texas Genco's external nuclear decommissioning trust funds. These trust funds will be consistent with NRC requirements of 10 CFR 50.75(e)(1)(ii) for the external sinking fund assurance method. Periodic contributions to Texas Genco's nuclear decommissioning trust funds for the newly acquired STP interest will continue to be based on collections from a non-bypassable charge mechanism consistent with NRC requirements in 10 CFR 50.75(e)(1)(ii)(B).

Specifically, Section 39.205 of the Texas Utilities Code provides that, after January 1, 2002, costs associated with nuclear decommissioning obligations shall continue to be subject to cost-of-service rate regulation and will be included as a non-bypassable charge to retail customers. Pursuant to that statutory provision and in accordance with an October 5, 2001 order issued by the Public Utility Commission of Texas (PUCT) in Docket No. 22352, TCC's share of STP decommissioning charges is collected from Texas ratepayers through a non-bypassable charge that is included in TCC's base rates collected from ratepayers within the retail service area historically served by TCC's electric distribution facilities. On February 19, 2003, the PUCT issued an order in Docket No. 26844,[5] clarifying that TCC's collection of decommissioning charges in its base rates is for the benefit of the owner of TCC's interest in STP and its successor, who is obligated to contribute the decommissioning charges collected by TCC into the owner's decommissioning trust. On November 3, 2003, TCC initiated a rate proceeding to remove the decommissioning charges from its base rates and establish a separate rider for those charges ("Rider NDC"). A PUCT order approving Rider NDC is expected in late 2004.

Accordingly, from and after closing, TCC will, as agent for the customers' retail electric power supplier, provide for deposit into Texas Genco's nuclear decommissioning trust funds the

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[5] A copy of PUCT's order in Docket No. 26844 is provided as Enclosure 9 to the April 21, 2004, NRC license transfer application.

decommissioning charges collected through a non-bypassable charge mechanism from Texas retail ratepayers within the service territory historically serviced by TCC's electric distribution facilities. These decommissioning charges collected by TCC will be remitted weekly following collection to Texas Genco's nuclear decommissioning trusts pursuant to a form of Decommissioning Funds Collection Agreement between TCC and Texas Genco to be entered into at the closing. This Agreement is subject to PUCT approval pursuant to PUCT Substantive Rule § 25.303 that the PUCT adopted on September 30, 2004. Pursuant to the Texas Utilities Code, the form of Decommissioning Funds Collection Agreement, and PUCT Substantive Rule § 25.303, after the transfer to Texas Genco, decommissioning costs relating to STP will continue to be subject to cost-of-service rate regulation by the PUCT.

In addition, the regulated electric distribution company owned by CenterPoint Energy or its successor will continue to collect from its electric utility ratepayers costs associated with the decommissioning of Texas Genco's existing 30.8% interest in STP "pursuant to a non-bypassable charge" within the meaning of 10 CFR 50.75(e)(1)(ii)(B) and transfer all such funds to Texas Genco or to the decommissioning trust for the benefit of Texas Genco. Texas Genco, in turn, will deposit the amounts received for this purpose into the decommissioning trust. These decommissioning funding arrangements were specifically approved by the PUCT. *See* PUCT Order, Docket 21956 (March 15, 2001). These arrangements assure that Texas Genco will have the total amount of funds estimated to be needed for decommissioning pursuant to 10 CFR 50.75(c), 50.75(f) and 50.82.

The status of Texas Genco's decommissioning funding, as of December 31, 2003, was reported to the NRC in Attachment 1 to STPNOC's letter (NOC-AE-04001699) dated March 29, 2004. Additional information regarding the decommissioning trusts is provided on page 60 of

Texas Genco's 2003 Annual Report (Attachment 4). In the coming months, the PUCT may issue one or more orders or rules affecting the administration of the trusts and Texas Genco anticipates that the actions of the PUCT may require amendments to the Texas Genco Nuclear Decommissioning Master Trust Fund Agreement in connection with the proposed transfer of control. If any amendments are to be made, the existing trust agreement requires prior written notice be made to the NRC and such notice will be provided to the NRC.

As is amply 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 end of licensed operation.

VIII. FINANCIAL QUALIFICATIONS OF CPS

CPS owns and operates 16 electric generating units, with a capacity of 4,446 MWe of power from natural gas, oil and coal. As a result of its 28% interest in STP, CPS owns just over 700 MWe of nuclear generating capacity. CPS also owns long-term rights to 160 MWe of wind-generating capacity, which brings the total CPS native electricity generating capacity to 5,306 MWe.

A. Operating Financial Qualifications

CPS is an Electric Utility, as that term is defined in 10 CFR 50.2. CPS recovers its cost of service, including the costs associated with the operation of its electric generating stations, through rates set by the City of San Antonio. As a result, pursuant to 10 CFR 50.33(f), CPS has the requisite financial qualifications to be an NRC licensee and to own an undivided ownership interest in STP.

B. Decommissioning Funding

The financial qualifications of CPS to own up to a total 53.2% undivided ownership interest in STP are further demonstrated by the fact that, in accordance with the Purchase and Sale Agreement, CPS will also receive a proportionate share of TCC's decommissioning trust funds that corresponds with the interest in STP being acquired and will continue to maintain its existing decommissioning trust funds for its 28% interest in STP. CPS 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)(1). As explained below, since decommissioning funds for the new interest in STP that CPS is acquiring will be collected from ratepayers within the retail service area historically served by TCC's electric distribution facilities, CPS intends to keep these decommissioning funds in their own trust accounts segregated from funds that CPS collects from ratepayers within its own service territory. Section 39.205 of the Texas Utilities Code provides that, after January 1, 2002, costs associated with nuclear decommissioning obligations shall continue to be subject to cost-of-service rate regulation and will be included as a non-bypassable charge to retail customers. Pursuant to that statutory provision, CPS's existing share of STP decommissioning charges is collected from its ratepayers through a non-bypassable charge that is included in CPS's base rates collected from ratepayers within its certificated retail service area. CPS's decommissioning trust funds are maintained in grantor trusts, as provided in Section 671 of the Internal Revenue Code of 1986, as amended (IRC), and CPS is the grantor of each such trust.

TCC currently provides decommissioning funding assurance for its share of STP by maintaining external nuclear decommissioning trust funds in accordance with 10 CFR 50.75(e)(1)(ii). CPS's decommissioning funds are also in external sinking funds, consistent with 10 CFR 50.75(e)(1)(ii), with contributions made periodically based on collections from an established regulatory charge mechanism described further below.

As reported to the NRC in March 2004, TCC maintains its decommissioning funds in two separate trust funds per STP unit - one qualified nuclear decommissioning reserve fund (within the meaning of IRC Section 468A and the regulations thereunder) and one non-qualified trust fund; thus, all told these TCC decommissioning monies are maintained in four separate trust funds. Upon close of the sale of all or a portion of TCC's interest to CPS, a proportionate share of the funds accumulated in the TCC nuclear decommissioning trust funds as of the date of closing that corresponds with the interest in STP being acquired will be transferred to external nuclear decommissioning trust funds established by CPS for the purpose of receiving TCC's qualified and non-qualified decommissioning trust funds. Because CPS is a municipality, not normally subject to federal taxation, once the funds are under CPS's trustee's control, the former TCC funds will be rolled into CPS grantor trust funds - one per unit - for decommissioning the newly acquired interest in STP that will be owned by CPS. CPS has filed a private letter ruling request with the Internal Revenue Service to ensure that the proposed transfer will not result in tax consequences adverse to the corpus of the trust or to CPS.

On February 19, 2003, the PUCT issued an order in Docket No. 26844,[6] clarifying that TCC's collection of decommissioning charges in its base rates is for the benefit of the owner of TCC's interest in STP and its successor, who is obligated to contribute the decommissioning charges collected by TCC into the owner's decommissioning trust. On November 3, 2003, TCC initiated a rate proceeding to remove the decommissioning charges from its base rates and establish a separate rider for those charges ("Rider NDC"). A PUCT order approving Rider

[6] A copy of PUCT's order in Docket No. 26844 is provided as Enclosure 9 to the April 21, 2004, NRC license transfer application.

NDC is expected in late 2004. Thus, TCC's retail customers remain responsible for the costs of decommissioning TCC's original interest in STP. Therefore, CPS will maintain the new grantor trusts separate from the grantor trusts currently used to collect decommissioning funds for CPS's current 28% interest in STP. These trust funds will be consistent with NRC requirements of 10 CFR 50.75(e)(1)(ii) for the external sinking fund assurance method. Periodic contributions to CPS's nuclear decommissioning trust funds for the newly acquired STP interest will continue to be based on collections from a non-bypassable charge mechanism from TCC's customers consistent with NRC requirements in 10 CFR 50.75(e)(1)(ii)(B), and as described above.

From and after closing, TCC will, as agent for the customers' retail electric power supplier, provide for deposit into CPS's nuclear decommissioning trust funds the decommissioning charges collected by TCC and its successors from Texas ratepayers through the non-bypassable charge mechanism. These decommissioning charges collected by TCC will be remitted weekly following collection to CPS's nuclear decommissioning trusts pursuant to a form of Decommissioning Funds Collection Agreement between TCC and CPS to be entered into at the closing. This Agreement is subject to PUCT approval pursuant to PUCT Substantive Rule § 25.303 that the PUCT adopted on September 30, 2004. Pursuant to the Texas Utilities Code, the form of Decommissioning Funds Collection Agreement, and PUCT Substantive Rule § 25.303, after the sale and transfer, decommissioning costs relating to STP and that are collected from TCC customers will continue to be subject to cost-of-service rate regulation by the PUCT.

In addition, CPS will continue to collect from its electric utility ratepayers costs associated with the decommissioning its existing 28% interest in STP "pursuant to a non-bypassable charge" within the meaning of 10 CFR 50.75(e)(1)(ii)(B) and will deposit the amounts received for this purpose into the existing decommissioning trust. These arrangements assure that CPS will have the total amount of funds estimated to be needed for decommissioning pursuant to 10 CFR 50.75(e), 50.75(f) and 50.82. Additional information regarding the status of CPS's existing decommissioning trusts is provided on page 35 of the City Public Service of San Antonio 2003-2004 Annual Report (Attachment 5) and will be the subject of a separate submittal to the Commission by CPS.

The CPS Nuclear Decommissioning Master Trust Fund Agreement was established on the premise that CPS's investments are narrowly restricted, under the Texas Public Funds Investment Act, TEX. GOV'T CODE Chapter 2256, to certain obligations guaranteed by governmental entities and other similar instruments.[7] Private entities are not subject to these restrictions and, notwithstanding the other investment restrictions on decommissioning trusts imposed by the PUCT, the NRC, and the Federal Energy Regulation Commission (FERC) (for FERC-jurisdictional entities), private entities generally may be expected to achieve higher returns through inclusion of equity investments in their portfolios. In an attempt to determine whether the same investment options are available for municipalities, the PUCT has requested an opinion of the Attorney General of the State of Texas to interpret Texas statutes as having a recognized exception apply for municipalities investing nuclear decommissioning funds with respect to funds collected from customers of transferor nuclear assets.

On October 12, 2004, the Attorney General issued an opinion consistent with this interpretation.[8] Accordingly, CPS will make conforming amendments to the CPS Nuclear

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7 With certain narrow exceptions, the Texas Public Funds Investment Act limits authorized investments of entities within its scope to specified categories of obligations, including obligations guaranteed by governmental entities, certificates of deposit and share certificates, collateralized repurchase agreements based on government or government-guaranteed obligations, high-grade commercial paper, and similar investments. TEX. GOV'T CODE § 2256.009, et seq. (Vernon 2004).

8 See http://www.oag.state.tx.us/opinions/op50abbott/ga-0257.htm

Decommissioning Master Trust Fund Agreement. In addition, PUCT Substantive Rule 25.303, or related administrative orders issued by the PUCT, may require CPS to amend the CPS Nuclear Decommissioning Master Trust Fund Agreement. CPS does not anticipate any other amendments to the CPS Nuclear Decommissioning Master Trust Fund Agreement in connection with the proposed transfer of control. If any amendments are to be made to the CPS Nuclear Decommissioning Master Trust Fund Agreement, CPS will provide a written notice to the NRC of such changes.

As is amply demonstrated above, in accordance with 10 CFR 50.75, there is reasonable assurance that CPS will obtain the funds necessary to cover its share of the estimated decommissioning costs of STP at the end of licensed operation.

IX. 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 Commission's decision in *Kansas Gas and Electric Co., et al.* (Wolf Creek Generating Station, Unit 1), CLI-99-19, 49 NRC 441 (1999), the AEA does not require or authorize antitrust reviews of post-operating license transfer applications.

X. RESTRICTED DATA AND CLASSIFIED NATIONAL SECURITY INFORMATION

The proposed transfers do not contain any Restricted Data or other Classified National Security Information, nor do they result in any change in access to any 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.

XI. ENVIRONMENTAL CONSIDERATIONS

The requested consent to transfers of control of 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 transfers will not directly affect the actual operation of STP in any substantive way. The proposed transfers do 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 they do not involve an increase in the amounts, or a 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, and the proposed transfers have no environmental impact.

XII. PRICE-ANDERSON INDEMNITY AND NUCLEAR INSURANCE

In accordance with 10 CFR 140.92, Art. IV.2, the Applicants request NRC consent to the assignments and transfers of TCC's interests in the Price-Anderson indemnity agreement for STP to Texas Genco and CPS in connection with its consent to the proposed transfers of licenses to these entities. The 2003 Annual Report (Form 10-K) of TGN (Attachment 4) and the CPS 2003-2004 Annual Report (Attachment 5) provide adequate assurance that Texas Genco and CPS will be able to pay their *pro rata* share of the total retrospective premium of $10 million per STP unit ($20 million total), pursuant to 10 CFR 140.21(e). Prior to the transfers of licenses, Texas Genco and CPS will have obtained, and/or STPNOC will have obtained on their behalf, all required nuclear property damage insurance pursuant to 10 CFR 50.54(w) and nuclear energy liability insurance pursuant to Section 170 of the AEA and 10 CFR Part 140.

XIII. 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 direct transfer of control of TCC's ownership interest in STP. 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 direct transfer of control.

The proposed direct transfer of control of TCC's ownership interest in STP will not affect the ability of STP 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. Accordingly, STP's ability to obtain offsite power will not be affected by the proposed direct transfer of control of TCC's ownership interest in STP.

XIV. EFFECTIVE DATES

The actual date for any transfer of control of TCC's 25.2% interest in STP to Texas Genco and/or CPS will be dependent upon the actual date of satisfying the conditions for closing the sale by TCC in accordance with the terms and conditions of the Purchase and Sale

Agreement, including receipt of any other required regulatory approvals and rulings. In particular, the actual date for the transfer of control of TCC's interest in STP to CPS beyond the 12% currently contemplated, should it occur, will be contingent upon a determination that the transfer of TCC's remaining 13.2% undivided interest to Texas Genco will not take place. Likewise, the actual date for the transfer of control of TCC's interest in STP to Texas Genco beyond the 13.2% currently contemplated, should it occur, will be contingent upon a determination that the transfer of TCC's remaining 12% undivided interest to CPS will not take place. STPNOC will advise the NRC of any developments relevant to any such additional transfers.

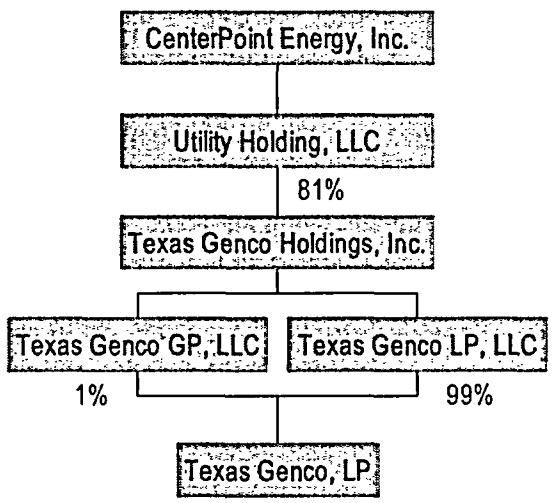
The Applicants request that the NRC review this Application on a schedule that will permit the issuance of NRC consent to the transfers of control as soon as possible, and are prepared to work closely with the NRC Staff to help expedite the Application's review, but request approval by no later than March 15, 2005. Such consent should be immediately effective upon issuance and should permit the transfers of control at any time within twelve months of the date of approval of this Application. STPNOC will inform the NRC if there are any significant changes in the status of any other required approvals or any other developments that have an impact on the schedule.

XV. CONCLUSION

Based upon the foregoing information, the Applicants request that the NRC issue an Order consenting to the transfers of control of the Facility Operating Licenses, Nos. NPF-76 and NPF-80, for up to the entirety of TCC's 25.2% undivided ownership interest in STP to either or both Texas Genco and CPS, as well as TCC's proportionate rights to participate in the governance of STPNOC to the extent NRC's consent is required. The Applicants further request that the NRC approve conforming administrative amendments to reflect the proposed transfers by deleting references to TCC from the STP licenses, and that the NRC issue such amendments, at such time as: (a) the transfers of proportionate shares, aggregating all, of the TCC interest in STP to Texas Genco and CPS are completed, or (b) the transfers of TCC's interest in STP ultimately result in either Texas Genco or CPS acquiring TCC's entire 25.2% interest in STP.

FIGURE 1

OWNERSHIP OF TEXAS GENCO, LP



ATTACHMENT 1

MARKED-UP PAGES FOR PROPOSED CONFORMING CHANGES TO UNIT 1 LICENSE

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

TEXAS GENCO, LP

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

~~AEP TEXAS CENTRAL COMPANY~~

CITY OF AUSTIN, TEXAS

STP NUCLEAR OPERATING COMPANY

DOCKET NO. 50-498

SOUTH TEXAS PROJECT, UNIT 1

FACILITY OPERATING LICENSE

License No. NPF-76

1. The Nuclear Regulatory Commission (the Commission or the NRC) has found that:

   A. The application for a license filed by STP Nuclear Operating Company (STPNOC)*, acting on behalf of itself and for Texas Genco, LP, the City Public Service Board of San Antonio (CPS), ~~AEP Texas Central Company,~~ and City of Austin, Texas (COA) (the "Owners") complies with the standards and requirements of the Atomic Energy Act of 1954, as of 1954 as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I, and all required notifications to other agencies or bodies have been duly made;

   B. Construction of the South Texas Project, Unit 1, (the facility) has been substantially completed in conformity with Construction Permit No. CPPR-128 and the application, as amended, the provisions of the Act, and the regulations of the Commission;

   C. The facility will operate in conformity with the application, as amended, the provisions of the Act, and the regulations of the Commission (except as exempted from compliance in Section 2.D. below);

   D. There is reasonable assurance: (i) that the activities authorized by this operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the Commission's regulations set forth in 10 CFR Chapter I (except as exempted from compliance in Section 2.D. below);

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* STPNOC is authorized to act for Texas Genco, LP, the City Public Service Board of San Antonio, ~~AEP Texas Central Company,~~ and City of Austin, Texas and has exclusive responsibility and control over the physical construction, operation, and maintenance of the facility.

E. STPNOC is technically qualified to engage in the activities authorized by this license in accordance with the Commission's regulations set forth in 10 CFR Chapter I;

F. The Owners have satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements," of the Commission's regulations;

G. The issuance of this license will not be inimical to the common defense and security or to the health and safety of the public;

H. After weighing the environmental, economic, technical and other benefits of the facility against environmental and other costs and considering available alternatives, the issuance of this Facility Operating License No. NPF-76, subject to the conditions for protection of the environment set forth in the Environmental Protection Plan attached as Appendix B, is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied; and

I. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70.

2. Based on the foregoing findings, and approval by the Nuclear Regulatory Commission at a meeting on March 21, 1988, the License for Fuel Loading and Low Power Testing, License No. NPF-71 issued on August 21, 1987 is superseded by Facility Operating License NPF-76, hereby issued to STPNOC, Texas Genco, LP, City Public Service Board of San Antonio, ~~AEP Texas Central Company,~~ and City of Austin, Texas (the licensees) to read as follows:

A. This license applies to the South Texas Project, Unit 1, a pressurized water reactor, and associated equipment (the facility) owned by Texas Genco, LP, City Public Service Board of San Antonio, ~~AEP Texas Central Company~~ and City of Austin, Texas and operated by STPNOC. The facility is located in Matagorda County, Texas, west of the Colorado River, 8 miles north-northwest of the town of Matagorda and about 89 miles southwest of Houston and is described in the licensees' Final Safety Analysis Report, as supplemented and amended, and in the licensees' Environmental Report, as supplemented and amended.

B. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses:

(1) STPNOC pursuant to Section 103 of the Act and 10 CFR Part 50, to possess, use and operate the facility at the designated location in Matagorda County, Texas, in accordance with the procedures and limitations set forth in this license;

(2) Texas Genco, LP, the City Public Service Board of San Antonio (CPS), ~~AEP Texas Central Company,~~ and the City of Austin, Texas (COA), pursuant to the Act and 10 CFR Part 50, to possess the facility at the designated location in Matagorda County, Texas, in accordance with the procedures and limitations set forth in this license;

(3) STPNOC, pursuant to the Act and 10 CFR Part 70, to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;

(4) STPNOC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess, and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;

(5) STPNOC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess, and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and

(6) STPNOC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of the facility authorized herein.

C. This license shall be deemed to contain and is subject to the conditions specified in the Commission's regulations set forth in 10 CFR Chapter I and is subject to all applicable provisions of the Act and to the rules, regulations and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:

(1) Maximum Power Level

STPNOC is authorized to operate the facility at reactor core power levels not in excess of 3,853 megawatts thermal (100% power) in accordance with the conditions specified herein.

(2) Technical Specifications

The Technical Specifications contained in Appendix A, as revised through Amendment No. , and the Environmental Protection Plan contained in Appendix B, are hereby incorporated in the license. STPNOC shall operate the facility in accordance with the Technical Specifications and the Environmental Protection Plan.

(3) Not Used

(4) Initial Startup Test Program (Section 14, SER)*

Any changes to the Initial Test Program described in Section 14 of the Final Safety Analysis Report made in accordance with the provisions of 10 CFR 50.59 shall be reported in accordance with 50.59(b) within one month of such change.

(5) Safety Parameter Display System (Section 18, SSER No. 4)*

Before startup after the first refueling outage, HL&P[**] shall perform the necessary activities, provide acceptable responses, and implement all proposed corrective actions related to issues as described in Section 18.2 of SER Supplement 4.

(6) Supplementary Containment Purge Isolation (Section 11.5, SSER No. 4)

HL&P shall provide, prior to startup from the first refueling outage, control room indication of the normal and supplemental containment purge sample line isolation valve position.

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* The parenthetical notation following the title of many license conditions denotes the section of the Safety Evaluation Report and/or its supplements wherein the license condition is discussed.

