TEXAS GENCO HOLDINGS INC
Form 10-Q
August 06, 2004

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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 No.)
1111 LOUISIANA HOUSTON, TEXAS 77002 (Address and zip code of principal executive offices)	(713) 207-1111 (Registrant's telephone number, including area code)

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

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

As of August 1, 2004, Texas Genco Holdings, Inc., (Texas Genco) had 80,000,000 shares of common stock outstanding, including 64,764,240 shares which were held by Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy, Inc.

TEXAS GENCO HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2004

TABLE OF CONTENTS

i

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.

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

- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the Electric Reliability Council of Texas (ERCOT) market; and changes in, or application of, environmental or 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;

- commercial bank and financial market conditions, and our access to capital and credit;

- non-payment of our services due to financial distress of our customers, including Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI);

- the successful consummation and timing of the sale of the company to GC Power Acquisition LLC pursuant to the definitive agreement described under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Events -- Definitive Agreement for the Sale of the Company" in Item 2 of this Quarterly Report on Form 10-Q;

- nonperformance by the counterparty to the master power purchase and sale agreement our subsidiary, Texas Genco, LP, entered into in connection with the execution of the definitive agreement for the sale of the company to GC Power Acquisition LLC; and

- other factors we discuss in "Risk Factors" beginning on page 18 of the Texas Genco Holdings, Inc. Annual Report on Form 10-K for the year ended December 31, 2003.

Additional risk factors are described in other documents we file with the Securities and Exchange Commission.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX
	2003	2004	2003
REVENUES	$ 578,511	$ 552,718	$ 937,
EXPENSES:			
Fuel costs	349,318	263,992	557,

Purchased power	22,974	18,098	34,
Operation and maintenance	105,301	98,872	210,
Depreciation and amortization	39,391	40,607	78,
Taxes other than income