** The original licensee authorized to possess, use and operate the facility was HL&P.

Consequently, historical references to certain obligations of HL&P remain in the license

conditions

(7) License Transfer

Texas Genco, LP shall provide decommissioning funding assurance, to be held in decommissioning trusts for South Texas Project, Unit 1 (Unit 1) upon the direct transfer of the Unit 1 license to Texas Genco, LP, in an amount equal to or greater than the balance in the Unit 1 decommissioning trust immediately prior to the transfer. In addition, Texas Genco, LP shall ensure that all contractual arrangements referred to in the application for approval of the transfer of the Unit 1 license to Texas Genco, LP to obtain necessary decommissioning funds for Unit 1 through a non-bypassable charge are executed and will be maintained until the decommissioning trusts are fully funded, or shall ensure that other mechanisms that provide equivalent assurance of decommissioning funding in accordance with the Commission's regulations are maintained.

(8) License Transfer

The master decommissioning trust agreement for Unit 1, at the time the direct transfer of Unit 1 to Texas Genco, LP is effected and thereafter, is subject to the following:

a. The decommissioning trust agreement must be in a form acceptable to the NRC.

b. With respect to the decommissioning trust funds, investments in the securities and other obligations of CenterPoint Energy, Inc., or its affiliates, successors, or assigns, shall be prohibited. Except for investments in funds tied to market indices or other non-nuclear sector mutual funds, investments in any entity owning one or more nuclear power plants are prohibited.

c. The decommissioning trust agreement must provide that the trustee, investment advisor, or anyone else directing the investments made in the trusts shall adhere to the standards for such investments established by the Public Utility Commission of Texas (e.g., 16 Texas Administration Code § 25.301).

d. The decommissioning trust agreement must provide that except for ordinary administrative expenses, no disbursements or payments from the trusts shall be made by the trustee unless the trustee has first given the NRC 30 days prior written notice of such disbursement or payment. The decommissioning trust agreement shall further contain a provision that no disbursements or payments from the trusts shall be made if the trustee receives prior written notice of an objection from the Director, Office of Nuclear Reactor Regulation.

e. The decommissioning trust agreement must provide that the agreement cannot be modified in any material respect without 30 days prior written notification to the Director, Office of Nuclear Reactor Regulation.

(9) License Transfer

Texas Genco, LP shall take all necessary steps to ensure that the decommissioning trust is maintained in accordance with the application for approval of the transfer of the Unit 1 license to Texas Genco, LP, the requirements of the Order approving the transfer, and the related safety evaluation.

(10) License Transfer

Texas Genco, LP shall provide the Director, Office of Nuclear Reactor Regulation a copy of any application, at the time it is filed, to transfer (excluding grants of security interests or liens) from CenterPoint Energy, Inc., or its subsidiaries, to a proposed direct or indirect parent, or to any other affiliated company, facilities for the production of electric energy having a depreciated book value exceeding ten percent (10%) of such licensee's consolidated net utility plant, as recorded on Texas Genco, LP's book of accounts.

D. Exemptions

The following exemptions are authorized by law and will not endanger life or property or the common defense and security, and certain special circumstances are present. With the granting of these exemptions, the facility will operate, to the extent authorized herein, in conformity with the application, as amended, the provisions of the Act, and the rules and regulations of the Commission.

(1) The facility requires a technical exemption from the requirements of 10 CFR Part 50, Appendix J, Section III.D.2(b)(ii). The justification for this exemption is contained in Section 6.2.6 of Supplement 3 to the Safety Evaluation Report. The staff's environmental assessment was published on July 2, 1987 (52 FR 25094). Therefore, pursuant to 10 CFR 50.12(a)(1), 10 CFR 50.12(a)(2)(ii) and (iii), the South Texas Project Unit 1 is hereby granted an exemption from the quoted requirement and instead, is required to perform the overall air lock leak test at pressure P_a prior to establishing containment integrity if air lock maintenance has been performed that could affect the air lock sealing capability.

(2) The facility requires a schedular exemption from the requirements of General Design Criterion 57, Appendix A to 10 CFR 50. The staff has described in detail in Supplement 4 to the Safety Evaluation Report the technical bases associated with this exemption. The staff's environmental assessment was published on June 18, 1987 (52 FR 23217). Therefore, pursuant to 10 CFR 50.12(a)(1) and 10 CFR 50.12(a)(2)(v) the South Texas Project Unit 1 is hereby granted an exemption from the requirements of GDC-57 applicable to the essential component cooling water (CCW) piping which is also used by the non-essential reactor containment building chilled water system in providing cooling to the Reactor Containment Fan Coolers (RCFC). This exemption will expire at the end of the first refueling outage.

(3) The facility was previously granted exemption from the criticality monitoring requirements of 10 CFR 70.24 (See Materials License No. SNM-1972 dated December 29, 1986 and Section 9.1.2 of SSER No. 3). The South Texas Project Unit 1 is hereby exempted from the criticality monitoring provisions of 10 CFR 70.24 as applied to fuel assemblies held under this license.

(4) The facility has been granted a schedular exemption from Section 50.71(e)(3)(i) of 10 CFR 50 to extend the date for submittal of the updated Final Safety Analysis Report to no later than one year after the date of issuance of a low power license for the South Texas Project, Unit 2. This exemption is effective until August 1990. The staff's environmental assessment was published on December 16, 1987 (52 FR 47805).

E. Fire Protection

STPNOC shall implement and maintain in effect all provisions of the approved fire protection program as described in the Final Safety Analysis Report through Amendment No. 55 and the Fire Hazards Analysis Report through Amendment No. 7, and submittals dated April 29, May 7, 8 and 29, June 11, 25 and 26, 1987, and as approved in the SER (NUREG-0781) dated April 1986 and its Supplements, subject to the following provision:

STPNOC may make changes to the approved fire protection program without prior approval of the Commission, only if those changes would not adversely affect the ability to achieve and maintain safe shutdown in the event of a fire.

F. Physical Security

STPNOC shall fully implement and maintain in effect all provisions of the physical security, guard training and qualification, and safeguards contingency plans previously approved by the Commission and all amendments and revisions to such plans made pursuant to the authority under 10 CFR 50.90 and 10 CFR 50.54(p).

The plans, which contain Safeguards Information protected under 10 CFR 73.21, are entitled: "South Texas Project Electric Generating Station Physical Security Plan," with revisions/amendments submitted through March 4, 1988; "South Texas Project Electric Generating Station Security Personnel Qualification and Training Plan" with revisions submitted through March 4, 1988, and "South Texas Project Electric Generating Station Safeguards Contingency Plan," with revisions/amendments submitted through July 24, 1987.

G. Not Used

H. Financial Protection

The owners shall have and maintain financial protection of such type and in such amounts as the Commission shall require in accordance with Section 170 of the Atomic Energy Act of 1954, as amended, to cover public liability claims.

I. Effective Date and Expiration

This license is effective as of the date of issuance and shall expire at midnight on August 20, 2027.

FOR THE NUCLEAR REGULATORY COMMISSION

original signed by

Thomas E. Murley, Director

Office of Nuclear Reactor Regulation

Enclosures:

1. Appendix A, Technical Specifications (NUREG-1305)
2. Appendix B, Environmental Protection Plan

Date of Issuance: March 22, 1988

ATTACHMENT 2

MARKED-UP PAGES FOR PROPOSED CONFORMING CHANGES TO UNIT 2 LICENSE

UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

TEXAS GENCO, LP

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

~~AEP TEXAS CENTRAL COMPANY~~

CITY OF AUSTIN, TEXAS

STP NUCLEAR OPERATING COMPANY

DOCKET NO. 50-499

SOUTH TEXAS PROJECT, UNIT 2

FACILITY OPERATING LICENSE

License No. NPF-80

1. The Nuclear Regulatory Commission (the Commission or the NRC) has found that:

A. The application for a license filed by STP Nuclear Operating Company (STPNOC)*, acting on behalf of itself and for Texas Genco, LP, the City Public Service Board of San Antonio (CPS), ~~AEP Texas Central Company;~~ and City of Austin, Texas (COA) (the "Owners") complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I, and all required notifications to other agencies or bodies have been duly made;

B. Construction of the South Texas Project, Unit 2, (the facility) has been substantially completed in conformity with Construction Permit No. CPPR-129 and the application, as amended, the provisions of the Act, and the regulations of the Commission;

C. The facility will operate in conformity with the application, as amended, the provisions of the Act, and the regulations of the Commission (except as exempted from compliance in Section 2.D. below);

D. There is reasonable assurance: (i) that the activities authorized by this operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the Commission's regulations set forth in 10 CFR Chapter I (except as exempted from compliance in Section 2.D. below);

*STPNOC is authorized to act for Texas Genco, LP, the City Public Service Board of San Antonio, ~~AEP Texas Central Company;~~ City of Austin, Texas and has exclusive responsibility and control over the physical construction, operation, and maintenance of the facility.

E. STPNOC is technically qualified to engage in the activities authorized by this license in accordance with the Commission's regulations set forth in 10 CFR Chapter I;

F. The Owners have satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements," of the Commission's regulations;

G. The issuance of this license will not be inimical to the common defense and security or to the health and safety of the public;

H. After weighing the environmental, economic, technical and other benefits of the facility against environmental and other costs and considering available alternatives, the issuance of this Facility Operating License No. NPF-80, subject to the conditions for protection of the environment set forth in the Environmental Protection Plan attached as Appendix B, is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied; and

I. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70.

2. Based on the foregoing findings, and approval by the Nuclear Regulatory Commission at a meeting on March 28, 1989, the License for Fuel Loading and Low Power Testing, License No. NPF-78 issued on December, 16 1988 is superseded by Facility Operating License NPF-80, hereby issued to STPNOC, Texas Genco, LP, City Public Service Board of San Antonio, ~~AEP Texas Central Company,~~ and City of Austin, Texas (the licensees) to read as follows:

A. This license applies to the South Texas Project, Unit 2, a pressurized water reactor, and associated equipment (the facility) owned by Texas Genco, LP, City Public Service Board of San Antonio, ~~AEP Texas Central Company~~ and City of Austin, Texas and operated by STPNOC. The facility is located in Matagorda County, Texas, west of the Colorado River, 8 miles north-northwest of the town of Matagorda and about 89 miles southwest of Houston and is described in the licensees' Final Safety Analysis Report, as supplemented and amended, and in the licensees' Environmental Report, as supplemented and amended.

B. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses:

(1) STPNOC pursuant to Section 103 of the Act and 10 CFR Part 50, to possess, use and operate the facility at the designated location in Matagorda County, Texas, in accordance with the procedures and limitations set forth in this license;

(2) Texas Genco, LP, the City Public Service Board of San Antonio (CPS), ~~AEP Texas Central Company,~~ and the City of Austin, Texas (COA), pursuant to the Act and 10 CFR Part 50, to possess the facility at the designated location in Matagorda County, Texas, in accordance with the procedures and limitations set forth in this license;

(3) STPNOC, pursuant to the Act and 10 CFR Part 70, to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Final Safety Analysis Report, as supplemented and amended;

(4) STPNOC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess, and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;

(5) STPNOC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess, and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components; and

(6) STPNOC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of the facility authorized herein.

C. This license shall be deemed to contain and is subject to the conditions specified in the Commission's regulations set forth in 10 CFR Chapter I and is subject to all applicable provisions of the Act and to the rules, regulations and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:

(1) <u>Maximum Power Level</u>

STPNOC is authorized to operate the facility at reactor core power levels not in excess of 3853 megawatts thermal (100% power) in accordance with the conditions specified herein.

(2) Technical Specifications

The Technical Specifications contained in Appendix A, as revised through Amendment No. , and the Environmental Protection Plan contained in Appendix B, are hereby incorporated in the license. STPNOC shall operate the facility in accordance with the Technical Specifications and the Environmental Protection Plan.

(3) Not Used

(4) Initial Startup Test Program (Section 14, SR)*

Any changes to the Initial Test Program described in Section 14 of the Final Safety Analysis Report made in accordance with the provisions of 10 CFR 50.59 shall be reported in accordance with 50.59(b) within one month of such change.

(5) License Transfer

Texas Genco, LP shall provide decommissioning funding assurance, to be held in decommissioning trusts for the South Texas Project, Unit 2 (Unit 2) upon the direct transfer of the Unit 2 license to Texas Genco, LP, in an amount equal to or greater than the balance in the Unit 2 decommissioning trust immediately prior to the transfer. In addition, Texas Genco, LP shall ensure that all contractual arrangements referred to in the application for approval of the transfer of the Unit 2 license to Texas Genco, LP to obtain necessary decommissioning funds for Unit 2 through a non-bypassable charge are executed and will be maintained until the decommissioning trusts are fully funded, or shall ensure that other mechanisms that provide equivalent assurance of decommissioning funding in accordance with the Commission's regulations are maintained.

(6) License Transfer

The master decommissioning trust agreement for Unit 2, at the time the direct transfer of Unit 2 to Texas Genco, LP is effected and thereafter, is subject to the following:

* The parenthetical notation following the title of many license conditions denotes the section of the Safety Evaluation Report and/or its supplements wherein the license condition is discussed.

a. The decommissioning trust agreement must be in a form acceptable to the NRC.

b. With respect to the decommissioning trust funds, investments in the securities and other obligations of CenterPoint Energy, Inc., or its affiliates, successors, or assigns, shall be prohibited. Except for investments in funds tied to market indices or other non-nuclear sector mutual funds, investments in any entity owning one or more nuclear power plants are prohibited.

c. The decommissioning trust agreement must provide that the trustee, investment advisor, or anyone else directing the investments made in the trusts shall adhere to the standards for such investments established by the Public Utility Commission of Texas (e.g., 16 Texas Administration Code § 25.301).

d. The decommissioning trust agreement must provide that except for ordinary administrative expenses, no disbursements or payments from the trusts shall be made by the trustee unless the trustee has first given the NRC 30 days prior written notice of such disbursement or payment. The decommissioning trust agreement shall further contain a provision that no disbursements or payments from the trusts shall be made if the trustee receives prior written notice of an objection from the Director, Office of Nuclear Reactor Regulation.

e. The decommissioning trust agreement must provide that the agreement cannot be modified in any material respect without 30 days prior written notification to the Director, Office of Nuclear Reactor Regulation.

(7) License Transfer

Texas Genco, LP shall take all necessary steps to ensure that the decommissioning trust is maintained in accordance with the application for approval of the transfer of the Unit 2 license to Texas Genco, LP, the requirements of the Order approving the transfer, and the related safety evaluation.

(8) License Transfer

Texas Genco, LP shall provide the Director, Office of Nuclear Reactor Regulation a copy of any application, at the time it is filed, to transfer (excluding grants of security interests or liens) from CenterPoint Energy, Inc., or its subsidiaries, to a proposed direct or indirect parent, or to any other affiliated company, facilities for the production of electric energy having a depreciated book value exceeding ten percent (10%) of such licensee's consolidated net utility plant, as recorded on Texas Genco, LP's book of accounts.

D. Exemptions

The following exemptions are authorized by law and will not endanger life or property or the common defense and security, and certain special circumstances are present. With the granting of these exemptions, the facility will operate, to the extent authorized herein, in conformity with the application, as amended, the provisions of the Act, and the rules and regulations of the Commission.

(1) The facility requires a technical exemption from the requirements of 10 CFR Part 50, Appendix J, Section III.D.2(b)(ii). The justification for this exemption is contained in Section 6.2.6 of Supplement 3 to the Safety Evaluation Report. The staff's environmental assessment was published on December 16, 1986 (53 FR 50605). Therefore, pursuant to 10 CFR 50.12(a)(1), 10 CFR 50.12(a)(2)(ii) and (iii), the South Texas Project Unit 2 is hereby granted an exemption from the quoted requirement and instead, is required to perform the overall air lock leak test at pressure P_a prior to establishing containment integrity if air lock maintenance has been performed that could affect the air lock sealing capability.

(2) The facility was previously granted exemption from the criticality monitoring requirements of 10 CFR 70.24 (See Materials License No. SNM-1983 dated August 30, 1988 and Section III.E. of the SER dated August 30, 1988). The South Texas Project Unit 2 is hereby exempted from the criticality monitoring provisions of 10 CFR 70.24 as applied to fuel assemblies held under this license.

(3) The facility requires a temporary exemption from the schedular requirements of the decommissioning planning rule, 10 CFR 50.33(k) and 10 CFR 50.75. The justification for this exemption is contained in Section 22.2 of Supplement 6 to the Safety Evaluation Report. The staff's environmental assessment was published on December 16, 1988 (53 FR 50604). Therefore, pursuant to 10 CFR 50.12(a)(1), 50.12(a)(2)(ii) and 50.12(a)(2)(v), the South Texas Project, Unit 2 is hereby granted a temporary exemption from the schedular requirements of 10 CFR 50.33(k) and 10 CFR 50.75 and is required to submit the decommissioning plan for both South Texas Project, Units 1 and 2 on or before July 26, 1990.

E. Fire Protection

STPNOC shall implement and maintain in effect all provisions of the approved fire protection program as described in the Final Safety Analysis Report through Amendment No. 62 and the Fire Hazards Analysis Report through Amendment No. 7, and submittals dated April 29, May 7, 8 and 29, June 11, 25, and 26, 1987, and as approved in the SER (NUREG-0781) dated April 1986 and its Supplements, subject to the following provisions:

STPNOC may make changes to the approved fire protection program without prior approval of the Commission, only if those changes would not adversely affect the ability to achieve and maintain safe shutdown in the event of a fire.

F. Physical Security

STPNOC shall fully implement and maintain in effect all provisions of the physical security, training and qualification, and safeguards contingency plans previously approved by the Commission and all amendments and revisions to such plans made pursuant to the authority under 10 CFR 50.90 and 10 CFR 50.54(p). The plans, which contain Safeguards Information protected under 10 CFR 73.21, are entitled: "South Texas Project Electric Generating Station Physical Security Plan," with revisions/amendments submitted through September 30, 1988; "South Texas Project Electric Generating Station Security Personnel Qualification and Training Plan" with revisions submitted through March 4, 1988, and "South Texas Project Electric Generating Station Safeguards Contingency Plan," with revisions/amendments submitted through July 18, 1988.

G. Not Used

H. Financial Protection

The Owners shall have and maintain financial protection of such type and in such amounts as the Commission shall require in accordance with Section 170 of the Atomic Energy Act of 1954, as amended, to cover public liability claims.

I. Effective date and Expiration

This license is effective as of the date of issuance and shall expire at midnight on December 15, 2028.

FOR THE NUCLEAR REGULATORY COMMISSION

Original Signed By: James H. Sniezek/for

Thomas E. Murley, Director
Office of Nuclear Reactor Regulation

Enclosures:
1. Appendix A, Technical Specifications (NUREG-1346)
2. Appendix B, Environmental Protection Plan

Date of Issuance: March 28, 1989

ATTACHMENT 3

NO SIGNIFICANT HAZARDS DETERMINATION

NO SIGNIFICANT HAZARDS DETERMINATION

Description of the Change

The transfers of the 25.2% ownership interest in South Texas Project (STP), Units 1 and 2 by AEP Texas Central Company (TCC) to Texas Genco, LP (Texas Genco) and the City of San Antonio, Texas, acting by and through the City Public Service Board (CPS), involve minor conforming changes to the operating licenses for the STP units to reflect the fact that TCC will no longer have any ownership interest in STP and no longer hold any NRC licenses. Texas Genco and CPS will continue to be licensed to possess (own) but not operate the units, holding ownership interests of 44% and 40%, respectively. Consistent with the generic determination in 10 CFR 2.1315(a), these administrative license amendments involve no significant hazards consideration.

1. The conforming amendments do not involve a significant increase in the probability or consequences of an accident previously evaluated.

The amendments do not involve any change in the design, configuration, or operation of the nuclear plant. All Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications remain unchanged. Also, the Physical Security Plan and related plans, the Operator Training and Requalification Program, the Quality Assurance Program, and the Emergency Plan are not being materially changed by the proposed license transfers and amendments.

STP Nuclear Operating Company (STPNOC) will continue to be the licensed operator of the units. The technical qualifications of STPNOC to carry out its exclusive responsibilities under the operating licenses, as amended, will remain unchanged. Personnel engaged in operation, maintenance, engineering, assessment, training, and other related services are not changed. The STPNOC officers and executives currently responsible for the overall safe operation of the nuclear plants will continue in that same capacity.

Therefore, the proposed amendments do not involve an increase in the probability or consequences of an accident previously analyzed.

2. The conforming amendments do not create the possibility of a new or different kind of accident from any accident previously evaluated.

The amendments do not involve any change in the design, configuration, or operation of the nuclear plant. The current plant design and design bases will remain the same. The current plant safety analyses, therefore, remain complete and accurate in addressing the design basis events and in analyzing plant response and consequences.

The Limiting Conditions for Operations, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications are not affected by the change. As such, the plant conditions for which the design basis accident analyses were performed remain valid.

The amendments do not introduce a new mode of plant operation or new accident precursors, do not involve any physical alterations to plant configurations, or make changes to system set points that could initiate a new or different kind of accident.

Therefore, the proposed amendments do not create the possibility of a new or different kind of accident from any accident previously evaluated.

3. The conforming amendments do not involve a significant reduction in a margin of safety.

The amendments do not involve a change in the design, configuration, or operation of the nuclear plants. The change does not affect either the way in which the plant structures, systems, and components perform their safety function, or their design and licensing bases.

Plant safety margins are established through Limiting Conditions for Operation, Limiting Safety System Settings, and Safety Limits specified in the Technical Specifications. Because there is no change to the physical design of the plant, there is no change to any of these margins.

Therefore, the proposed amendments do not involve a significant reduction in a margin of safety.

ATTACHMENT 4

2003 ANNUAL REPORT (FORM 10-K) OF 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.

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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
	High	Low	Per Share
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®). 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® 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® 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 S9 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 S1 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 S6 million, S9 million and S7 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	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	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	December 31, 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.

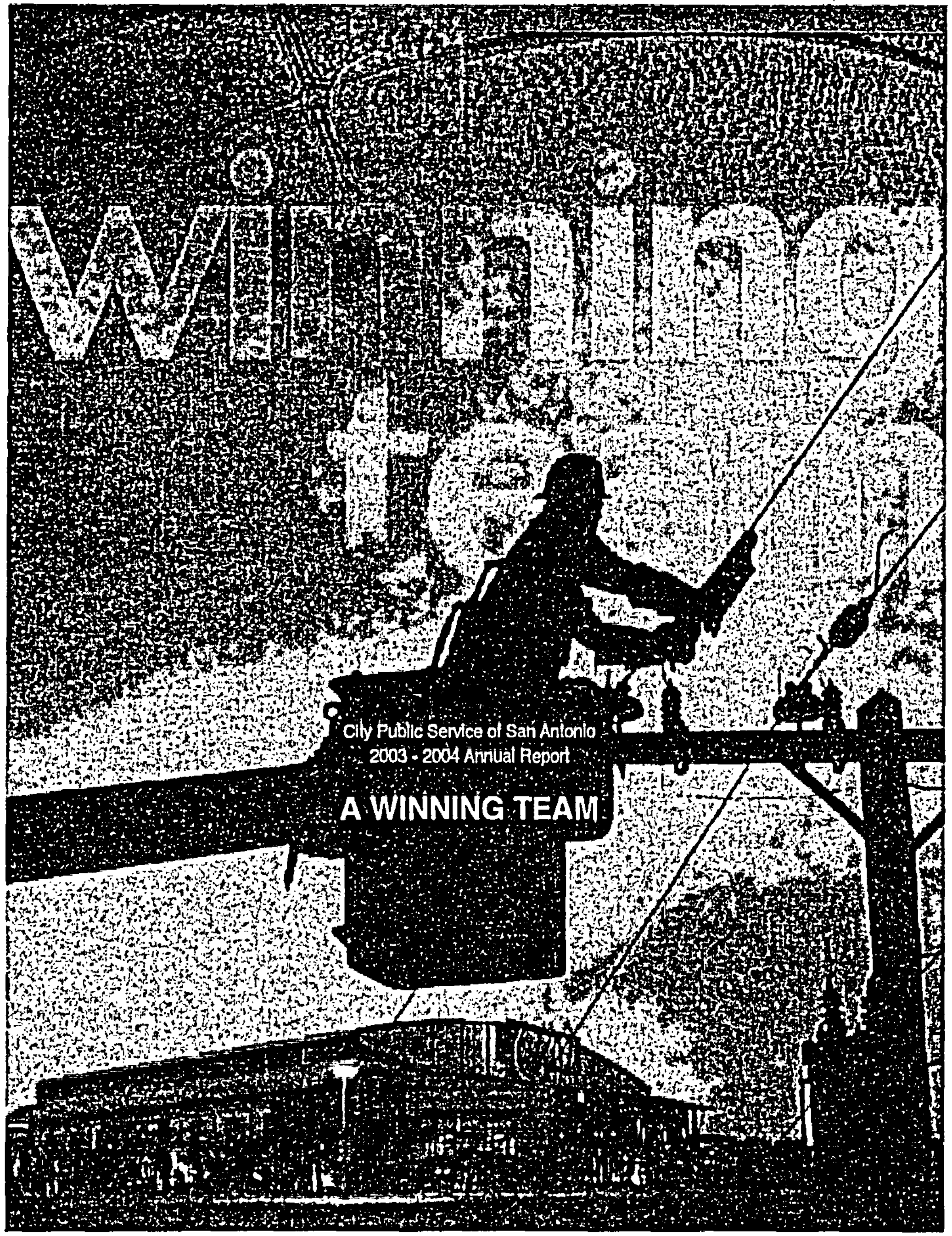
Exhibit Number		Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
3.1	—	Amended and Restated Articles of Incorporation	Texas Genco Holdings, Inc.'s ("Texas Genco") Form 10-K for the year ended December 31, 2002	1-31449	3.1
3.2	—	Amended and Restated Bylaws	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)
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)

Exhibit Number		Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
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
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	CNP's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.1

Exhibit Number		Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
		1, 2003			
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 5

CITY PUBLIC SERVICE OF SAN ANTONIO
2003-2004 ANNUAL REPORT


winning team
City Public Service of San Antonio
2003 - 2004 Annual Report
A WINNING TEAM

On the cover, a CPS lineman – against the backdrop of the new SBC Center, home of the NBA Spurs championship basketball team - helps provide reliable electric service to more than 600,000 customers in Greater San Antonio.

Table of Contents

STAT SHEET

City Public Service (CPS) is the nation's largest municipally owned energy company providing both natural gas and electric service.

Electric customers: 602,313
Natural gas customers: 306,845
Service territory: 1,566 square miles in Bexar County, Texas, including metropolitan San Antonio and portions of seven neighboring counties.

Electric generation capacity: 5,116 megawatts (MW)
Generation sources: coal, 49%; nuclear, 24%; natural gas/oil, 17%; wind energy and other purchased power, 10%.

Owned by: City of San Antonio, Texas, the nation's ninth largest city. Fourteen percent of CPS' gross revenue is returned to the City of San Antonio, an amount that makes up more than one-quarter of the City's annual budget.

Proceeds to City of San Antonio for FY2003-04: $208 million, a new record.

Governed by: Independent, five-member Board of Trustees, including the Mayor of the City of San Antonio.

SEASON RE-CAP

The San Antonio Spurs didn't need an NBA trophy to make them champions. They proved their excellence long before winning the 2003 World Championship – not only in their sterling teamwork on the court, but through their countless charitable efforts in the community at large.

Like the Spurs, the City Public Service (CPS) team performs for the good of the Greater San Antonio area. Owned by the City of San Antonio since 1942, we are the nation's largest municipally owned energy company providing both natural gas and electric service. Thanks to our efficient operations, our customers pay energy bills among the lowest in the nation, while our financial strength allows us to grow along with San Antonio. In essence, we work for the very same people we serve with reliable gas and electricity.

Teamwork is as crucial to our success as it is for the Spurs, and that means our various divisions must work as a team for winning performance. Just as the Spurs' 1999 championship victory served as a springboard to more success, CPS in 2003 built upon its six decades of experience to forge a bold plan for future strength and reliability.

In the following pages, you'll learn what made a CPS a winning team in the 2003-04 fiscal year. Let us recall just a few great CPS plays from this past year.

We saved our customers almost $50 million in future debt service costs through strategic financing transactions. In doing so, we once again achieved the highest bond ratings among utility systems nationwide. We achieved additional savings through an effective cost-containment program. Our non-fuel operating and maintenance expenses came in under budget, and this helped keep rates stable for our customers.

We conveyed a record $206.1 million to the City of San Antonio, as a return on the City's ownership of CPS. Those funds account for more than a quarter of the City's annual operating budget that is spent on fire and police protection, street improvements, parks and recreation facilities and so much more.

With existing generating resources, we easily met a record summer peak demand of 4,117 MWs. To address the growing energy needs of Greater San Antonio, we implemented our new Strategic Energy Plan that focuses on conservation, more renewable energy and additional coal and gas units for electrical generation.

Through these and many other victories, you'll see how, much like the Spurs, our strength, flexibility, strategy and teamwork help guide us to excellence. And you'll get a glimpse at the game plan that will continue our winning tradition in the years to come.

Stephen S. Hennigan
Chairman, Board of Trustees

Milton B. Lee
General Manager and CEO

CPS Board Chairman Hennigan (left) and CEO Lee proudly display the San Antonio Spurs' NBA World Championship trophies, symbols of a winning team.

Distribution Journeyman Ismael Mora (left) and Journeyman Serviceman Richard Zuniga are among the crews changing out electrical systems at Camp Bullis and Fort Sam Houston acquired by CPS in 2003

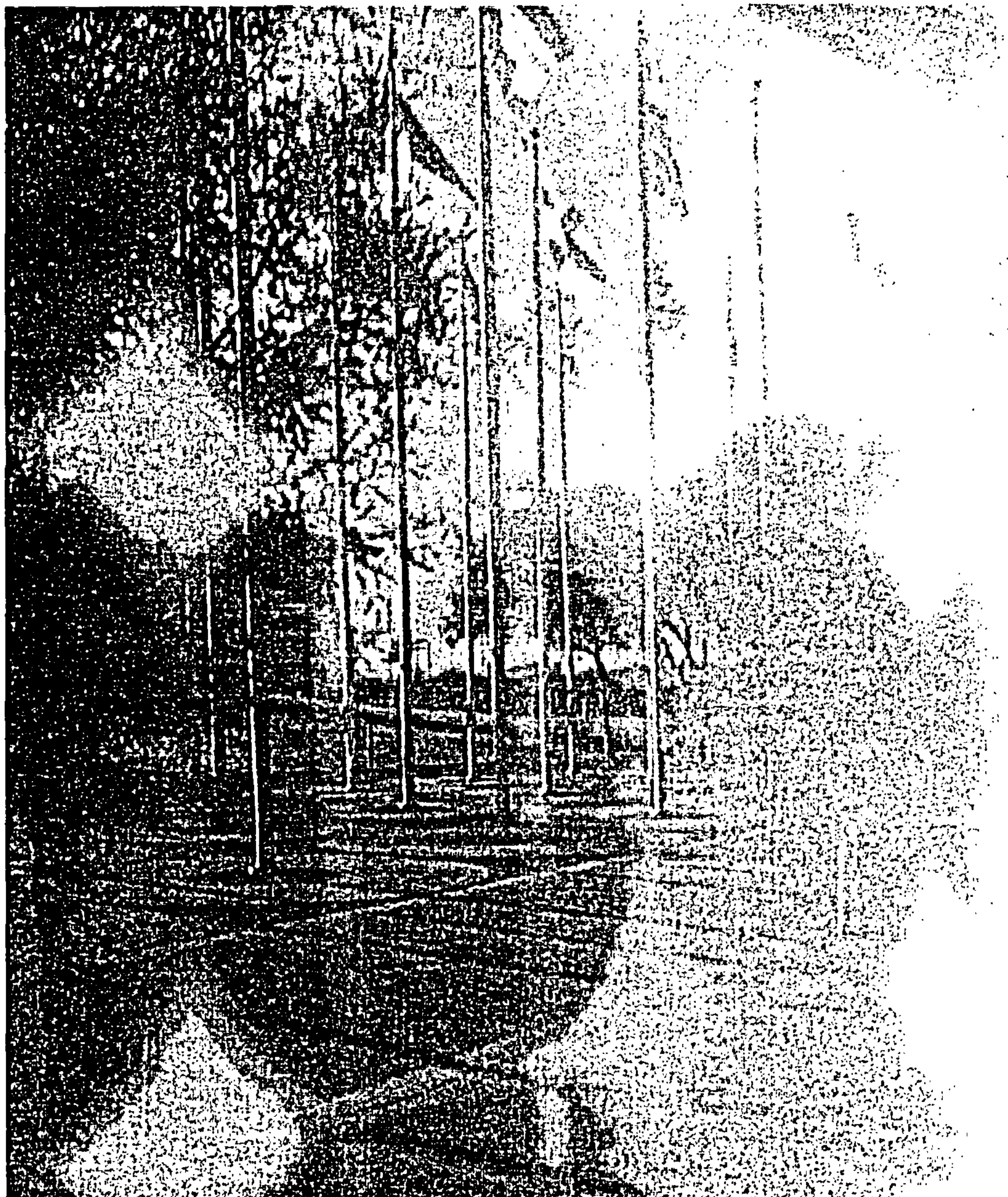
STRENGTH

Whether they re skilled in fast breaks, daring steals or three-point sharpshooting, great teams rely on a strong roster of powerful players to help them win even the toughest matchups. They hone this strength through dedicated practice, and enhance it with wise, careful acquisitions of new talent. Like the Spurs, CPS achieves excellence with a rock-solid foundation of well-run facilities and well-managed finances, and consistently seeks to expand that strength through new facilities that enhance our reliability and investment activities that are secure, yet give us the highest returns.

Greater San Antonio continued to grow in 2003, and CPS worked to meet the challenge with new infrastructure. Most notably, CPS assumed control of all electrical facilities at the U.S. Army s Fort Sam Houston and at Camp Bullis, an Army training installation northwest of San Antonio. We also began planning a new high-voltage transmission line to serve the growing area to the west and northwest of San Antonio, working extensively with customers along proposed routes to determine the best possible route. To monitor the flow of energy throughout CPS ever-growing network of gas and electric lines, CPS broke ground on a new, state-of-the-art Energy Management Center in eastern San Antonio. And CPS prepared to accommodate the energy needs of a major new corporate citizen, Toyota, which is building a new pickup truck assembly plant that will employ 2,000 when it opens in 2006.

CPS matched its physical strength with fiscal strength, maintaining its reputation for prudent financial planning that has earned it a AA+ rating from Fitch Ratings, a Aa1

Strength continued on next page



[illegible] Solar Power Station on the grounds of the University of Texas at San Antonio's Institute of Texan Cultures [illegible] downtown San Antonio grid, also includes an informational kiosk to educate visitors about [illegible]

STRENGTH cont.

rating from Moody s Investors Service Inc., and a AA+ rating from Standard & Poor s Ratings Services for its senior lien debt.

In the 2003-04 fiscal year, we saved our ratepayers [illegible] million in interest costs by restructuring our New Series 2002 Bond [illegible] to take [illegible] ing interest rates on escrow investments. In May, CPS provided funds for capital projects with the sale of $250 million in variable rate demand obligations. We also completed two separate bond refunding transactions totaling $444.4 million. CPS will realize almost $50 million in savings from these refundings.

We continued to expand our alternative energy portfolio. Our Windtricity program breezed along, supplying 160 MW of clean, renewable electricity from the Desert Sky Wind Farm in West Texas. CPS also teamed up with the Institute of Texan Cultures (ITC), a cultural center focusing on the contributions of numerous ethnic groups to the Lone Star State, to unveil the CPS-ITC Solar Power Station on the Institute s grounds near Hemisfair Park. The demonstration station s 200 photovoltaic cells generate 10 kilowatts of power, enough to run three average homes under peak conditions.

CPS also joined forces with Southwest Research Institute, the U.S. Department of Defense and others to kick off two experimental fuel cell projects at Brooks City-Base, a research park that once was Brooks Air Force Base. One emission-free hydrogen fuel cell was installed at the Challenger Learning Center, an aerospace education facility, while three others were located in Brooks City-Base s housing area – South Texas first application of fuel cells for residential use.

In 2003, CPS broke ground on its state-of-the-art Energy Management Center in eastern San Antonio [illegible]
When it s opened in late 2004, the EMC will become the heart of CPS energy distribution [illegible]

CPS used stored gas, purchased at lower prices, to help lessen the financial impact of gas prices on customers bills

flexibility

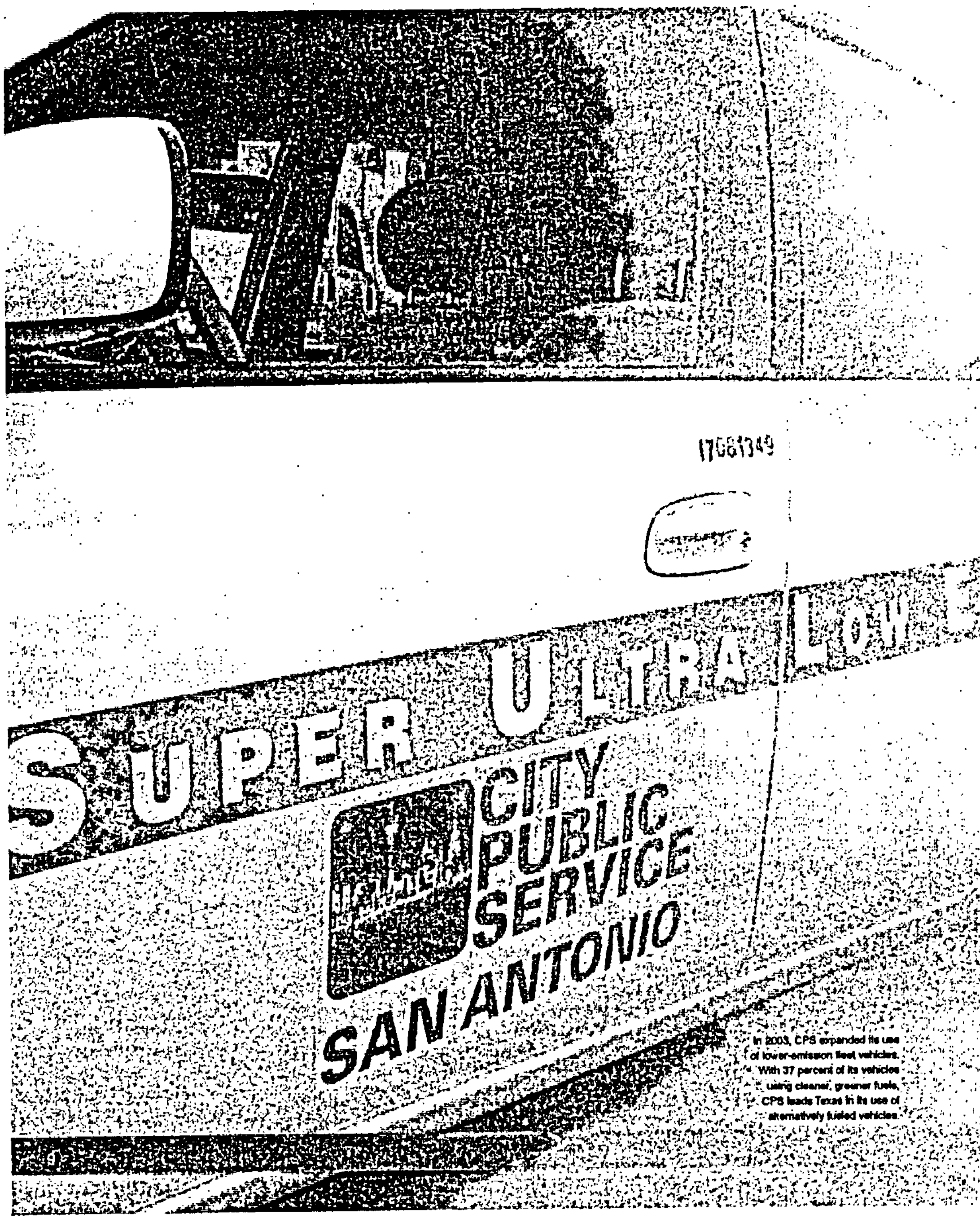
FLEXIBILITY

On the court, games can be won or lost in the blink of an eye. To succeed, the Spurs must master flexibility, responding quickly to changing game conditions. Thanks to a wide variety of players with unique sets of skills, CPS, like the Spurs, can tackle any challenge with speed and agility. CPS knows the importance of flexibility and works quickly to respond to challenges and to find innovative solutions.

In February 2003, extreme winter weather in the Northeast sent demand for natural gas skyward, causing prices to reach record highs nationwide. In response, CPS purchased gas at the most favorable prices available from multiple suppliers. Before July 2002, CPS had only one source for gas, but the construction of new pipelines and other facilities now enables CPS to buy gas from more than 30 suppliers. CPS also used stored gas purchased at lower prices to help lessen the financial impact on customers. Meanwhile, our conservation experts continued to educate customers on ways to save energy and lower their bills.

In August, 102-degree weather pushed electrical peak demand to a new record of 4,117 MW, but well within CPS generating capacity of 5,116 MW. CPS also was able to fully meet customer electrical demand despite a six-month outage of Unit 1 at the South Texas Project (STP) nuclear power plant near Bay City. With the guidance and oversight of the *Nuclear Regulatory Commission*, the STP staff worked expeditiously to repair several welds on the bottom of the reactor that allowed the seepage of a tiny amount of reactor coolant fluid.

Flexibility continued on next page



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In 2003, CPS expanded its use of lower-emission fleet vehicles. With 37 percent of its vehicles using cleaner, greener fuels, CPS leads Texas in its use of alternatively fueled vehicles.

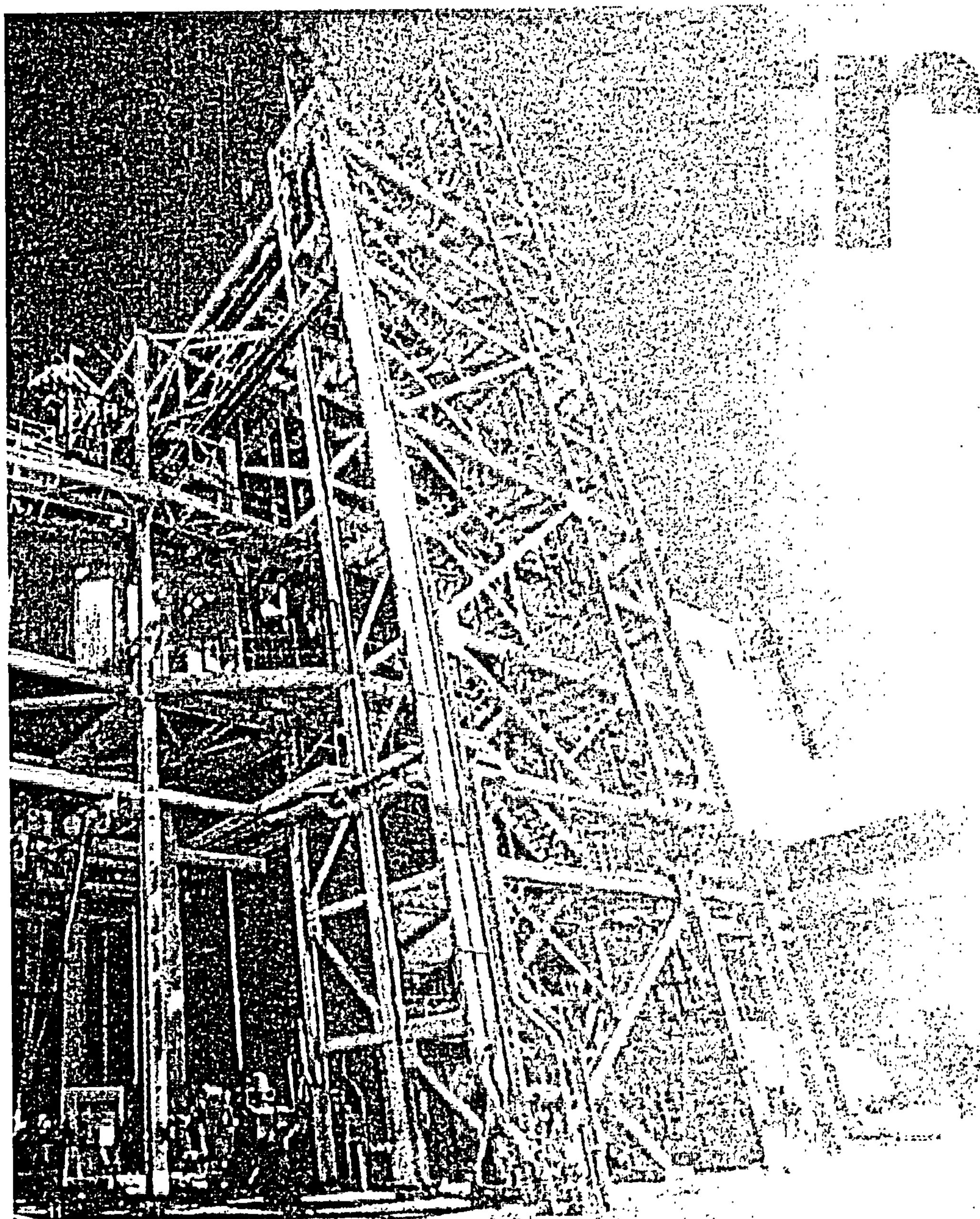
FLEXIBILITY cont.

CPS also demonstrated flexibility in its choice of fuels, from its power plants to its cars and trucks. Our diversified nuclear, natural gas, oil, coal-fired and wind-powered generation helped reduce the effects of higher gas costs on our customers electric bills. CPS also expanded the portion of its motor pool using lower-emission fuels like ethanol and biodiesel. With 37 percent of its cars and trucks running cleaner and greener, CPS leads Texas in its use of alternatively fueled vehicles.

Within the company, CPS launched powerful new technology to bring useful information to employees fingertips. CPSnet, the redesigned corporate intranet, makes it easier than ever for employees to get the information they need to do their jobs well. Designed and built in-house at a fraction of the typical cost, CPSnet was honored with a 2003 "Best of Texas" award by the Texas Public Relations Association.

Cranes position one of four natural gas peaking units installed by CPS at one of its power plants [illegible]
These units will be operational in summer 2004.

rategy



CPS will retrofit Deely Power Plant with scrubbers, similar to the Spruce Power Plant building shown here, and a baghouse in order to ensure that no net increase in emissions results from the addition of a new coal plant.

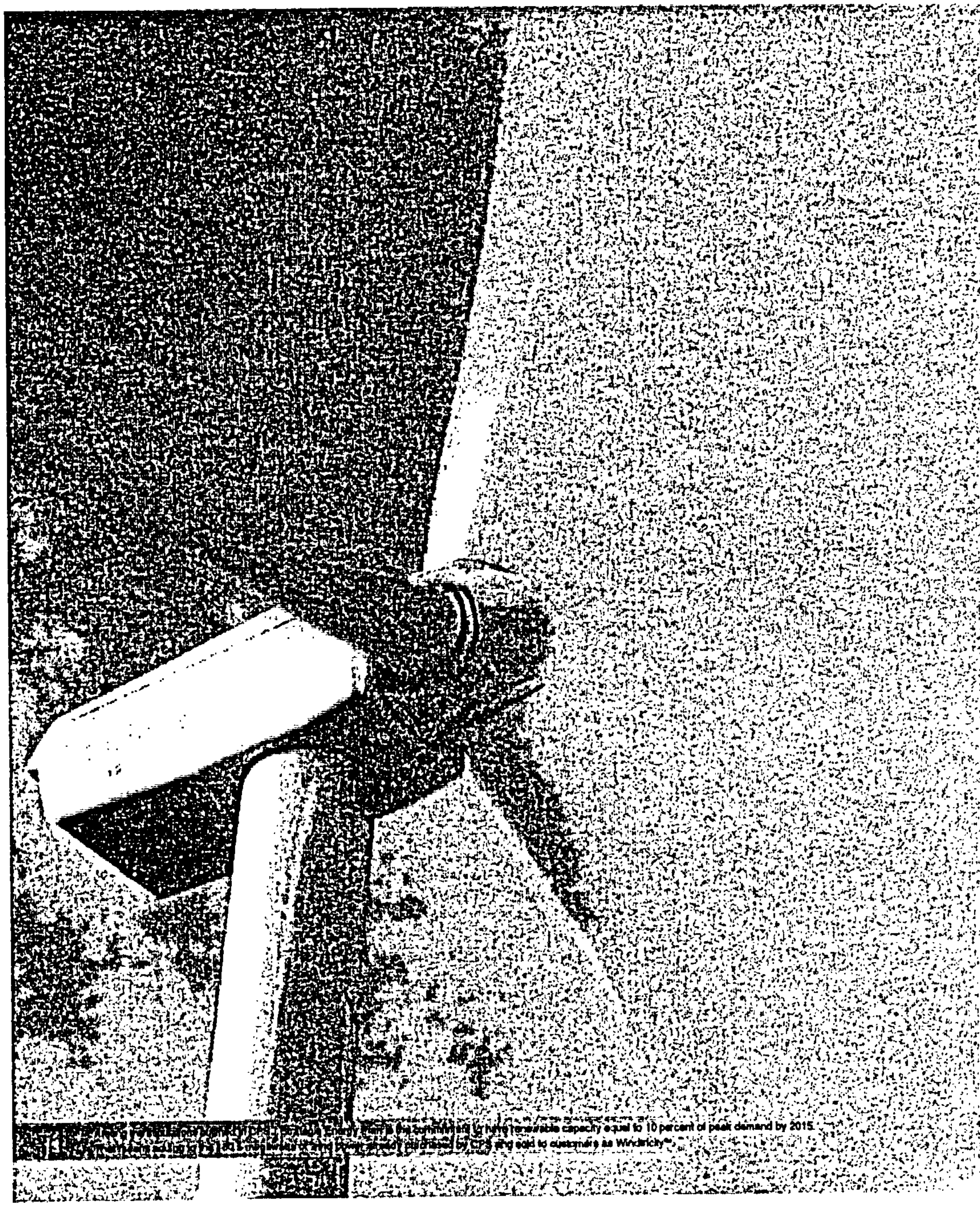
STRATEGY

Every winning team needs a solid game plan. The Spurs coaching staff must craft strategies to match the current conditions on the court without forgetting about the quarters still to be played. Similarly, CPS always keeps an eye on the future, laying the groundwork now for continuing success for years to come.

In 2003, CPS announced its Strategic Energy Plan, a decade-long road map designed to meet the energy needs of the ever-growing Greater San Antonio area. Highlights of the plan include acquiring approximately 150 MW of additional wind-generated electricity; continuing to explore solar, fuel cell and other renewable-energy technologies; installing new gas-fired generating peaking units; and constructing a state-of-the-art, coal-fired plant with the latest environmental safeguards of approximately 750 MW.

As part of the public input process on the Strategic Energy Plan, local elected officials, business leaders and the community at large recognized CPS for its continued leadership on environmental stewardship. CPS coal-fired facilities currently rank as some of the lowest-emitting facilities in the nation. Yet, in response to public input, CPS Board of Trustees announced an aggressive plan to further reduce emissions from existing plants. This commitment includes environmental retrofits such as baghouses and scrubbers.

Strategy continued on next page



STRATEGY cont.

Furthermore, the Board committed to adding renewable energy capacity equal to 10 percent of San Antonio's peak electrical demand by the year 2015, compared to today's capacity which equals about 4 percent of peak electrical demand. The Board also committed CPS to working with a committee of interested citizens and energy-efficiency experts to develop a more aggressive conservation program that is appropriate for the community s needs.

Northwest of San Antonio, CPS worked with the Lower Colorado River Authority to select a route for a new transmission line that will supply additional power to one of the fastest-growing areas in the state and further improve reliability of the Texas electric grid. The Cagnon-to-Kendall 345-kilovolt transmission line project remains under development, as CPS works with the community to determine the least-intrusive, most-appropriate route for the new line.

CPS also involved employees in charting the company s future with formation of the Jupiter Team. Volunteers from throughout the company, working with CPS top executives and Board of Trustees, are currently consulting with employees to determine the necessary steps to successfully propel CPS into the next decade and beyond. As part of the Jupiter Team s "Vision 2020" plan, employees are participating in defining the utility s core values and purpose and identifying a big, audacious goal for the company.

[illegible] is the commitment to have renewable capacity equal to 10 percent of peak demand by 2015. [illegible] purchased by CPS and sold to customers as Windtricity℠.

CPS diversified electrical generation fuels mix – including wind energy – is providing energy [illegible] teamwork

CPS staff members are involved with the community through Volunteers in Public Service, or VIPS. In 2003, VIPS supported efforts to improve inner-city neighborhoods through the annual Paint Your Heart Out event.

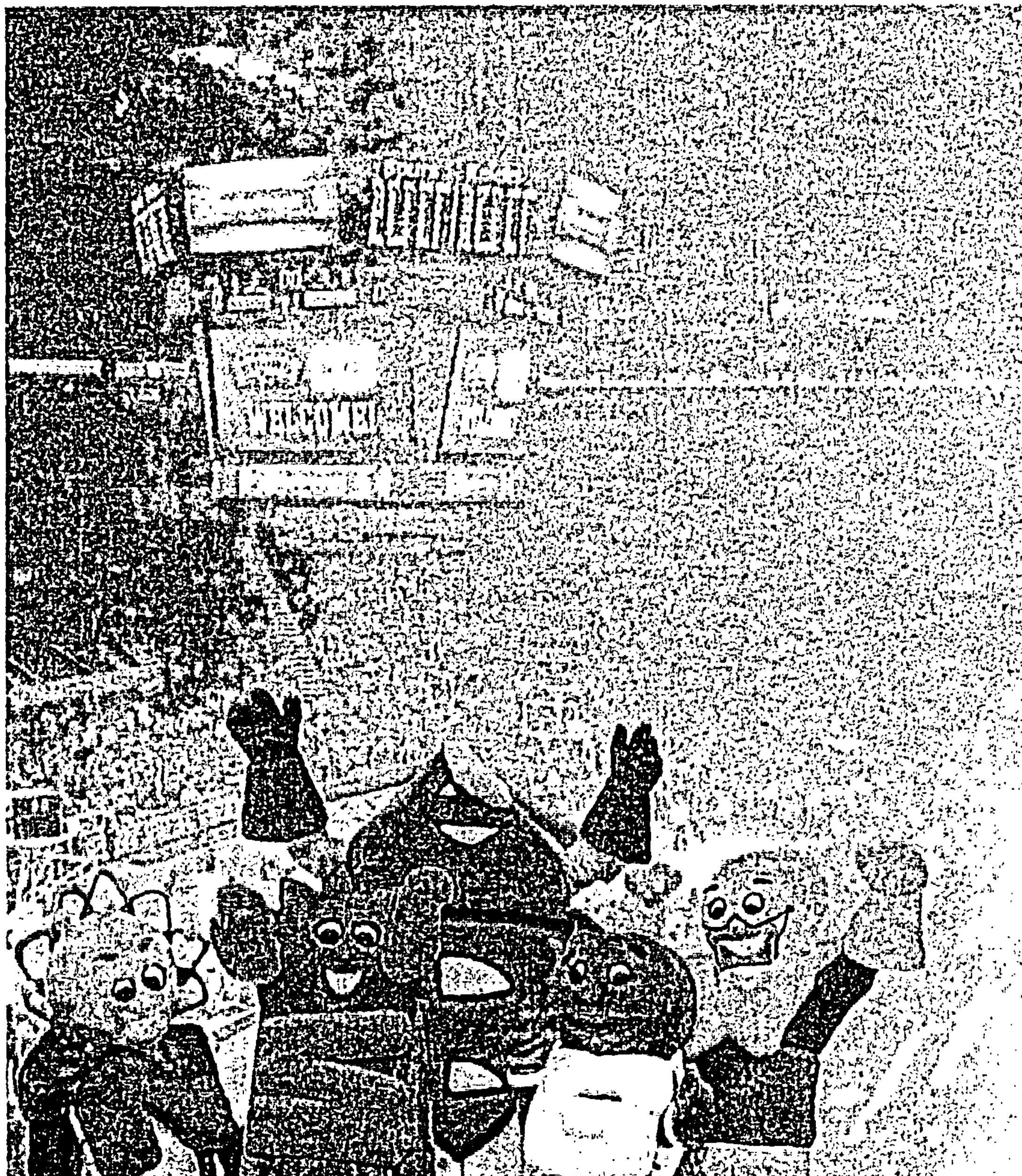
TEAMWORK

While other franchises may rely on one or two flashy superstars, the Spurs consistently triumph by drawing upon the talents and coordination of their entire team. And just as the Spurs organization works together to create a winner, CPS teams up with the citizens of Greater San Antonio in an effort to improve community life.

CPS employee volunteers made a difference throughout San Antonio in the 2003-04 fiscal year. In addition to summer fan, holiday toy and winter coat drives for the underprivileged, CPS employees weatherized 500 older, inner-city homes – many of them occupied by the elderly and families with small children – during its spring and summer Cool Volunteers program. Our employees further demonstrated their dedication to their community as a United Way campaign Pacesetter organization, pledging more than $700,000 in the fall 2003 company-wide campaign.

CPS also encouraged customers to adopt environmentally friendly technology with

Teamwork continued on next page



[illegible] San Antonio area to [illegible]

TEAMWORK

the 2003 Energy Innovator Awards, honoring San Antonio-area homeowners and businesses that used the latest energy-conserving techniques and renewable energy technology. Our Smart Energy program, in partnership with more than a dozen local builders, gave local homebuyers an easy way to identify homes with an efficient, money-saving combination of electric and natural gas service.

In addition to our ever-popular safety fairs and [illegible], CPS introduced Greater San Antonio's children to the PowerPals, [illegible] of energy superheroes who teach powerful lessons about safety and conservation. The PowerPals are featured on the CPS Kids Web site, also launched in 2003, which blends education and information with a healthy dose of fun.

Strength, flexibility, strategy and teamwork – these are the attributes we relied upon for a successful 2003-04 fiscal year. And they're also qualities that will help make CPS a winning team for many seasons to come.

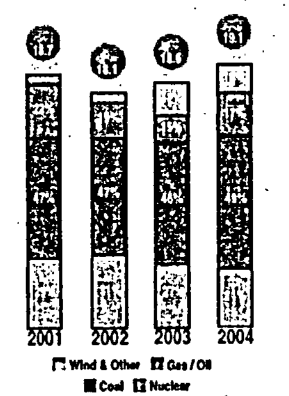
CPS employees supported San Antonio's community-wide fan drive by donating [illegible] purchase approximately 800 fans. The fans were distributed to people in need, many of whom [illegible]

financial and operating review

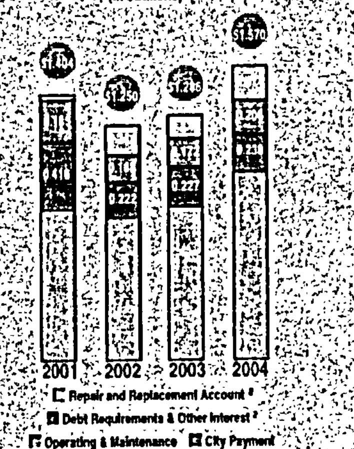
TOTAL REVENUE
Fiscal Year Ending January 31
(In $Billions)

ELECTRIC SALES
Fiscal Year Ending January 31
(In Million MWh)

ELECTRIC GENERATION & OTHER POWER
Fiscal Year Ending January 31
(In Million MWh)

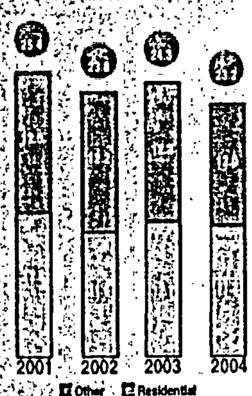


APPLICATION OF REVENUE [1]
Fiscal Year Ending January 31
(In $Billions)

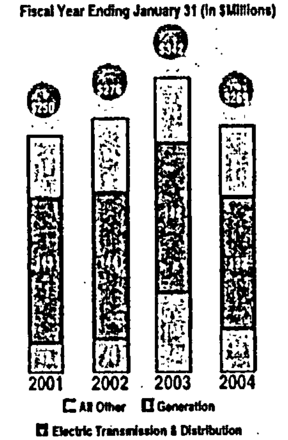


(1) Application of Revenue excludes fair value adjustment for investments; FY 2003 & 2004 excludes unbilled revenues.
(2) FY 2001 includes cash defeasance of debt.

GAS SALES
Fiscal Year Ending January 31
(In Million MCF)



CONSTRUCTION & NET REMOVAL COSTS EXPENDITURES
Fiscal Year Ending January 31 (In $Millions)

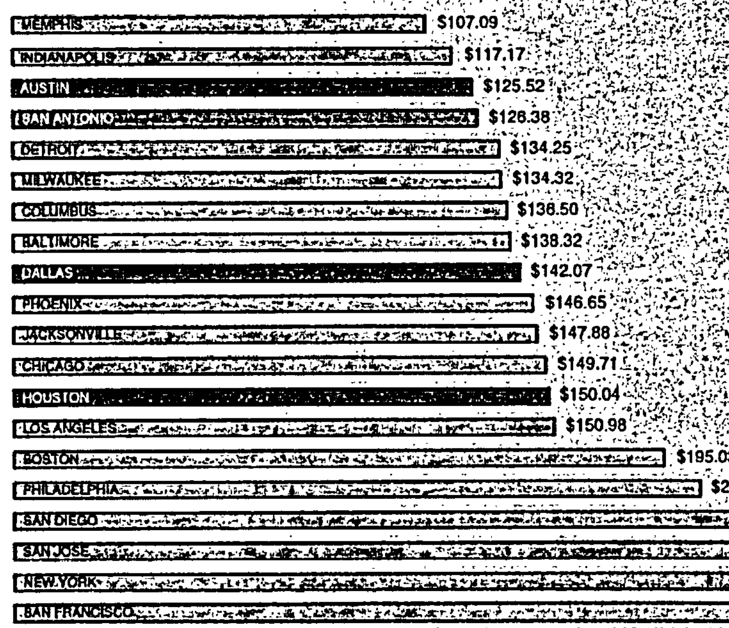


SERVICE AREA

CPS serves 602,313 electric customers primarily within a 1,566-square-mile retail service area including all of Bexar County and small portions of adjacent counties – Atascosa, Bandera, Comal, Guadalupe, Medina, Wilson and Kendall.

CPS' 306,845 gas customers are situated in Bexar and Comal counties.

COMPARISON OF RESIDENTIAL ELECTRIC AND GAS BILLS FOR THE 20 LARGEST U.S. CITIES*



*Monthly Average for 12 Months Ending January 2004 Based on 1,000 kWh and 5 MCF, as compiled by CPS.

five year highlights

(Unaudited)

(Dollars in thousands)

For Year Ended January 31,	2004	2003	2002	2001	2000
FINANCIAL SUMMARY					
Total revenue	$ 1,570,511	$ 1,345,462	$ 1,252,771	$ 1,405,501	$ 1,079,969
Operating & maintenance expenses [1]	955,155	763,722	696,119	769,002	520,915
Payment to City of San Antonio (per financial statements)	206,057	172,235	168,135	185,006	145,474
CAPITAL ASSETS					
Capital assets, net (per Balance Sheet)	4,621,564	4,585,309	4,454,164	4,365,709	4,134,207
Depreciation & depletion expense	228,941	217,037	189,065	217,191	165,249
New construction & net removal costs	269,462	341,977	275,987	249,655	410,801
FUNDING FOR NEW CONSTRUCTION & NET REMOVAL COSTS					
Bond proceeds	173,137	10,687	5,557	66,808	206,573
Commercial paper proceeds	0	13,600	123,600	76,549	0
Repair and replacement account	51,266	262,962	64,405	2,177	151,085
Overhead conversion fund	1,374	5,713	8,939	8,891	7,420
Contributed capital	43,685	49,015	73,486	95,230	45,723
OTHER FINANCIAL DATA					
STP nuclear decommissioning master trust fund assets	211,118	183,291	145,878	119,840	95,493
Repair and replacement account	567,698	413,717	548,303	465,206	330,984
Total assets	6,823,236	6,578,941	6,521,348	6,255,245	5,005,769
Fund net assets	2,829,376	2,751,050	2,664,571	2,418,100	2,048,534
DEBT					
Outstanding					
Bonds	2,622,470	2,499,525	2,589,860	2,668,820	2,730,575
Commercial paper	350,000	350,000	350,000	252,800	134,800
Weighted-Average Interest Rate					
Bonds	5.11%	5.17%	5.32%	5.33%	5.24%
Commercial paper	1.01%	1.11%	1.36%	3.95%	3.69%
Debt Service					
Senior lien bonds [2]	230,250	211,831	212,274	208,567	208,925
Junior lien bonds [3]	2,111	0	0	0	0
Commercial paper	4,125	5,327	8,191	8,182	4,709
Debt Service Coverage - Senior Lien Bonds	2.54x	2.51x	2.64x	3.05x	2 68x
Ratings - Bonds and Commercial Paper					
Fitch - Senior lien bonds	AA+	AA+	AA+	AA+	AA+
- Junior lien bonds	AA+/F1+	-	-	-	-
- Commercial paper	F-1+	F-1+	F-1+	F-1+	F-1+
Moody's - Senior lien bonds	Aa1	Aa1	Aa1	Aa1	Aa1
- Junior lien bonds	Aa2/VMIG 1	-	-	-	-
- Commercial paper	P-1	P-1	P-1	P-1	P-1
Standard & Poor's - Senior lien bonds	AA+	AA+	AA	AA	AA
- Junior lien bonds	AA/A-1+	-	-	-	-
- Commercial paper	A-1+	A-1+	A-1+	A-1+	A-1+
RELIABILITY INDICES					
System Average Interruption Duration Index (SAIDI) (in hours)	0.746	0.582	0.650	1.124	0.728
System Average Interruption Frequency Index (SAIFI)	1.219	0.946	1.005	1.527	1.162

(1) Excludes depreciation expense.
(2) Excludes cash defeasance in 2003 and 2001.
(3) Junior Lien Obligations issued in May 2003 (VRDO).

five year operations review

(Unaudited)

For Year Ended January 31,	2004	2003	2002	2001	2000
OPERATING REVENUE [1] *(in thousands)*					
Electric:					
Residential	$ 591,593	$ 512,164	$ 479,471	$ 516,203	$ 428,450
Commercial and industrial	550,872	430,873	398,563	411,773	353,055
Street lighting	14,036	13,090	12,703	12,786	11,977
Public authorities	70,966	95,843	94,586	105,815	94,475
Sales for resale	20,075	17,876	14,539	15,548	12,581
Off-system sales	27,681	12,333	19,368	54,677	26,499
Unbilled revenue	9,292	40,708	0	0	0
Other	14,933	9,901	9 029	7,612	6,592
Total	$ 1,299,448	$ 1,132,788	$ 1,028 259	$ 1,124,414	$ 933,629
Gas:					
Residential	$ 112,683	$ 84,616	$ 94,443	$ 122,385	$ 59,748
Commercial and industrial	82,988	55,476	64,341	75,888	39,425
Public authorities	13,978	9,123	12,271	14,704	6,694
Unbilled revenue	(6,488)	17,676	0	0	0
Other	1,205	1,814	1,532	1,579	1,153
Total	$ 204,366	$ 168,705	$ 172,587	$ 214,556	$ 107,020
SALES					
Electric *(MWh)*					
Residential	7,380,491	7,248,870	7,053,649	7,180,459	6,492,199
Commercial and industrial	8,485,624	7,732,905	7,454,710	7,284,582	6,928,944
Street lighting	99,457	97,053	102,668	103,428	100,534
Public authorities	1,100,521	1,829,766	1,954,333	2,083,527	2,108,671
Sales for resale	443,519	329,988	352,521	348,717	327,277
Off-system sales	752,019	172,564	326,559	844,436	470,335
Total	18,261,631	17,411,146	17,244,440	17,845,149	16,427,960
Gas *(thousands of MCF)*					
Residential	11,215	12,088	11,540	12,777	10,027
Commercial and industrial	10,151	10,384	10,184	10,574	9,485
Public authorities	1,801	1,786	2,033	2,065	1,762
Total	23,167	24,258	23,757	25,416	21,274
ELECTRIC GENERATION *(MWh)*					
Generation	17,176,881	16,410,007	17,522,040	18,214,197	17,457,003
Energy purchases & other power	1,937,902	2,200 666	597,983	480,894	14 835
Native load: generation & other power	19,114,783	18,610,673	18,120,023	18,695,091	17,471,838
Total power available [2]	20,587,784	20,175,695	20,533,057	22,547,826	20,352,222
Capacity, MW (Gas)	2,831	2,931	2,942	2,942	2,430
Capacity, MW (Coal)	1,425	1,425	1,385	1,385	1,385
Capacity, MW (Nuclear)	700	700	700	700	700
Capacity, MW (Wind)	160	160	160	25	0
ELECTRIC PEAK DEMAND *(MW)*	4,117	3,937	3,860	4,091	3,729
DISTRIBUTION GAS PURCHASES *(MMCF)*	22,946	26,084	23,559	25,905	21,684
NUMBER OF CUSTOMERS [3]					
Electric	602,313	604,108	592,195	578,296	563,127
Gas	306,845	310,316	306,668	305,811	303,871
RESIDENTIAL AVERAGES					
Electric:					
Revenue per customer	$ 1,128.76	$ 978.49	$ 930.36	$ 1,026 56	$ 874.10
kWh per customer	14,082	13,849	13,687	14,280	13,245
Revenue per kWh	8.02¢	7.07¢	6.80¢	7.20¢	6.60¢
Gas:					
Revenue per customer	$ 395.05	$ 295.85	$ 330.97	$ 430 49	$ 211.34
MCF per customer	39.3	42 3	40 4	44.9	35.5
Revenue per MCF	$ 10.05	$ 7 00	$ 8.18	$ 9.58	$ 5.96
NUMBER OF EMPLOYEES	4,103	4,276	4,195	3,994	3,810

(1) Includes unbilled electric and gas revenues for 2004 and 2003, which were first recorded in fiscal year 2003
(2) Includes joint operating systems generation.
(3) Effective fiscal year 2004, customer count is based upon active contracts. The change affects the comparability between periods and does not necessarily mean a drop in the customer base.

REPORT OF MANAGEMENT

The Board of Trustees is responsible for the audited financial statements but has delegated responsibility for the preparation to Management

The audited financial statements included in this report were prepared by Management in conformity with generally accepted accounting principles and the statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with information in the audited financial statements.

City Public Service maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded. As part of this process, Management has an internal audit function which assists in evaluating the adequacy and effectiveness of the control structure.

The Board of Trustees is responsible for reviewing and approving the audited financial statements and Management's Discussion and Analysis and, primarily through its Audit Committee, ensures that Management fulfills its responsibilities for financial reporting.

The Audit Committee meets regularly with Management, and with the internal and external auditors, to discuss internal control and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the audited financial statements and the external auditors report and considers, for review and approval by the Board, the engagement or reappointment of the external auditors.

CPS' external auditors, KPMG LLP; Robert J. Williams, CPA; and Garza, Preis & Co., L.L.C., have audited the financial statements in accordance with generally accepted auditing standards. They considered the company s control structure and performed such tests and other procedures, as they deemed necessary to express an opinion on the fairness of the audited financial statements. The external auditors were given full and free access to the accounting records through CPS Management.

Milton B. Lee
General Manager and CEO

V. Gary Schaub
Secretary-Treasurer
Senior Vice President
Financial and Corporate Services

April 26, 2004

City Public Service of San Antonio, Texas

Basic Financial Statements
Years Ended January 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

Audited Financial Statements – Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) serves as an introduction to the financial statements of City Public Service (CPS). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ending January 31, 2004 (2004). It also provides an overview of CPS' general financial condition and results of operations for the fiscal year ending January 31, 2003 (2003). This MD&A is in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which CPS implemented in fiscal year ending January 31, 2002 (2002). This MD&A should be read in conjunction with the financial statements and accompanying footnotes that follow the MD&A.

Basic Financial Statements

The Balance Sheets present information on CPS' assets and liabilities as of the end of each fiscal year. Assets are separated into current and non-current and reported based in the order of liquidity. Current assets include unrestricted cash and investments, receivables, inventories, prepayments and other current deferred costs. Non-current assets include cash, cash equivalents, investments and interest receivable which have been restricted by state law, ordinances or contracts. Other non-current assets, deferred costs and capital assets are also included in this category. Liabilities are also segregated into current and non-current. Current liabilities include the current maturities of revenue bonds, accounts payable, and other current payables and accrued liabilities. Non-current liabilities include long-term net debt, the South Texas Nuclear Project (STP) decommissioning liability, deferred revenue and other liabilities. The Balance Sheets report fund net assets as the difference between the total assets and total liabilities. The fund net assets are classified as those invested in capital assets, net of related debt; those legally restricted; and those unrestricted and available for operations.

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The Statements of Cash Flows present the cash activity for each fiscal year segregated into operating activities, capital and related financing activities, non-capital financing activities, and investing activities. This statement is prepared using the direct method which reports cash receipts and payments and a reconciliation of operating income to net cash provided by operating activities. The changes in cash balances during the fiscal years are an indicator of CPS' liquidity and financial condition.

Financial Highlights and Significant Accounting Policies

Contributions to construct capital assets flow through the Statements of Revenues, Expenses and Changes in Fund Net Assets and are shown as part of the utility's equity that is invested in capital and other assets. The amount reported for contributed capital was $47.2 million for 2004 as compared with $53.4 million for 2003. Included in contributed capital for 2004 is $3.5 million related to the acquisition of electric facilities at Fort Sam Houston, a major Army post, and Camp Bullis, a U.S. Army training installation, which occurred during 2004. About $25.7 million of the contributed capital amount for this year came from litigation settlements, mainly the Joint Operating Agreement with Texas Genco, L.P., a subsidiary of CenterPoint Energy. The remainder was contributed by customers for utility extensions and services.

Included in contributed capital for 2003 is $4.4 million of contributed capital associated with the acquisition of the electric and natural gas facilities at Brooks City-Base, formerly Brooks Air Force Base. About $31.1 million of the contributed capital amount for 2003 was obtained from litigation settlements.

The excess of assets over liabilities of the utility system is reported as fund net assets. At January 31, 2004, this totaled $2.829 billion as compared with $2.751 billion as of January 31, 2003, and $2.665 billion for January 31, 2002. CPS reports the assets and liabilities accumulated for the employee health and welfare plans and for the Decommissioning Master Trust under GASB Statement No. 14, *The Financial Reporting Entity*. In compliance with the provisions of GASB 14, CPS has included these component units in its financial statements for external reporting purposes. These assets are legally segregated from CPS and are accounted for separately. In 2004 and 2003, fund net assets include $152.8 million and $122.7 million, respectively, for the employee health and welfare plans. There are no fund net assets associated with the Decommissioning Master Trust since the decommissioning liability equals the Trust assets. In 2002, fund net assets include $131.7 million for the employee health and welfare plans. In addition, CPS' income before contributed capital as a result of inclusion of the health and welfare plans as reported on the Statements of Revenues, Expenses and Changes in Fund Net Assets was $30.0 million higher for 2004 due primarily to a greater change in fair value on the plan investments from the prior year. For 2003 and 2002, income before contributed capital was $8.9 million lower and $7.4 million lower, respectively, as investment earnings from the plans were less than the claims paid.

In 2004, CPS adopted the provisions of GASB Technical Bulletin No. 2003-01, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*. The adoption of this guidance did not affect CPS' financial position or results of operations. However, it did result in reporting presentation changes that were incorporated into the footnote disclosures for risk management.

Summary of Balance Sheet Information

	January 31, 2004	2003	2002
		(In thousands)	
Assets			
Current and other assets	$ 2,201,672	$ 1,993,632	$ 2,067,182
Capital assets, net	4,621,564	4,585,309	4,454,164
Total Assets	6,823,236	6,578,941	6,521,346
Liabilities			
Current liabilities	287,969	276,540	238,194
Long term liabilities	3,705,891	3,551,351	3,618,581
Total Liabilities	3,993,860	3,827,891	3,856,775
Fund Net Assets			
Invested in capital assets, net of related debt	1,722,770	1,850,944	1,690,076
Restricted	770,767	577,705	722,859
Unrestricted	335,839	322,401	251,636
Fund Net Assets	$ 2,829,376	$ 2,751,050	$ 2,664,571

Summary of Revenues, Expenses and Changes in Fund Net Assets Information

(In thousands)	Years Ended January 31, 2004	2003	Amount Change	Percentage Change	2002	Amount Change	Percentage Change
Revenue:							
Utility operating	$1,503,814	$1,301,493	$202 321	15 5%	$ 1,200,846	$ 100 647	8 4%
Non-operating income net	66 697	43 969	22 728	51.7%	51,925	(7 956)	-15.3%
Total Revenue	1,570,511	1,345,462	225 049	16.7%	1,252,771	92 691	7.4%
Expenses:							
Depreciation	228,941	217,037	11,904	5.5%	188,999	28,038	14 8%
Decommissioning	24,402	36,647	(12 245)	-33 4%	26,038	10,609	40 7%
Other operating and maintenance	930,753	727,075	203,678	28 0%	670,147	56 928	8.5%
Interest and debt related	149,223	159,420	(10 197)	-6 4%	163,151	(3,731)	-2.3%
Payments to the City of San Antonio	206 057	172,235	33 822	19 6%	168,135	4,100	2.4%
Total Expenses	1 539,376	1,312,414	226,962	17.3%	1,216,470	95,944	7.9%
Income Before Contributed Capital	31,136	33,049	(1,913)	-5.8%	36,301	(3,253)	-9 0%
Contributed capital	47,191	53,431	(6,240)	-11.7%	73,096	(19 665)	-26 9%
Change in Fund Net Assets Before Change in Accounting Policy	78,326	86,479	(8 153)	-9 4%	109,397	(22,918)	-20.9%
Cumulative Effect of Change in Accounting Policy	0	0	0	0.0%	139,074	(139,074)	-100.0%
Change in Fund Net Assets After Change in Accounting Policy	78,326	86,479	(8 153)	-9 4%	248,471	(161,992)	-65.2%
Fund Net Assets - Beginning	2,751 050	2 664 571	86 479	3 2%	2 416,100	248 471	10 3%
Fund Net Assets - Ending	$2,829 376	$2,751 050	$ 78 326	2 8%	$2 664 571	$ 86 479	3 2%

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Non-operating income, net	66,697	43,969	22,728	51.7%	51,925	(7,956)	-15.3%
Total Revenue	1,570,511	1,345,462	225,049	16.7%	1,252,771	92,691	7.4%
Expenses:							
Depreciation	228,941	217,037	11,904	5.5%	188,999	28,038	14.8%
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Interest and debt related	149,223	159,420	(10,197)	-6.4%	163,151	(3,731)	-2.3%
Payments to the City of San Antonio	206,057	172,235	33,822	19.6%	168,135	4,100	2.4%
Total Expenses	1,539,376	1,312,414	226,962	17.3%	1,216,470	95,944	7.9%
Income Before Contributed Capital	31,135	33,048	(1,913)	-5.8%	36,301	(3,253)	-9.0%
Contributed capital	47,191	53,431	(6,240)	-11.7%	73,096	(19,665)	-26.9%
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Change in Fund Net Assets After Change in Accounting Policy	78,326	86,479	(8,153)	-9.4%	248,471	(161,992)	-65.2%
Fund Net Assets - Beginning	2,751,050	2,664,571	86,479	3.2%	2,416,100	248,471	10.3%
Fund Net Assets - Ending	$2,829,376	$2,751,050	$ 78,326	2.8%	$2,664,571	$ 86,479	3.2%

Results of Operations

Electric and gas operating revenue of $1.504 billion for 2004 rose $202.3 million, or 15.5 percent from the prior year, primarily due to higher electric and gas fuel recoveries. Representing about 82.7 percent of CPS' total revenue, electric system operating revenue of $1.299 billion increased 14.7 percent from last year. Revenue from electric fuel recoveries was up $145.5 million due to the higher fuel costs. Revenue from electric base rate sales rose 2.5 percent from last year. Total electric sales of 18.3 billion kWh were 4.9 percent higher, reflecting an increase in off-system sales from 0.173 million MWh in 2003 to 0.752 million MWh in 2004. The number of electric customers totaled 602,313 as of January 2004, an increase of 10,021 from January 2003. Effective February 2003, the customer count methodology was changed from number of bills to number of active contracts. The prior year customer count was restated to reflect active contracts. CPS also recorded an all-time record high peak demand on August 8, 2003 of 4,117 MW. Regulatory recoveries added $50.8 million to total electric revenue and were up significantly from last year. These recoveries represent the pass-through of CPS' charges for utility commission assessments for statewide transmission costs and for Electric Reliability Council Of Texas (ERCOT)-related fees. Unbilled electric operating revenues added $9.3 million to total electric revenue.

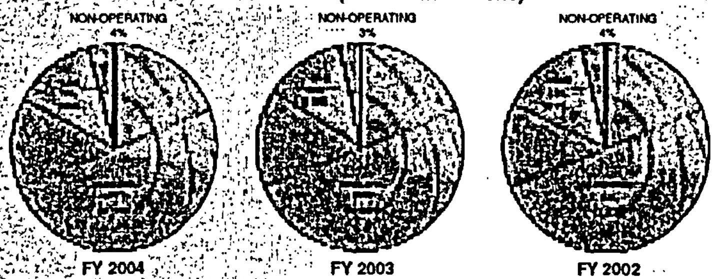
Gas system operating revenue in 2004 totaled $204.4 million, a 21.1 percent increase from the previous fiscal year, and accounted for 13.0 percent of total revenue. The increase was due entirely to greater revenue from gas cost recoveries resulting from the higher average unit cost of gas. Gas unbilled operating revenue reduced total gas revenue by $6.5 million. Based upon active contracts, gas customers at January 2004 totaled 306,845, an increase of 501 from the previous year. Gas sales of 23.2 million MCF were down 4.5 percent from last year, reflecting the milder winter weather this year.

For 2003, electric and gas operating revenue totaled $1.301 billion, an increase of 8.4 percent from the prior year. Electric system operating revenue totaled $1.133 billion and was up 10.2 percent from 2002. Most of the increase was due to higher revenue from electric fuel recoveries and the inclusion of unbilled revenue, which began to be recorded in 2003. Electric sales of 17.4 billion kWh in 2003 were 1.0 percent higher than the previous year. Regulatory recoveries totaled $21.5 million for 2003. Gas system operating revenue in 2003 totaled $168.7 million and decreased 2.2 percent from 2002 due mainly to reduced revenue from gas cost recoveries. Gas sales of 24.3 million MCF rose 2.1 percent from 2002.

Net non-operating income of $66.7 million in 2004 increased by 51.7 percent. The change in fair value recorded on the employee health and welfare investments increased by $39.9 million from last year and accounted for all of the favorable variance in net non-operating income. These assets can be invested in a wider array of securities than CPS internal funds. This increase was partially offset by reduced investment yields on CPS operational funds, which reflected the current market conditions in 2004. Lower investment income and changes in fair value were also recorded for the STP Decommissioning Trust investments.

In 2003, net non-operating income of $44.0 million decreased $8.0 million from the prior year primarily due to lower investment yields from CPS operational funds.

Total Revenue (Dollars In Millions)



Total operating expenses of $1.184 billion in 2004 increased 20.7 percent. All major categories of expenses increased from last year. Electric fuel and purchased power costs of $401.5 million increased by $124.5 million, or 44.9 percent. The average unit price per MWh increased substantially from last year due primarily to higher natural gas prices and reduced nuclear generation. The lower nuclear generation reflected the STP Unit 2 forced outage early in the fiscal year to repair excessive turbine vibration, and the Unit 1 planned refueling outage in the spring and subsequent forced outage during the summer associated with the bottom mounted instrumentation tubes seepage. Both units were operating near full power the second half of 2004, but reflect lower combined year-to-date generation. The reduction in nuclear generation was replaced by more expensive gas and a greater amount of coal generation and purchased power. Total generation and other power requirements were 2.7 percent greater than last year.

Distribution gas costs totaled $132.3 million, an increase of $40.8 million in 2004. The average unit distribution gas cost rose from last year. Natural gas market prices increased during late February 2003 to more than $20 per MCF, reflecting the nation-wide cold spell and the onset of war in the Middle East. CPS employed its hedging tactics and also used lower-cost gas brought out of storage to reduce the effect of the spike in gas prices to its customers. Prices declined during the summer and fall months, but were still much higher than last year on a year-to-date basis. The volume of distribution gas purchases decreased 10.9 percent.

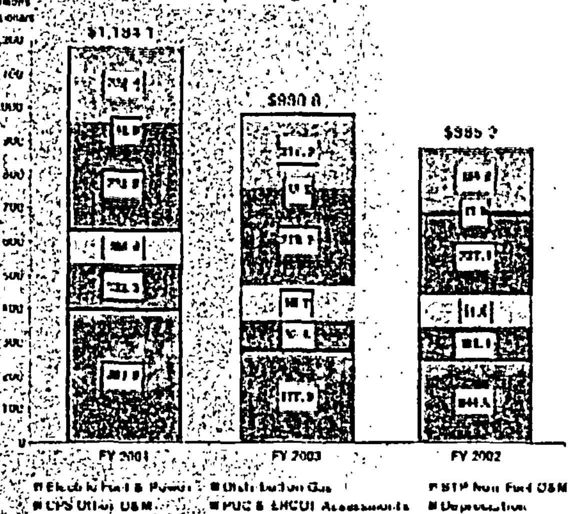
STP nuclear plant non-fuel operating and maintenance expenses, including decommissioning, increased 1.0 percent, totaling $100.6 million in 2004. Higher production maintenance costs this year included activities related to the Unit 1 planned refueling outage in March and April 2003, and its subsequent forced outage throughout the remainder of the spring and summer months. In April, a small seepage was discovered in two of the 58 bottom mounted instrumentation tubes from a routine inspection during refueling of Unit 1. The tubes were inspected and repaired and the unit was returned to service in early August. Approximately $6.7 million was spent on the forced outage and another $5.7 million was related to its planned refueling outage. Other smaller increases were seen in various administrative and general costs. These increases were partially offset by a decrease in non-cash decommissioning expense.

CPS' non-fuel operating and maintenance expenses of $274.9 million in 2004 were essentially the same as the prior year. Labor-related costs and employee benefits were somewhat higher than last year. Higher expenses for electric distribution operating and electric transmission maintenance activities were also incurred. These increases were offset by lower costs for various services, materials and equipment, especially in the areas of modular remodeling, communication and signal items for the Systems Control and Data Acquisition system, wireless and voice systems, and computer service contracts.

Regulatory assessments expense of $45.9 million increased by $23.6 million in 2004, due mainly to greater ERCOT-related costs that were primarily for managing increasing congestion on the statewide grid. Specific charges that contributed to the variance were Out of Merit Energy charges, Out of Merit Replacement Capacity charges and Reliability Must Run service charges. Transmission cost of service net billings assessed by the Public Utility Commission (PUC) of Texas were $1.4 million higher than last year.

Depreciation expense of $228.9 million in 2004 was $11.9 million greater than last year, reflecting the new plant additions during the year subject to depreciation. Some true-ups and adjustments were also recorded at the end of the fiscal year for the Gugert and Salado Street facilities remediation and for other asset classes depreciation charges.

Total Operating Expenses



Interest and debt-related costs of $149.2 million were $10.2 million lower than last year. This year included lower Senior Lien Bond and Tax-Exempt Commercial Paper (TECP) interest costs. The prior year also included debt defeasance costs related to a cash defeasance transaction. In August 2002, CPS legally defeased $144.2 million in certain outstanding revenue bonds with available funds and costs of $7.1 million were incurred related to the transaction. This variance was partially offset by the current year s interest expense on the Junior Lien Variable Rate Demand Obligations (VRDO), which began to be recorded in May 2003. The Allowance for Funds Used During Construction decreased this year, due to the reduction in gross construction expenditures and lower capitalized interest rates reflecting the current interest rate market.

Payments and services to the City of San Antonio (City) in 2004 totaled $206.1 million and were 19.6 percent greater than 2003, reflecting the higher gross revenue subject to City Payment. This was the first fiscal year where the City Payment exceeded $200 million.

Income before contributed capital totaled $31.1 million, a decrease of 5.8 percent. Higher STP non-fuel operating and maintenance expenses and greater depreciation expense were contributing factors. Last year s adjustment for unbilled revenue also contributed to the variance, as last year was the base year for applying the calculation. This year s unbilled revenue reflects only the net change from last year. This was partially offset by higher net non-operating income, primarily from the investments of the employee health and welfare plans, and somewhat greater revenue from electric sales.

After recording $47.2 million in contributed capital, which includes $3.5 million related to the Fort Sam Houston and Camp Bullis acquisitions, the overall change in fund net assets totaled $78.3 million for the year ended January 2004, as compared to $86.5 million for the prior year.

In 2003, operating expenses totaled $980.8 million, an increase of 10.8 percent from 2002. Electric fuel costs, CPS non-fuel operating and maintenance expenses, regulatory assessments and depreciation expense all increased from the previous year but were partially offset by lower costs for distribution gas and STP nuclear expenses, excluding decommissioning. Electric fuel and purchased power costs of $277.0 million increased by 13.2 percent, due to higher generation requirements and a greater average unit fuel cost per MWh. Distribution gas costs totaled $91.6 million, a decrease of $13.8 million from 2002 due to a lower average unit gas cost. STP non-fuel operating and maintenance expenses, including decommissioning, increased 8.6 percent, totaling $99.7 million. Increases in non-cash decommissioning and employee benefits costs contributed to the variance, which were partially offset by lower production maintenance costs, as 2002 included refuelings outages for both units versus the single planned refueling outage for Unit 2 in 2003. CPS non-fuel operating and maintenance expenses of $273.2 million rose $35.8 million from 2002. These increased expenses included higher labor and related costs, which includes payroll taxes and employee benefits; greater costs for sales promotions, outside services, and property insurance; and costs for various planned power plant overhauls. Regulatory assessments expense of $22.3 million increased by $5.3 million or 31.3 percent from 2002 due to greater net transmission charges incurred by the PUC. Depreciation expense in 2003 totaled $217.0 million, an increase of $28.0 million or 14.8 percent, which reflected the application of updated and slightly higher depreciation rates implemented in 2003.

Interest and debt-related costs in 2003 totaled $159.4 million and were $3.7 million lower than in 2002. Lower revenue bond and TECP interest costs in 2003 were partially offset by the debt defeasance costs related to the cash defeasance transaction. Payments and services to the City totaled $172.2 million in 2003 and were 2.4 percent greater than the prior year, reflecting the higher gross revenue subject to City Payment.

Income before contributed capital for 2003 totaled $33.0 million, a decrease of 9.0 percent from 2002. The decrease in non-operating income, and higher CPS non-fuel operating and maintenance costs and depreciation expense contributed to the variance. After recording $53.4 million in contributed capital, which includes $4.4 million related to the Brooks City-Base acquisition, the overall change in fund net assets totaled $86.5 million in 2003. This compares to the change in fund net assets of $109.4 million for 2002, before including the cumulative effect of change in accounting policy related to the inclusion of the employee health and welfare plans into the 2002 financial statements.

Total assets at January 31, 2004 were $6.823 billion, an increase of $244.3 million from January 31, 2003. CPS Repair and Replacement Account balance increased $153 4 million, as there were greater revenue deposits from operations this year and a lower amount used for construction versus the prior year. Also, increases in cash, cash equivalents and investments and interest receivable of the employee health and welfare plans and the STP decommissioning master trust accounted for $30.5 million and $27.8 million, respectively, of the increase in total assets. Net capital assets increased $36.3 million from the prior year. Prepayments and other current assets rose by $8.7 million and included a prepayment for capital spare parts related to the long-term service agreements for the Arthur von Rosenberg power plant. These increases were partially offset by decreases in other unrestricted cash, cash equivalents and investments of $7.0 million.

Total assets at January 31, 2003 of $6.579 billion increased $57.6 million from January 31, 2002. The inclusion of $58 4 million in unbilled revenue receivable and an increase of $11.9 million in fuel stock contributed to the variance. The higher fuel stock in 2003 was due primarily to a greater coal inventory and natural gas held in storage which began that year. Net capital assets and the cash, cash equivalents and investments of the STP decommissioning trust also increased from 2002. These increases were partially offset by decreases in 2003 in other cash, cash equivalents and investments of approximately $193.0 million from 2002.

CPS' total debt service and other interest requirements of $238.0 million in 2004 were 4.9 percent higher than the previous year. Debt service requirements this period included lower interest costs on revenue bonds and TECP. Also, last year included an additional $7.1 million for the costs for cash defeasance of debt. There was no debt defeasance transaction this year. These decreases were offset by higher scheduled revenue bond principal payments.

In 2003, debt service and other interest requirements of $226.8 million rose 2 0 percent from the previous year. Lower interest costs on revenue bonds and TECP were offset by higher scheduled revenue bond maturities and the costs from the cash defeasance transaction.

Utility Plant

Net capital assets of $4.622 billion at January 31, 2004 increased $36.3 million from last year. Greater plant additions were recorded in the areas of electric transmission and distribution and the gas system. Construction work-in-progress decreased $82.1 million, as more jobs were completed and closed to finished plant this year. Net capital assets of $4.585 billion at January 31, 2003 increased $131.1 million from 2002 and included greater plant additions in electric transmission and distribution and higher construction work-in-progress.

For the year ended January 31, 2004, total expenditures for new construction and net removal costs totaled $269.5 million. Major construction projects and capital expenditures included: 1) initial work on the installation of the four gas-fired generating peaking units, which were purchased last year; 2) underground and overhead electric distribution system initiatives for reliability, service improvements and customer growth; 3) gas system improvements and gas mains, services and extensions; 4) transmission substations and lines construction within the service area; and 5) facility improvements, including initial work on the new Primary Control Center. Actual expenditures for new construction and net removal costs in 2004 were funded from the following sources: $163.3 million from tax-exempt VRDO proceeds; $51.3 million from the Repair and Replacement Account; $43.7 million from contributed capital; $9.8 million from revenue bond proceeds; and $1.4 million from the Overhead Conversion Fund. This funding detail reflects the reimbursement to the Repair and Replacement Account in May 2003 by the VRDO proceeds for prior months construction.

For the year ended January 31, 2003, total expenditures for new construction and net removal costs totaled $342.0 million. Major construction projects and capital expenditures included: 1) the purchase of the four gas-fired generating peaking units; 2) underground and overhead electric distribution system initiatives for reliability, service improvements and customer growth; 3) the purchase of four sets of approximately 135 aluminum railcars each which replaced older steel cars; 4) completion of the BIS project; and 5) facility improvements, including work completed on the Northside Customer Service Center.

CPS Mission Road power plant, with a generating capacity of 100 MW, was officially taken out of service in October 2003. CPS total generating capacity was reduced accordingly.

At January 31, 2004, CPS had $13.3 million in VRDO proceeds remaining in the VRDO Construction Fund and $5 6 million of bond proceeds from last year s revenue bond transaction in the Bond Construction Fund which are available to fund eligible projects and construction for the upcoming year.

Summary of Capital Assets, Net of Depreciation Information

	January 31, 2004	January 31, 2003	Amount Change	Percentage Change	January 31, 2002	Amount Change	Percentage Change
(In thousands)							
Land	$ 67,795	$ 67,527	$ 268	0 40%	$ 67,488	$ 39	0 06%
Buildings and structures	743 119	771,557	(28,438)	-3 69%	789,012	(17,455)	-2.21%
Systems and improvements:							
Generation	1,467,504	1,455,888	11,616	0 80%	1,506,655	(50,767)	-3 37%
Transmission and distribution	1,448,356	1,333,849	114,507	8.58%	1,295,296	38,553	2 98%
Gas	314,782	301,518	13,264	4.40%	298,001	3.517	1.18%
Machinery and equipment	287,496	276,822	10 674	3 86%	267,225	9,597	3 59%
Other	8 441	8,980	(539)	-6 00%	8,802	178	2.02%
Nuclear fuel	35,486	38,496	(3,010)	-7.82%	30,968	7,528	24.31%
Construction in progress	248 585	330,672	(82,087)	-24 82%	190,717	139,955	73 38%
Capital Assets, Net of Depreciation	$ 4,621,564	$ 4 585,309	$ 36 255	0.79%	$ 4,454,164	$ 131,145	2 94%

Financing and Debt Covenants Compliance

The continuing low interest rate environment in 2004 created several refunding and financing opportunities for CPS. In May 2003, CPS issued $250.0 million in VRDOs. These Junior Lien Obligations were issued to provide funds for capital projects. CPS obtained an initial interest rate of 1.2 percent. The rate changes weekly to reflect the variable-rate bond market. These bonds also contain put options, allowing them to be called with short notice if the rates should increase unfavorably to CPS. Of the funding, approximately $111.9 million was directed to reimburse CPS Repair and Replacement Account for prior capital expenditures, and $138.1 million was targeted to fund future capital projects, including a small amount to pay for costs of issuance.

CPS also completed two separate revenue refunding bond transactions in June and July 2003. The first, a forward delivery transaction, was for the sale of $350.5 million of New Series 2003 Bonds at a true interest cost of 3.08 percent to current refund $375.5 million of certain higher-rate, outstanding New Series 1994-A bonds. This transaction resulted in gross cash flow savings of $32.9 million. The settlement date occurred in November 2003. In the second transaction, CPS sold $93.9 million of New Series 2003A Bonds at a true interest cost of 3.67 percent. This advance refunding transaction refunded $98.0 million in certain outstanding New Series 1994-A and 1995 Bonds and resulted in gross cash flow savings of $15 9 million.

In August 2002, CPS sold $578.7 million of New Series 2002 Revenue and Refunding Bonds to refund $445.1 million in certain outstanding New Series Bonds and to reimburse prior construction expenditures in the amount of $150.0 million. The New Series 2002 bonds were sold at a true interest cost of 4.26 percent. Also in August 2002, CPS legally defeased $144.2 million in certain outstanding New Series 1997 Bonds with available funds. Costs of $7.1 million were recorded related to the cash defeasance. The combined gross future cash flow savings from the two transactions totaled $36.1 million.

With respect to all New Series Bonds outstanding, which includes the New Series 2003 and 2003A Bonds mentioned above, the net revenues of CPS electric and gas systems are pledged to the payment of principal and interest thereon. All New Series Bonds are classified as Senior Lien Obligations and the principal and interest thereon shall have a first lien upon the net revenues of the systems. The VRDOs are classified as Junior Lien Obligations. The borrowings from the Junior Lien Obligations are equally and ratably secured by and are payable from the net revenues of the systems, such pledge being subordinate and inferior to the pledge of net revenues securing the Senior Lien Obligations, but prior and superior to the lien on and pledge of the net revenues securing the payment of the Commercial Paper Notes. The total amount outstanding of Senior Lien Obligations was $2.372 billion, $2.500 billion and $2.590 billion, respectively, at January 31, 2004, 2003 and 2002. The total amount outstanding of Junior Lien Obligations was $250.0 million at January 31, 2004. There were no Junior Lien Obligations outstanding at January 31, 2003 and 2002.

CPS maintains its TECP Program to provide tax-exempt financing for various purposes. The program is currently authorized to have Notes outstanding in an amount not to exceed $450.0 million, as amended by the ordinance in June 1997. The current revolving credit agreement, as amended and restated, permits CPS to borrow up to an aggregate amount not to exceed $350.0 million for the purpose of paying amounts due under the TECP Program. To date there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing Senior Lien and Junior Lien Obligations and any to be issued in the future. There were no TECP transactions in 2004. The balance of TECP outstanding was $350.0 million at January 31, 2004, 2003 and 2002.

As of January 31, 2004, 2003 and 2002, CPS was in compliance with the terms and provisions of the New Series Bonds (Senior Lien), Variable Rate Demand Obligations (Junior Lien) and TECP ordinances.

Refer to the footnotes to the financial statements for more information on CPS debt covenants.

In early May 2003, in conjunction with the issue of the VRDOs, the three major rating agencies, Fitch Ratings, Moody's Investor Services, Inc. and Standard & Poor's Ratings Services (S&P), reaffirmed CPS' excellent debt ratings. Subsequent to fiscal year-end, S&P again affirmed CPS' high ratings. A moderate debt burden, strong debt service coverage, competitive rates, strong liquidity, strong financial profile and successful management of a diverse portfolio were some of the factors that S&P recognized in its evaluation of CPS. Similar high ratings have been issued for CPS' variable rate debt.

Summary of CPS' Bond and Commercial Paper Ratings

	Ratings at January 31, 2004		
	Senior Lien Debt	Junior Lien Debt	TECP
Fitch Ratings	AA+	AA+ / F1+	F-1+
Moody's Investors Service, Inc.	Aa1	Aa2 / VGIM 1	P-1
Standard & Poor's Ratings Services	AA+	AA / A-1+	A-1+

Debt service coverage for the Senior Lien Bonds, in accordance with the ordinances, was 2.54x for 2004 and 2.51x for 2003. Interest rates on bonds and commercial paper declined in 2004 due to the financing strategies and transactions and favorable market conditions. CPS' fund net assets to total debt and fund net assets ratio was 48.8 percent at January 31, 2004, as compared to 49.1 percent at January 31, 2003, and 47.5 percent at January 31, 2002. CPS' operating margin was 21.3 percent for 2004, 24.6 percent for 2003 and 26.3 percent for 2002.

Requests for Information

For more information about CPS, contact Robert G. McCullough, Director of Corporate Communications, at (210) 353-2344 or at P.O. Box 1771, San Antonio, Texas 78296-1771.

KPMG

300 Convent, Suite 1200
San Antonio, TX 78205

RJW

Robert J. Williams
Certified Public Accountant
P O. Box 34058
San Antonio, TX 78265-4058

GARZA, PREIS & CO., L.L.C.
Certified Public Accountants
8415 Speedway
San Antonio Texas 78230

Independent Auditors' Report

The Board of Trustees
City Public Service Board of San Antonio, Texas:

We have audited the accompanying balance sheets of the City Public Service Board of San Antonio, Texas (City Public Service), a component unit of the City of San Antonio, Texas, as of January 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of City Public Service's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of City Public Service Employees' Pension Plan in 2004 or 2003 or the financial statements of the City Public Service Disability Income, Group Life Insurance and Group Health Plans (Employee Health and Welfare Plans) in 2004 or 2003. The financial information related to the City Public Service Employees' Pension Plan is included in footnote 8 of the notes to the financial statements. As of January 31, 2004 and 2003, the total assets and net assets, respectively, of the Employee Health and Welfare Plans represent 2% and 5%, respectively, of the total assets and total fund net assets of City Public Service. Those financial statements were audited by other auditors, for the years indicated, whose reports thereon have been furnished to us, and our opinion on the City Public Service financial statements, insofar as it relates to the amounts and disclosures included for the City Public Service Employees' Pension Plan and the City Public Service Employee Health and Welfare Plans is based on the reports of other auditors.

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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of City Public Service as of January 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 25 through 33 and the schedule of funding progress in footnote 8 of the notes to the financial statements are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we, and the other auditors, did not audit the information and express no opinion on it.

KPMG LLP Robert J. Williams CPA Garza, Preis & Co., LLC

March 22, 2004

Balance Sheets

	January 31, 2004	January 31, 2003
	(In thousands)	
Assets:		
Current Assets:		
Cash and cash equivalents *(Note 1 and 2)*	$ 51,532	$ 239,703
Investments *(Note 1 and 2)*	238,813	57,614
Interest receivable	1,864	1,357
Customer accounts receivable, less allowance for doubtful accounts of $18,026 in 2004 and $12,957 in 2003 *(includes unbilled revenue of $61.2 million for 2004 and $58.4 for 2003) (Note 3)*	162,592	151,913
Other receivables	25,403	27,705
Inventories, at average costs -		
Materials and supplies	77,008	77,341
Fossil fuels	34,571	38,415
Prepayments and other	35,652	26,996
Total Current Assets	627,435	621,044
Non-Current Assets:		
Restricted –		
Debt service - *(Note 1 and 2)*		
Cash and cash equivalents	13	21
Capital projects - *(Note 1 and 2)*		
Cash and cash equivalents	0	1
Investments	18,253	17,568
Interest receivable	658	337
Bond ordinance - *(Note 1 and 2)*		
Cash and cash equivalents	0	58,835
Investments	612,556	393,321
Interest receivable	5,433	2,785
Employee health and welfare - *(Note 1 and 2)*		
Cash and cash equivalents	16,528	11,662
Investments	140,348	114,510
Interest receivable	611	769
South Texas Nuclear Project decommissioning master trust - *(Note 1, 2 and 11)*		
Cash and cash equivalents	1	8,830
Investments	208,847	172,637
Interest receivable	2,270	1,824
Project Warm - *(Note 1 and 2)*		
Cash and cash equivalents	402	152
Investments	6,680	7,180
Interest receivable	89	88
Prepaid rent - leaseback *(Note 1 and 14)*	535,972	555,762
Other non-current assets and deferred costs *(Note 1)*	25,578	26,306
Capital assets, net *(Note 1, 4, 11 and 15)*	4,621,564	4,585,309
Total Non-current Assets	6,195,801	5,957,897
Total Assets	$ 6,823,236	$ 6,578,941

	January 31, 2004	January 31, 2003
	(In thousands)	
Liabilities		
Current Liabilities:		
Current maturities of revenue bonds *(Note 6)*	$ 121,245	$ 100,015
Accounts payable and accrued liabilities *(Note 3)*	162,002	172,327
Employee health and welfare payables *(Notes 1 and 10)*	4,722	4,198
Total Current Liabilities	287,969	276,540
Non-Current Liabilities:		
Long-term debt, net *(Notes 5, 6 and 7)*	2,796,460	2,652,256
South Texas Nuclear Project decommissioning *(Notes 1, 6 and 11)*	211,118	183,291
Customer deposits *(Note 6)*	19,935	23,586
Deferred lease revenue *(Notes 1, 6 and 14)*	611,015	633,575
Other non-current liabilities and deferred credits *(Notes 1 and 6)*	67,363	58,643
Total Non-current Liabilities	3,705,891	3,551,351
Total Liabilities	3,993,860	3,827,891
Fund Net Assets *(Note 1)*		
Invested in capital assets, net of related debt	1,722,770	1,850,944
Restricted		
Debt service	13	21
Bond ordinance	617,989	454,941
Employee health and welfare	152,765	122,743
Unrestricted	335,839	322,401
Total Fund Net Assets	2,829,376	2,751,050
Total Liabilities and Fund Net Assets	$ 6,823,236	$ 6,578,941

See accompanying notes to the basic financial statements

Statements of Revenues, Expenses and Changes in Fund Net Assets

	Years Ended January 31, 2004	2003
	(In thousands)	
Operating Revenue: *(Notes 1 and 5)*		
Electric	$ 1,299,448	$ 1,132,788
Gas	204,366	168,705
Total Operating Revenue	1,503,814	1,301,493
Operating Expenses: *(Notes 1, 8, and 9)*		
Fuel, purchased power and distribution gas	533,806	368,592
Other operating and maintenance	321,211	311,885
Employee health and welfare *(Notes 1 and 10)*	29,885	24,304
Regulatory assessments	45,851	22,294
Depreciation *(Notes 1 and 4)*	228,941	217,037
Decommissioning	24,402	36,647
Total Operating Expenses	1,184,096	980,759
Operating Income	319,718	320,734
Non-operating Income (Expense): *(Note 1)*		
Interest and other income	23,990	29,336
Decommissioning investment income and change in fair value	9,214	21,458
Employee health and welfare investment income and change in fair value	33,493	(6,825)
Interest expense *(Notes 6 and 7)*	(137,891)	(141,786)
Amortization of debt reacquisition, issuance, discount and other costs *(Note 6)*	(14,405)	(17,353)
Allowance for funds used during construction *(Note 1)*	3,073	6,776
Costs for cash defeasance of debt *(Note 6)*	0	(7,057)
Payments to the City of San Antonio	(206,057)	(172,235)
Income Before Contributed Capital	31,135	33,048
Contributed capital *(Notes 1 and 4)*	47,191	53,431
Change in Fund Net Assets	78,326	86,479
Fund Net Assets – Beginning	2,751,050	2,664,571
Fund Net Assets – Ending	$ 2,829,376	$ 2,751,050

See accompanying notes to the basic financial statements

Statements of Cash Flows *(Note 1)*

	Years Ended January 31, 2004	2003
	(In thousands)	
Cash Flows from Operating Activities: *(Note 1)*		
Cash received from customers	$ 1,492,360	$ 1,214,815
Cash payments to suppliers for goods and services	(760,121)	(564,839)
Cash payments to employees for service	(156,829)	(150,937)
Net Cash Provided by Operating Activities	575,410	499,039
Cash Flows from Capital and Related Financing Activities:		
Cash paid for additions to utility plant and net removal costs *(Notes 1 and 4)*	(260,792)	(329,462)
Cash paid for nuclear fuel purchases *(Notes 1 and 4)*	(10,940)	(21,537)
Contributions in aid of construction *(Notes 1 and 4)*	40,274	49,015
Proceeds from issuance of revenue bonds *(Note 6)*	204,454	97,270
Premium received from revenue bonds issued *(Note 6)*	48,645	56,803
Principal payments on revenue bonds and cash defeasance of debt *(Note 6)*	(100,657)	(221,980)
Interest paid *(Notes 6 and 7)*	(137,891)	(141,786)
Debt issue and cash defeasance costs paid *(Notes 6 and 7)*	(1,983)	(8,883)
Net Cash (Used) by Capital and Related Financing Activities	(218,890)	(520,560)
Cash Flows from Non-capital Financing Activities:		
Cash payments to the City of San Antonio	(205,080)	(169,937)
Net Cash (Used) by Non-capital Financing Activities	(205,080)	(169,937)
Cash Flows from Investing Activities: *(Note 2)*		
Purchases of investments	(987,983)	(754,724)
Proceeds from sales and maturities of investments	576,641	903,028
Net cash increase in South Texas Project decommissioning master trust assets	(27,442)	(7,690)
Net cash increase in assets held for employee health and welfare	7,813	4,057
Interest and other income	28,803	31,361
Net Cash (Used) Provided by Investing Activities	(402,168)	176,032
Net increase (decrease) in Cash and Cash Equivalents	(250,728)	(15,426)
Cash and Cash Equivalents at Beginning of Period *(Note 1)*	319,204	334,630
Cash and Cash Equivalents at End of Period	$ 68,476	$ 319,204

<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>

	2004	2003
Cash Flows from Operating Activities:		
Operating income	$ 319,718	$ 320,734
Non cash items included -		
Depreciation and amortization expense *(Note 4)*	228,941	217,037
Nuclear fuel amortization *(Note 4)*	13,950	14,009
Allowance for doubtful accounts	5,069	6,595
Changes in current assets and liabilities:		
(Increase) decrease in customer accounts receivable, net	(15,748)	(80,300)
(Increase) decrease in other receivables	2,302	(8,851)
(Increase) decrease in materials and supplies	333	(3,257)
(Increase) decrease in fossil fuels	3,844	(11,889)
(Increase) decrease in prepayments and other	(8,656)	231
Increase (decrease) in accounts payable and accrued liabilities	(10,914)	13,995
Changes in non-current and other assets and liabilities:		
(Increase) decrease in other non-current assets and deferred costs	574	561
Increase (decrease) in customer service deposits payable	(3,651)	(4,683)
Increase (decrease) in South Texas Nuclear Project decommissioning liability	27,827	37,413
Increase (decrease) in employee health and welfare liability	524	252
Increase (decrease) in non-current and other liabilities	11,297	(2,808)
Net Cash Provided by Operating Activities	$ 575,410	$ 499,039

See accompanying notes to the basic financial statements

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract to acquire or construct non-current assets. Funds consist primarily of unspent bond issue or commercial paper proceeds, debt service required for the New Series Bonds, and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties. The STP Decommissioning Master Trust assets and CPS' employee health and welfare plans assets are also considered restricted.

The CPS Board of Trustees authorized that Repair and Replacement Account funds be designated for converting overhead electric facilities to underground. One percent of the prior fiscal year's electric revenue from cities served by CPS is appropriated for this program. This is included with the assets restricted by bond ordinance.

Other Non-Current Assets and Deferred Costs — In June 2000, CPS entered into a lease/leaseback transaction with Unicom Corporation (Unicom). The long-term portion of prepaid rent related to this transaction was recorded as a deferred cost in 2001. In addition, $12.3 million, less expenses of $350 thousand, was paid to the City of San Antonio, in accordance with the New Series Bond Ordinance (see Note 5), for its 14 percent share of the net benefit from the transaction. This is recorded as a prepaid item and is being amortized over the life of the lease. See note 14 for more information.

Non-current assets include unamortized debt issuance expenses, which are amortized over the shorter of the life of the refunding or refunded bonds. Other assets include the long-term receivable from the San Antonio Water System for the sale of water rights in fiscal year 2000.

Non-current deferred costs also include a Department of Energy (DOE) special assessment fee for decommissioning of U.S. nuclear fuel enrichment facilities. CPS recorded this in fiscal year 1994 to be amortized over a 15-year period to nuclear fuel expense.

Other Non-Current Liabilities and Deferred Credits — The long-term portion of the deferred revenue associated with the lease of the J.K. Spruce Plant was recorded as a deferred credit and is being amortized over the life of the lease. See note 14 for more information.

Other liabilities and deferred credits include the STP decommissioning liability, customer service deposits, advance payments from customers for construction and the DOE special assessments. See "Other Non-Current Assets and Deferred Costs". The long-term portion of the payable to the Greater Kelly Development Authority for the purchase of electric and gas properties in fiscal year 2000 has also been recorded with other liabilities.

Statements of Cash Flows — For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be cash equivalents.

The following represent non-cash transactions in 2004 and 2003 not reported on the Statements of Cash Flows:

- There was a non-cash capital and related financing activity in 2004 related to the acquisition of utility infrastructure facilities from the military through Ft. Sam Houston and Camp Bullis. As of January 2004, CPS reported contributed capital of $3.5 million for this acquisition. Other non-cash contributed capital totaled $3.4 million.

- There was a non-cash capital and related financing activity in 2003 related to the acquisition of utility infrastructure facilities from the military through Brooks City-Base under the Brooks Development Agency. As of January 2003, CPS reported contributed capital of $4.4 million for this acquisition.

- In 2004, there were two separate non-cash capital and related financing activities. In July 2003, a deposit was made to an escrow of $104 million directly from bond proceeds to refund $96 million in revenue bonds. In November 2003, a deposit was made to an escrow of $386 million directly from bond proceeds to refund $375 million in revenue bonds.

- In 2003, there was also a non-cash capital and related financing activity related to the deposit to an escrow of $479 million directly from bond proceeds to refund $445 million in revenue bonds.

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

2. Cash, Cash Equivalents and Investments

CPS' cash deposits at January 31, 2004 and 2003 were entirely insured by federal depository insurance or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS' allowable investments as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper (TECP) Ordinance and State law include U.S. Government or Government Agency or U.S. Government guaranteed obligations; collateralized mortgage obligations issued by the U.S.; fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas; direct repurchase agreements; reverse repurchase agreements; defined bankers acceptances and commercial paper; no-load money market mutual funds; and other types of specific secured or guaranteed investments.

CPS' investments in the STP Decommissioning Master Trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement and State law. These investments are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans' Administrative Committees, the Trust Agreements and State law. These investments are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract to acquire or construct non-current assets. Funds consist primarily of unspent bond issue or commercial paper proceeds, debt service required for the New Series Bonds, and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties. The STP Decommissioning Master Trust assets and CPS employee health and welfare plans assets are also considered restricted.

The CPS Board of Trustees authorized that Repair and Replacement Account funds be designated for converting overhead electric facilities to underground. One percent of the prior fiscal year s electric revenue from cities served by CPS is appropriated for this program. This is included with the assets restricted by bond ordinance.

Other Non-Current Assets and Deferred Costs — In June 2000, CPS entered into a lease/leaseback transaction with Unicom Corporation (Unicom). The long-term portion of prepaid rent related to this transaction was recorded as a deferred cost in 2001. In addition, $12.3 million, less expenses of $350 thousand, was paid to the City of San Antonio, in accordance with the New Series Bond Ordinance (see Note 5), for its 14 percent share of the net benefit from the transaction. This is recorded as a prepaid item and is being amortized over the life of the lease. See note 14 for more information.

Non-current assets include unamortized debt issuance expenses, which are amortized over the shorter of the life of the refunding or refunded bonds. Other assets include the long-term receivable from the San Antonio Water System for the sale of water rights in fiscal year 2000.

Non-current deferred costs also include a Department of Energy (DOE) special assessment fee for decommissioning of U.S. nuclear fuel enrichment facilities. CPS recorded this in fiscal year 1994 to be amortized over a 15-year period to nuclear fuel expense.

Other Non-Current Liabilities and Deferred Credits — The long-term portion of the deferred revenue associated with the lease of the J.K. Spruce Plant was recorded as a deferred credit and is being amortized over the life of the lease. See note 14 for more information.

Other liabilities and deferred credits include the STP decommissioning liability, customer service deposits, advance payments from customers for construction and the DOE special assessments. See "Other Non-Current Assets and Deferred Costs". The long-term portion of the payable to the Greater Kelly Development Authority for the purchase of electric and gas properties in fiscal year 2000 has also been recorded with other liabilities.

Statements of Cash Flows — For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be cash equivalents.

The following represent non-cash transactions in 2004 and 2003 not reported on the Statements of Cash Flows:

- There was a non-cash capital and related financing activity in 2004 related to the acquisition of utility infrastructure facilities from the military through Ft. Sam Houston and Camp Bullis. As of January 2004, CPS reported contributed capital of $3.5 million for this acquisition. Other non-cash contributed capital totaled $3.4 million.
- There was a non-cash capital and related financing activity in 2003 related to the acquisition of utility infrastructure facilities from the military through Brooks City-Base under the Brooks Development Agency. As of January 2003, CPS reported contributed capital of $4.4 million for this acquisition.
- In 2004, there were two separate non-cash capital and related financing activities. In July 2003, a deposit was made to an escrow of $104 million directly from bond proceeds to refund $96 million in revenue bonds. In November 2003, a deposit was made to an escrow of $386 million directly from bond proceeds to refund $375 million in revenue bonds.
- In 2003, there was also a non-cash capital and related financing activity related to the deposit to an escrow of $479 million directly from bond proceeds to refund $445 million in revenue bonds.

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

2. Cash, Cash Equivalents and Investments

CPS cash deposits at January 31, 2004 and 2003 were entirely insured by federal depository insurance or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS name.

CPS allowable investments as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper (TECP) Ordinance and State law include U.S. Government or Government Agency or U.S. Government guaranteed obligations; collateralized mortgage obligations issued by the U.S.; fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas; direct repurchase agreements; reverse repurchase agreements; defined bankers acceptances and commercial paper; no-load money market mutual funds; and other types of specific secured or guaranteed investments.

CPS investments in the STP Decommissioning Master Trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement and State law. These investments are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans Administrative Committees, the Trust Agreements and State law. These investments are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

Cash, Cash Equivalents and Investments

	January 31, 2004	January 31, 2003
	(In thousands)	
Cash and Cash Equivalents:		
CPS unrestricted and restricted	$ 51,947	$ 298,712
STP Decommissioning Master Trust - restricted	1	8,830
Employee health and welfare - restricted	16,528	11,662
Total Cash and Cash Equivalents	68,476	319,204
Investments:		
CPS unrestricted and restricted	924,789	773,960
STP Decommissioning Master Trust - restricted	208,848	181,467
Employee health and welfare - restricted	156,876	126,172
Total Cash Equivalents and Investments	1,290,513	1,081,599
Less: Investments with original maturities of less than ninety days included in cash equivalents:		
CPS unrestricted and restricted	48,487	298,277
STP Decommissioning Master Trust - restricted	1	8,830
Employee health and welfare - restricted	16,528	11,662
Total Cash Equivalents	65,016	318,769
Total Cash, Cash Equivalents and Investments	$ 1,293,973	$ 1,082,034
Unrestricted:		
Cash and cash equivalents	$ 51,532	$ 239,703
Investments	238,813	57,614
Total Unrestricted	290,345	297,317
Restricted:		
CPS:		
Cash and cash equivalents	415	59,009
Investments	637,489	418,069
Total CPS	637,904	477,078
STP Decommissioning Master Trust - restricted:		
Cash and cash equivalents	1	8,830
Investments	208,847	172,637
Total STP Decommissioning Master Trust	208,848	181,467
Employee health and welfare:		
Cash and cash equivalents	16,528	11,662
Investments	140,348	114,510
Total Employee Health and Welfare	156,876	126,172
Total Cash, Cash Equivalents and Investments	$ 1,293,973	$ 1,082,034
Cash and Cash Equivalents:		
Petty Cash Funds on Hand	$ 135	$ 117
Bond paying agent - debt service	13	0
Deposits with Financial Institutions:		
Unrestricted CPS deposits	2,910	165
Restricted CPS deposits:		
Capital projects	0	1
Project Warm	402	152
Total Restricted Deposits	402	153
Total Deposits with Financial Institutions	3,312	318
Investments with Original Maturities of Less Than Ninety Days:		
CPS unrestricted	48,487	239,421
CPS restricted	0	58,856
STP Decommissioning Master Trust - restricted	1	8,830
Employee health and welfare - restricted	16,528	11,662
Total Cash Equivalents	65,016	318,769
Total Cash and Cash Equivalents	$ 68,476	$ 319,204

Deposits with financial institutions are classified into three categories of custodial risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by CPS or CPS' agent in CPS' name.
2	Deposits collateralized by securities held by the pledging bank's agent in CPS' name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in CPS' name.

Accordingly, deposits of CPS are categorized by custodial risk as follows:

(In thousands) Deposits with Financial Institutions	Carrying Amounts	Bank Balance	Category 1	Category 2	Category 3
January 31, 2004	$ 3,312	$ 11,720	$ 11,720		
January 31, 2003	$ 318	$ 7,939	$ 7,939		

Investments are classified into three categories of custodial risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by CPS or CPS' agent in CPS' name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in CPS' name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in CPS' name.

Accordingly, the investments of CPS are categorized below to give an indication of the custodial level of risk assumed at January 31, 2004 and 2003.

January 31, 2004

(In thousands) Total Investments By Category	Category 1	Category 2	Category 3	Carrying Amounts	Fair Value
CPS Investments:					
U.S. Treasury & Government Agency Securities	$924,789			$ 924,789	$ 925,228
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	$208,848			$ 208,848	$ 208,848
Employee Health and Welfare:					
Corporate Bonds	$ 19,817			$ 19,817	$ 19,817
Common Stock	88,841			88,841	88,841
U.S. Treasury & Government Agency Securities	22,729			22,729	22,729
Global Bonds	8,961			8,961	8,961
Total Health and Welfare Investments Categorized	$140,348			140,348	140,348
Investments not Categorized:					
Money Market Mutual Fund				16,528	16,528
Total Employee Health and Welfare Funds				$ 156,876	$ 156,876

January 31, 2003

(In thousands) Total Investments By Category	Category 1	Category 2	Category 3	Carrying Amounts	Fair Value
CPS Investments:					
U.S. Treasury & Government Agency Securities	$773,960			$773,960	$774,248
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	$181,467			$181,467	$181,467
Employee Health and Welfare:					
Corporate Bonds	$ 19,951			$ 19,951	$ 19,951
Common Stock	56,976			56,976	56,976
U.S. Treasury & Government Agency Securities	30,030			30,030	30,030
Global Bonds	7,553			7,553	7,553
Total Health and Welfare Investments Categorized	$114,510			114,510	114,510
Investments not Categorized:					
Money Market Mutual Fund				11,662	11,662
Total Employee Health and Welfare Funds				$126,172	$126,172

As reported in the two preceding tables, Money Market Mutual Fund investments are not categorized as they do not exist in book or physical form.

3. Disaggregation of Receivables and Payables

Receivables

Net customer accounts receivable as of January 31, 2004 included $61.2 million for unbilled revenue receivables and $101.4 million for billed utility services. Miscellaneous receivables as of January 31, 2004 included $12.4 million for the receivable related to the Joint Operating Agreement with Texas Genco, L.P., $1.0 million for regulatory related receivables, and $12.0 million for other miscellaneous receivables. There are no receivables expected to take longer than one year to collect.

At January 31, 2003, net customer accounts receivable included $58.4 million for unbilled revenue receivables and $93.5 million for billed utility services. Miscellaneous receivables as of January 31, 2003 included $10.8 million for the receivable related to the Joint Operating Agreement with Texas Genco, L.P., $4.5 million for regulatory related receivables, and $12.4 million for other miscellaneous receivables.

Payables

At January 31, 2004, accounts payable and accrued liabilities included $86.0 million related to standard operating supplier and vendor payables, including fuels payable, $29.3 million to employee related payables, $22.6 million to the current portion of lease deferred revenue, and $24.1 million to other miscellaneous payables and accrued liabilities.

At January 31, 2003, accounts payable and accrued liabilities included $103.3 million related to standard operating supplier and vendor payables, including fuels payable, $27.0 million to employee related payables, $22.6 million to the current portion of lease deferred revenue, and $19.4 million to other miscellaneous payables and accrued liabilities.

4. Capital Assets

Capital asset activity for the years ended January 31, 2004 and January 31, 2003 was as follows:

(In thousands)	Balance 02-01-2003	Additions Increases	Transfers In/(Out)	Reductions Decreases	Balance 01-31-2004
Non-Depreciable Assets:					
Land	$ 54,928	$ 268	$ 0	$ 0	$ 55,196
Land held for future use	12,599	0	(12,599)		0
Nonutility property - land	0		12,599	0	12,599
Construction-in-progress	330,672	230,420	(312,507)	0	248,585
Total Non-Depreciable Assets	398,199	230,688	(312,507)	0	316,380
Depreciable Assets:					
Electric plant	5,511,565	26,270	251,609	56,634	5,732,810
Gas plant	452,528	2,119	21,135	83	475,699
General plant	468,029	6,444	39,763	13,242	500,994
Utility property leased	18,785	0	0	0	18,785
Nuclear fuel	291,439	10,940	0	0	302,379
Total Depreciable Assets	6,742,346	45,773	312 507	69 959	7,030 667
Accumulated Depreciation, Depletion and Amortization:					
Electric	(2,040,601)	(187,176)	0	(59,219)	(2,168,558)
Gas	(150,999)	(10,038)	0	(148)	(160,889)
General	(110,423)	(31,661)	0	(13,277)	(128,807)
Utility property leased	(270)	(66)	0	0	(336)
Nuclear fuel	(252,943)	(13,950)	0	0	(266 893)
Total	(2,555,236)	(242,891)	0	(72,644)	(2,725,483)
Depreciable Assets, Net	4,187,110	(197,118)	312,507	(2 685)	4,305,184
Capital Assets, Net	$4 585 309	$ 33 570	$ 0	$ (2 685)	$4 621 564

Cash paid for additions, net removal costs and nuclear fuel was $271,732, non-cash AFUDC was $3,073, and contributed capital was $6,917 for a total of $281,722. Included in the total are $6,261 in net removal costs. Depreciation, depletion and amortization totaled $242,891.

Included in electric plant is the Mission Road generation plant that was taken out of service on October 1, 2003 and is fully depreciated.

CPS' original intention for the land classified in 2003 as "land held for future use" was to mine lignite from the land to be used as an alternative fuel. It was subsequently decided that CPS would not mine the minerals and the land has been reclassified to "non-utility property".

(In thousands)	Balance 02-01-2002	Additions Increases	Transfers In/(Out)	Reductions Decreases	Balance 01-31-2003
Non-Depreciable Assets:					
Land	$ 54,889	$ 40	$ 0	$ 1	$ 54,928
Land held for future use	12,599	0	0	0	12,599
Construction-in-progress	190,717	279,894	(139,939)	0	330 672
Total Non-Depreciable Assets	258,205	279 934	(139 939)	1	398,199
Depreciable Assets:					
Electric plant	5,408,467	40,123	95,378	32,403	5,511,565
Gas plant	440,397	6,354	5.802	25	452,528
General plant	451,876	12,850	38,759	35,456	468,029
Utility property leased	18,785	0	0	0	18,785
Nuclear fuel	269,902	21,537	0	0	291 439
Total Depreciable Assets	6,589,427	80,864	139.939	67,884	6,742 346
Accumulated Depreciation, Depletion and Amortization:					
Electric	(1,894,718)	(179.246)	0	(33,363)	(2,040,601)
Gas	(142,386)	(8,870)	0	(257)	(150,999)
General	(117,226)	(28,855)	0	(35,658)	(110,423)
Utility property leased	(204)	(66)	0	0	(270)
Nuclear fuel	(238,934)	(14,009)	0	0	(252 943)
Total	(2,393,468)	(231,046)	0	(69 278)	(2,555 236)
Depreciable Assets, Net	4,195,959	(150,182)	139 939	(1,394)	4,187,110
Capital Assets, Net	$4 454,164	$129,752	$ 0	$ (1 393)	$4,585 309

Cash paid for additions, net removal costs and nuclear fuel was $350,999 non-cash AFUDC was $6,777, and contributed capital was $4,416 for a total of $362,192. Depreciation, depletion and amortization totaled $231,046.

5. Revenue Bond and Commercial Paper Ordinances Requirements

As of January 31, 2004, the bond ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Revenue deposited in CPS' General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the electric and gas systems (Systems), (b) for payments of the New Series Bonds, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to six percent of the gross revenue of the Systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14 percent of the gross revenue of the Systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the Systems during any fiscal year shall not exceed 14 percent of the gross revenues of the Systems less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the Systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14 percent limitation) by the governing body of the City.

The net revenues of the Systems are pledged to the payment of principal of and interest on the New Series Bonds, which are classified as Senior Lien Obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the Systems.

The Junior Lien Obligations (Variable Rate Demand Obligations) are special obligations of the City payable solely from and equally and ratably secured by a junior lien on and pledge of the net revenues of the Systems, subject and subordinate to liens and pledges securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding Commercial Paper Obligations, all as fully set forth in the Ordinance.

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas or other services furnished, provided and supplied by the Systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code,

(b) the interest on and principal of all Parity Bonds, as defined in the New Series Bond Ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Parity Bonds,

(c) the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued (all as defined in the New Series Bond Ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Junior Lien Obligations and any Additional Junior Lien Obligations.

(d) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and the Credit Agreement (as defined in said ordinance), and

(e) a legal debt or obligation of the Systems as and when the same shall become due.

As of January 31, 2004, the TECP Ordinance contains, among others, the following provisions:

To secure the payment of TECP principal and interest, a pledge is made of:

(a) proceeds from (1) the sale of bonds and additional notes issued for such purposes, and (2) the sale of TECP;

(b) TECP proceeds will be used for authorized purposes; and

(c) the net revenues of the Systems, after payment on New Series Bond requirements and Junior Lien Obligations, pledged to the payment on TECP.

As of January 31, 2004, CPS was in compliance with the terms of the New Series Bonds, the Junior Lien Obligations and the TECP ordinances.

6. Revenue Bonds and Other Long-Term Liabilities

In May 2003, CPS issued $250.0 million of variable rate Junior Lien Revenue Bonds. The bonds were issued initially in a weekly interest mode at par value. Of the proceeds, approximately $100 million was issued to reimburse the Repair and Replacement account for prior capital improvements. The mode for the Junior Lien Revenue Bonds or any portion thereof may be converted to a different mode, or to an auction rate or term rate with an interest rate period of different duration, at the direction of the City. Following such a conversion, the Junior Lien Revenue Bonds or portion thereof, will bear interest at the corresponding daily rate, weekly rate, auction rate, commercial paper rate, term rate or fixed rate.

In June 2003, CPS entered into a Forward Delivery Bond Purchase Agreement to issue $350.5 million of New Series 2003 Refunding Bonds in November 2003. The bonds sold at a premium of $37.6 million were issued to refund $375.5 million of 1994-A New Series Bonds. The refunding transaction resulted in cash flow savings of $32.9 million, which equated to a present value savings of $24.0 million, or 6.39 percent of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $10.6 million, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In July 2003, CPS issued $93.9 million of New Series 2003A Revenue Refunding Bonds. The bonds were sold at a premium of $11.0 million and were issued to advance refund $24.4 million of 1994-A New Series Bonds and $71.6 million of 1995 New Series Bonds. The refunding transaction resulted in cash flow savings of $15.9 million, which equated to a present value savings of $5.8 million, or 6.09 percent of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $7.9 million, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

In August 2002, $144.2 million par value of 1997 Revenue and Refunding Bonds were legally defeased with cash. The net accounting loss of $7.1 million reported included $149.7 million paid for the actual defeasance, less the par value of the debt, plus unamortized reacquisition and bond issue costs net of float forward agreement proceeds of $1.6 million.

In September 2002, CPS issued $576.7 million of Revenue and Refunding Bonds to refund $445.1 million in certain outstanding New Series Bonds and to reimburse prior construction expenditures of $150.0 million. The bonds were sold at a combined net premium of $56.8 million.

The refunding bonds were issued to current refund $48.7 million of 1992 New Series Bonds and advance refund $396.3 million of other New Series Bonds. The refunding transaction resulted in cash flow savings of $24.1 million, which equated to a present value savings of $18.1 million, or 4.06 percent of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $34.4 million, which has been deferred and will be amortized over the shorter of the life of the refunded or refunding bonds.

A summary of revenue bonds is as follows:

Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2004	January 31, 2004	January 31, 2003
		(In thousands)	
Tax-Exempt New Series Bonds, 1992-2003, 2005-2021	4.996%	$ 2,234,160	$ 2,357,985
Taxable New Series Bonds, 1998 & 2000, 2005-2021	6.696%	138,310	141,540
	5.109%	2,372,470	2,499,525
Tax-Exempt Variable Rate Series Bonds, 2003, 2029-2033		250,000	0
Total revenue bonds outstanding		2,622,470	2,499,525
Less: Current maturities of bonds		121,245	100,015
Total revenue bonds outstanding, net of current maturities		$ 2,501,225	$ 2,399,510

Principal and interest amounts due for each of the next five years and thereafter to maturity are:

(In thousands) Year	Principal	Interest	Total
2005	$ 121,245	$ 127,214	$ 248,459
2006	127,255	121,264	248,519
2007	135,155	114,642	249,797
2008	142,155	107,662	249,817
2009	148,570	100,422	248,992
2010-2014	862,080	377,503	1,239,583
2015-2019	616,925	170,485	787,410
2020-2024	219,085	26,413	245,498
2025-2029	50,000	12,375	62,375
2030-2033	200,000	4,950	204,950
Totals	$2,622,470	$ 1,162,930	$ 3,785,400

The above table includes Senior Lien and Junior Lien Bonds. Interest on the Junior Lien Bonds (Variable Rate Demand Obligations) is assumed to be 0.99% annually for all years. This was the rate in effect for the Variable Rate Demand Obligations as of January 31, 2004. These bonds are scheduled to mature from 2029-2033.

Long-Term Debt Activity
January 31, 2004

(In thousands)	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2003	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2004
Revenue and Refunding Bonds:							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 68,860	$ 0	$ 0	$ 68,860
1994A Tax-exempt	684,700	2014	5.008	505,150	0	436,185	68,965
1994C Tax-exempt	56,000	2006	5.008	42,710	0	0	42,710
1995 Tax-exempt	125,000	2018	5.500	90,200	0	75,400	14,800
1997 Tax-exempt	350,000	2020	5.738	169,715	0	0	169,715
1997 Tax-exempt	311,170	2014	5.509	115,090	0	12,035	103,055
1998A Tax-exempt	785,515	2021	4.918	650,400	0	31,370	619,030
1998B Taxable	99,615	2020	6.343	93,650	0	1,835	91,815
2000A Tax-exempt	170,770	2017	5.374	23,875	0	4,410	19,465
2000B Taxable	50,425	2021	7.403	47,890	0	1,395	46,495
2001 Tax-exempt	115,280	2011	3.843	115,280	0	8,850	106,430
2002 Tax-exempt	436,090	2017	4.055	436,090	0	0	436,090
2002 Tax-exempt	140,615	2020	4.751	140,615	0	0	140,615
2003 Tax-exempt - Junior Lein	250,000	2033	Variable	0	250,000	0	250,000
2003A Tax-exempt	93,935	2014	3.675	0	93,935	0	93,935
2003 Tax-exempt	350,490	2013	3.081	0	350,490	0	350,490
				2,499,525	694,425	571,480	2,622,470
Less: Bond current maturities				100,015	21,230		121,245
Less: Bond discount (premium)				(62,490)	(48,645)	(7,179)	(103,956)
Less: Bond reacquisition costs				159,744	43,157	44,180	158,721
Revenue Bonds, Net				2,302,256	678,683	534,479	2,446,460
Tax-exempt Commercial Paper				350,000	0	0	350,000
Long-term Debt, Net				$ 2,652 256	$ 678,683	$ 534,479	$ 2,796,460

Long-Term Debt Activity
January 31, 2003

(In thousands)	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2002	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2003
Revenue and Refunding Bonds:							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 121,615	$ 0	$ 52,755	$ 68,860
1994A Tax-exempt	684,700	2014	5.008	565,570	0	60,420	505,150
1994C Tax-exempt	56,000	2006	5.008	42,710	0	0	42,710
1995 Tax-exempt	125,000	2018	5.500	109,300	0	19,100	90,200
1997 Tax-exempt	350,000	2020	5.738	332,570	0	162,855	169,715
1997 Tax-exempt	311,170	2014	5.509	244,305	0	129,215	115,090
1998A Tax-exempt	785,515	2021	4.918	743,150	0	92,750	650,400
1998B Taxable	99,615	2020	6.343	95,390	0	1,740	93,650
2000A Tax-exempt	170,770	2017	5.374	170,770	0	146,895	23,875
2000B Taxable	50,425	2021	7.403	49,200	0	1,310	47,890
2001 Tax-exempt	115,280	2011	3.843	115,280	0	0	115,280
2002 Tax-exempt	436,090	2017	4.055	0	436,090	0	436,090
2002 Tax-exempt	140,615	2020	4.751	0	140,615	0	140 615
				2,589,860	576,705	667,040	2,499,525
Less: Bond current maturities				77,825	22,190	0	100,015
Less: Bond discount (premium)				(10,542)	(56,803)	(4,855)	(62,490)
Less: Bond reacquisition costs				145,729	54,877	40,862	159,744
Revenue Bonds, Net				2,376,848	556,441	631,033	2,302,256
Tax-exempt Commercial Paper				350,000	0	0	350,000
Long-term Debt, Net				$ 2,726,848	$ 556,441	$ 631,033	$ 2,652,256

Long-Term Liabilities & Deferred Credits
January 31, 2004

(In thousands)	Balance Outstanding February 1, 2003	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2004	Amounts Due within One Year
South Texas Project Nuclear					
Decommissioning	$ 183,291	$ 27,827	$ 0	$ 211,118	$ 0
Customer Deposits	23,586	10,217	13,868	19,935	0
Long-Term Lease Revenue (Deferred)	656,135	0	22,560	633,575	22,560
	863,012	38,044	36,428	864,628	22,560
Other					
South Texas Project Operation, Pensions and Employee Benefits	10,129	4,260	158	14,231	0
South Texas Project Nuclear Fuel Assessment	1,871	0	596	1,275	0
Project Warm	7,756	627	417	7,966	0
Notes Payable	6,669	0	477	6,192	460
Customer Advances	19,392	20,268	16,503	23,157	0
Insurance Reserves	12,419	5,307	4,654	13,072	0
Deferred Credits	220	24,392	23,280	1,332	0
Other	595	3	0	598	0
Total other liabilities	59,051	54,857	46,085	67,823	460
Total Other Long-Term Liabilities & Deferred Credits	$ 922,063	$ 92,901	$ 82,513	$ 932,451	$ 23,020

Long-Term Liabilities & Deferred Credits
January 31, 2003

(In thousands)	Balance Outstanding February 1, 2002	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2003	Amounts Due within One Year
South Texas Project Nuclear					
Decommissioning	$ 145,878	$ 37,413	$ 0	$ 183,291	$ 0
Customer Deposits	28,269	38,860	43,543	23,586	0
Long-Term Lease Revenue (Deferred)	678,695	0	22,560	656,135	22,560
	852,842	76,273	66,103	863,012	22,560
Other					
South Texas Project Operation, Pensions and Employee Benefits	8,071	4,372	2,314	10,129	0
South Texas Project Nuclear Fuel Assessment	2,450	0	579	1,871	0
Project Warm	7,371	617	232	7,756	0
Notes Payable	7,608	0	939	6,669	408
Customer Advances	21,115	14,712	16,435	19,392	0
Insurance Reserves	13,632	3,073	4,286	12,419	0
Deferred Credits	2	23,164	22,946	220	0
Other	1,746	238	1,389	595	0
Total other liabilities	61,995	46,176	49,120	59,051	408
Total Other Long-Term Liabilities & Deferred Credits	$ 914,837	$ 122,449	$ 115,223	$ 922,063	$ 22,968

7. Commercial Paper

In 1988, the City Council of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $300 million in TECP. This ordinance, as amended in June 1997, provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450 million. Eligible projects include fuel acquisition, capital improvements to the utility systems, and refinancing or refunding any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350 million for the purpose of paying principal due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2005, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and Junior Lien Obligations, and any to be issued in the future.

A summary of TECP is as follows:

	January 31, 2004	January 31, 2003
TECP Outstanding *(In thousands)*	$350,000	$350,000
TECP new money issues *(In thousands)*	$ 0	$ 0
Weighted-average interest rate of outstanding TECP, approximate	1.01%	1.11%
Average life of outstanding TECP (approximate number of days)	86	80

8. Benefit Plans

The City Public Service Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service.

Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service. The Plan is sponsored by and may be amended by CPS. Plan net assets, having a market value of $887.0 million at December 31, 2003, and $711.9 million at December 31, 2002, are held in a separate trust that is audited annually and which statements include historical trend information. For further information, contact Compensation and Employee Benefits at CPS.

The current policy of CPS is to establish funding levels, considering annual actuarial evaluations and recommendations of the Administrative/Investment Committee, using both employee and employer contributions. Generally, participating employees contribute 5 percent of their total compensation and are normally fully vested in CPS' contribution after completing 7 years of credited service or at age 40.

Employee contributions commence with the effective date of participation, and continue until attaining normal or early retirement age or termination of employment. The balance of Plan contributions is the responsibility of CPS giving consideration to actuarial information, budget controls, legal requirements, compliance and industry and/or community norms.

CPS adopted two Restoration Plans effective January 1, 1998, to supplement benefits paid from the Plan due to federal tax restrictions on benefit amounts. The benefits due under the Restoration Plans have been paid by CPS.

The total employer and employee pension funding, which includes amortization of past service costs using the unit credit cost actuarial method, is summarized as follows:

(In thousands)	1/31/2004	1/31/2003
Employee contributions	$ 9,032	$ 8,733
CPS contributions	7,959	5,213
Total contributions	$ 16,991	$ 13,946
Covered payroll	$186,732	$180,292
Total payroll	$196,609	$194,541

The actuarially determined contribution requirements for 2004 and 2003 were computed using an assumed rate of *return of 8.5 percent.* For 2004, 2003 and 2002 the past-service costs were amortized over a targeted 10 years. No changes in actuarial cost methods or actuarial assumptions were made in 2004 or 2003, which would affect the comparability of results with the prior year.

CPS contributions to the Plan amounted to 4.3 percent of covered payroll in 2004, 2.9 percent in 2003 and 0.6 percent in 2002.

A schedule of funding progress follows:

(In millions)	Plan (Calendar) Year Actuarial Valuation Date - (Unaudited) 01/01/2003	01/01/2002	01/01/2001
1. Actuarial value of assets	$ 783.0	$ 758.2	$ 713.6
2. Actuarial accrued liability (AAL)	$ 748.7	$ 691.8	$ 643.5
3. (Overfunded)/ Unfunded AAL (UAAL): (2) - (1)	$ (34.3)	$ (66.4)	$ (70.1)
4. Funded ratio (1) ÷ (2)	104.6%	109.6%	110.9%
5. Covered payroll	$ 186.7	$ 180.3	$ 165.3
6. UAAL as a percentage of covered payroll: (3) ÷ (5)	(18.4%)	(36.8%)	(42.4%)

Actuarial valuation methods used for the January 1, 2003, 2002, and 2001 include: *(a) the five-year smoothed market* for asset valuation; (b) the projected unit credit for actuarial accrued liability; and (c) the level dollar open for amortization of *pension service costs. The remaining* amortization periods for January 1, 2003, 2002, and 2001 are 10.16 years, 18.90 years, and 9.89 years respectively and are calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2003, 2002, and 2001 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5 percent *per year compounded annually, (b) projected* salary increases averaging 5.0 percent, and (c) post-retirement cost-of-living increases of 2.0 percent. The projected salary increases include an inflation rate of 4.0 percent.

CPS annual pension cost and net pension obligation for the fiscal periods ended January 31, 2004, January 31, *2003, and January 31, 2002 were as follows:*

(In thousands)	2004	2003	2002
Annual required contribution (ARC)	$ 7,651	$ 4,921	$ 660
Interest on net pension obligation (NPO)	0	0	8
Adjustment to APR	0	0	(14)
Annual Pension Cost (APC)	7,651	4,921	654
CPS contributions in relation to ARC	7,651	4,921	753
Increase (decrease) in NPO	0	0	(99)
Net pension obligation -beginning of year	0	0	99
Net pension obligation -end of year	$ 0	$ 0	$ 0
Percentage of APC contributed	100%	100%	115%

Employees who retired prior to 1983 are receiving annuity payments from an insurance carrier as well as receiving *some benefits directly from CPS.* CPS costs for 2004 and 2003 were $240 thousand and $281 thousand, respectively, and were recorded when paid.

9. Other Postemployment Benefits

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Assets of the plans are held as part of CPS' Group Health and Life Insurance Plans. Funding of the plans is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that *considers age and years of service. The plan may be amended by CPS.* The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as *employer contributions are made to the programs.* These retiree costs approximated $4.4 million for 2004 and $3.6 million for 2003. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium. Costs totaled $256 thousand for 2004 and $211 thousand for 2003.

Retired employees and covered dependents contributed $1.9 million for their health care and life insurance benefits in 2004 and $1.3 million in 2003. In 2004, there were approximately 2,261 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 2,201 in 2003.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1 valuations are $74.4 million in 2003 and $65.4 million in 2002 for health and $19.8 million in 2003 and $17.3 million in 2002 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $45.9 million for health, $5.6 million for life insurance and $3.0 million for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $4.3 million in 2004, $4.8 million in 2003 and $6.5 million in 2002.

For the health plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2003 and 2002 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5 percent per year for the health, life and the disability plans, (b) projected *salary increases for the plans ranging* from 4.5 percent to 12.0 percent depending on age for base and other salaries, and (c) medical cost increases projected at 10.0 percent for 2003 *decreasing to 6.0 percent* in 2011 and thereafter.

10. Risk Management

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverage to provide protection in event of large and/or catastrophic losses. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2004.

In addition, CPS is exposed to risks of loss due to death of, injuries to, or illnesses of, its employees. At January 31, 2004 and 2003, CPS has accumulated approximately $152.8 million and $122.7 million, respectively, in the employee health and welfare plans external trusts for these risks. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $27.7 million of expense related to these risk programs for the year ended January 31, 2004 and $23.8 million for the year ended January 31, 2003.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the reserves for property, and employee and public liability claims for the years ended January 31, 2004 and 2003:

(In thousands)	Property Reserves	Employee & Public Liability Claims	Employee Health and Welfare Claims
Balance - 1/31/02	$ 8,624	$ 5,008	$ 3,641
Payments	(52)	(110)	(28,894)
Incurred Claims	0	36	29,425
Other claims adjustments	(3,019)	1,932	0
Balance - 1/31/03	$ 5,553	$ 6,866	$ 4,172
Payments	(95)	(1,000)	(35,415)
Incurred Claims	0	0	35,939
Other claims adjustments	377	1,371	0
Balance - 1/31/04	$ 5,835	$ 7,237	$ 4,696

The employee health and welfare plan assets are segregated from CPS' assets. They are separately managed by a committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar years 2003 and 2002. These separately audited financial statements are available upon request by contacting Compensation and Employee Benefits at CPS.

The 1999 Texas utility deregulation legislation, Senate Bill 7, contained provisions modifying the Texas Public Funds Investment Act to allow municipal utilities the ability to purchase and sell energy related financial instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil and electric energy.

In 2003, the City Public Service Board of Trustees reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. Currently, these hedge instrument transactions are used to minimize the risk of market energy price volatility as it relates to the underlying transactions that relate to the physical purchase of natural gas. The primary goals for the Energy Risk Management Policy, which is overseen by the Hedging Strategy Committee, is to mitigate the potential for loss or reduce the uncertainty in expenses, pricing and revenue as a result of unforeseen market changes that pertain to fuel expenses and revenues. The hedge instruments are reported at cost on the Balance Sheets. Gains and losses related to the hedge instruments transactions are netted to fuel expense in the period realized. For January 31, 2004 and January 31, 2003, the commodity options and/or hedge instruments, valued at mark-to-market, net to an unrealized gain of $2,100,006 and $965,398, respectively.

The fair value of option contracts is determined using New York Mercantile Exchange (NYMEX) closing settlement prices as of January 30, 2004. For futures contracts, the fair value is calculated by deriving the difference between the closing futures prices on January 30, 2004 and the futures purchase prices at the time the positions were established, less applicable commissions. As of January 31, 2004, the outstanding hedge instruments total cost is $144,544 with a positive fair value of $2,244,550. In January 31, 2003, total cost for outstanding hedge instruments was $266,348 with a positive fair value of $1,231,747. In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established, and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision whether to exercise the options or let them expire rests with the purchasing party. Futures contracts represent a firm obligation to buy, or sell, the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset, at the established contract price. Credit risk is mitigated by clearing all hedge-related trades on the NYMEX.

CPS has adopted GASB Technical Bulletin No. 2003-1, *Disclosures Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. Accordingly, the following information is provided regarding CPS' outstanding Financial Instruments as of January 31, 2004 and January 31, 2003:

Fuel Derivative Transactions as of January 31, 2004

Type of Transaction		Duration	Volumes MMBtu
Short	Call	March 2004 through February 2005	5,310,000
Long	Put	March 2004 through February 2005	5,310,000
Long	NG Futures	March 2004 through February 2005	8,050,000

Fuel Derivative Transactions as of January 31, 2003

Type of Transaction		Duration	Volumes MMBtu
Long	Call	June 2003 through October 2003	2,900,000
Short	Put	September 2003 through October 2003	1,400,000

11. South Texas Project

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Texas Genco, L.P. formerly known as Houston Lighting & Power, and Reliant Energy, Inc.; American Electric Power - Central Power and Light Company; and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28 percent ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2004 and 2003, CPS' investment in the STP utility plant was approximately $1.7 billion, net of accumulated depreciation. Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STP OPCO), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP OPCO.

CPS amortizes its share of nuclear fuel for the STP to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS share of the STP generation that is available for sale to CPS customers. This charge is included in fuel expense monthly.

Nuclear Insurance — The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $100.6 million, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10 million per year per reactor for each nuclear incident. CPS and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the Nuclear Regulatory Commission (NRC), in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $600 million for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. The $2.75 billion of nuclear property insurance consists of $500 million in primary property damage insurance and $2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25.5 million during any one-policy year.

Nuclear Decommissioning — CPS, together with the other owners of the STP, files with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated CPS share of decommissioning costs at approximately $270 million in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS share of decommissioning costs are now approximately $311 million in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC regulations. The Decommissioning Trust assets and related liabilities are included in CPS financial statements as a component unit. At January 31, 2004, CPS has accumulated approximately $211.1 million of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS trust balance exceeded the calculated financial assurance amounts of $70.4 million at December 31, 2003 and $69.1 million at December 31, 2002.

Based upon the 1998 and 1994 decommissioning cost studies, the annual funding level into the trust of $15.9 million for 2004 and 2003, was expensed by CPS.

The Decommissioning Trust also has separate financial statements for calendar year 2003. These separately audited financial statements can be obtained by contacting the Vice President of Financial Services at CPS.

12. Lignite Mining Lease and Assignment Agreement

CPS has an agreement with the Aluminum Company of America (ALCOA) dated December 28, 1998, regarding CPS lignite reserves in Bastrop and Lee Counties, Texas. ALCOA began making advance royalty payments to CPS under the agreement in January 1999. The base term of the agreement runs through 2013. ALCOA has the option to exercise six additional five-year extensions of the agreement. Thus, if ALCOA exercises all six extensions, the agreement will remain in effect until 2043. The agreement provides for royalty payments to CPS based on the amount of lignite mined by ALCOA, subject to certain minimum amounts per year once mining has commenced. The current estimate of the amount of the lignite to be mined by ALCOA under the agreement is 180 million tons over a 30-year period, although ALCOA may mine more or less than this amount. CPS will amortize the basis of the lignite reserves, approximately $18.8 million, as royalty payments are received. CPS received $1.0 million in advance royalty payments in 2003 and 2004. In 2004, CPS received $2.6 million in property possession fees. Alcoa began mine construction in calendar 2003 and now estimates mining will begin by late calendar 2004.

13. Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, L.P., formerly known as Houston Lighting & Power Company and Reliant Energy, Inc., over its management of STP during the construction and early operating periods. The JOA is an arrangement to jointly dispatch CPS and Texas Genco, L.P. s generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS received, in monthly cash payments, 90 percent of the savings realized from the jointly-operated systems. As of June 2002, when Texas Genco, L.P. met the JOA $200 million cumulative savings obligation, monthly cash payments to CPS were reduced to 50 percent of the savings realized from the jointly operated systems. As of January 31, 2004, CPS total cumulative payments from savings realized was $235.8 million.

14. Lease/Leaseback

On June 2, 2000, CPS entered into a financial transaction with an affiliate of Unicom involving CPS J.K. Spruce Unit No. 1 coal-fired electric generation unit. The transaction included a headlease for a term of approximately 65 years in combination with a leaseback of the facility by CPS for approximately 33 years. CPS retains fee simple title to and operating control of the facility and retains all revenues generated from sales of electricity produced from the facility. CPS received the appraised fair value of the unit, $725.0 million, which will be amortized over 381 months. The transaction expenses and leaseback costs of $637.0 million were recorded as prepaid items in 2001 and are being amortized over 381 months.

The utility has the option to cancel the headlease after the leaseback expires by making a payment to Unicom s affiliate. CPS entered into a collateralized payment undertaking agreement that will generate funds sufficient to fund the cancellation option payment. CPS net benefits were approximately $88.0 million. The City was paid $12.3 million in accordance with the New Series Bond Ordinance, or its 14 percent share of this net benefit. This payment was recorded as a prepayment in 2001 and is being amortized over 381 months. As a result, net proceeds from the transaction of approximately $75.7 million will be reported over the 32-year leaseback term. In 2004 and 2003, the net amount recorded as income by CPS was $2.8 million and $2.8 million, respectively.

15. Commitments and Contingencies

In the normal course of business, CPS is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. In addition, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

Purchase and construction commitments amounted to approximately $1.5 billion at January 31, 2004. This amount includes approximately $40.3 million that is expected to be paid for natural gas purchases to be made under various contracts currently in effect through June 2007; the actual amount to be paid will depend upon CPS actual requirements during the contract period and the price of gas. Also included is $79.5 million for coal purchases through December 2006, $246.2 million for coal transportation through December 2014, and $3.0 million for treated cooling water through December 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $199.5 million in wind power; $22.5 million for generation plant maintenance services; and $50.0 million for system construction and maintenance.

Additional purchase commitments at January 31, 2004, which are related to STP, include approximately $673.3 million for raw uranium, associated fabrication and conversion services. This amount represents services that will be needed for refueling through the year 2028.

The PUC promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS cost for calendar years 2002 and 2003 were approximately $11.6 million and $16.1 million, respectively. The estimated cost for calendar year 2004 is approximately $13.0 million.

The City Public Service Board of Trustees (left to right): Clayton E. Gay, Jr., Trustee; Ed Garza, Mayor of San Antonio, Ex-Officio Member; Aurora Ortega Geis, Vice Chairman; Stephen S. Hennigan, Chairman; Alvaro Sanchez, Jr., Trustee.

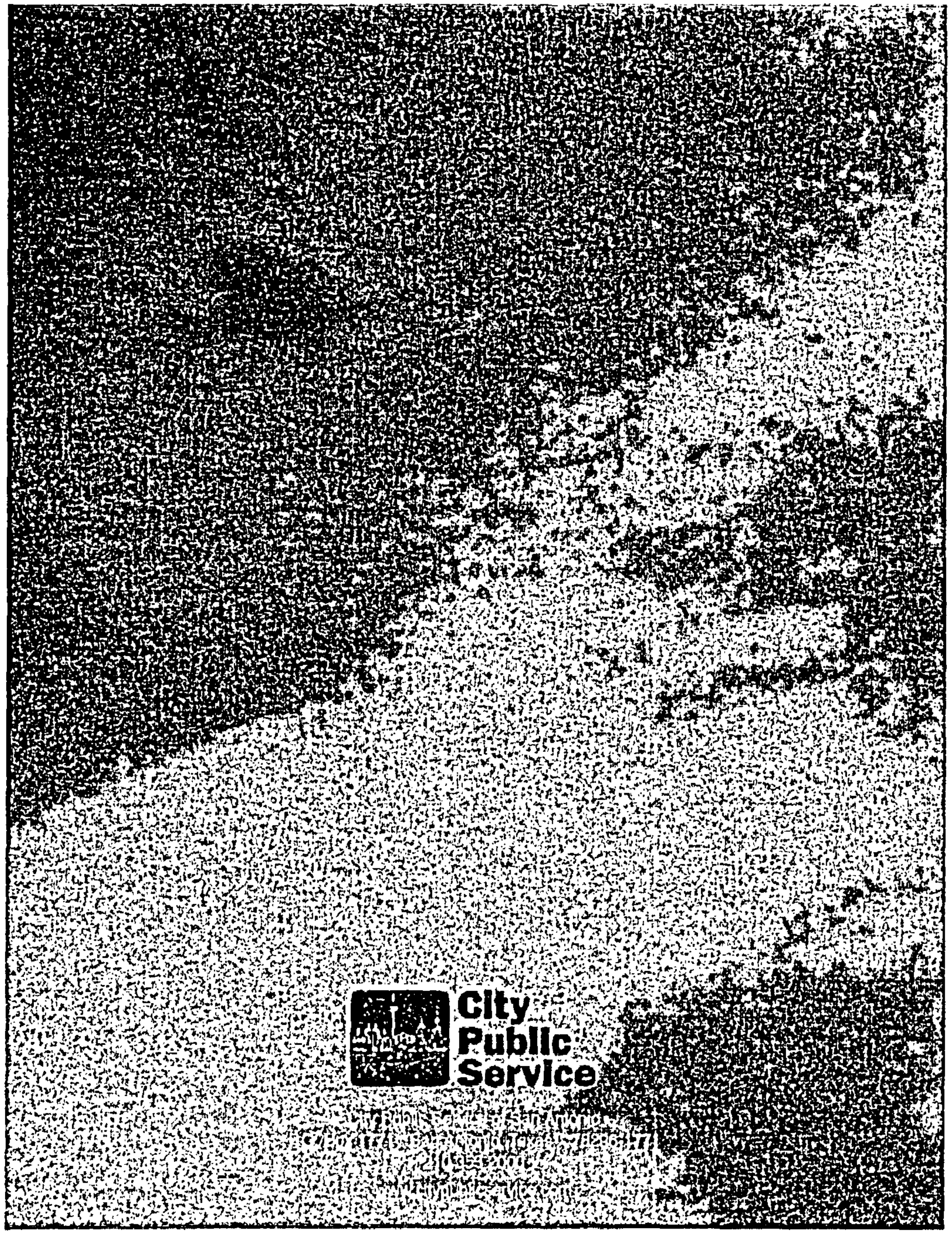
The Citizens Advisory Committee reviews CPS programs and policies, then makes recommendations to CPS staff and the Board of Trustees.
Left to right, first row: Thomas Dawsey, Lee Jaye Rosenberg, Theresa Vale, Evangeline O'Sullivan, Terry Dudley, Manuel Garcia III.
Left to right, second row: Keith Kolars, Harold E. Tillman, Royal Hammond, Jr., Tony Franckowiak, Reynaldo Nieto, Ralph T. Gomez. Not pictured: Raymond Aguilon, Jr., Gary Candy, Chairman, Jesse Jenkins.

City Public Service Management (left to right) Al Lujan, Senior Vice President, Energy Delivery Systems; Ken Emery, Senior Vice President, Information Management and Shared Services; Milton Lee, General Manager and CEO; Beth Emery, Senior Vice President and General Counsel; V. Gary Schaub, Senior Vice President, Financial and Corporate Services.

parting shot

PARTING SHOT

Like the San Antonio Spurs, CPS lineman trainees practice their ball handling. Perched atop utility poles, the trainees toss basketballs to each other to develop the balance and agility required to do power line construction and repair work. The training is part of developing a winning team.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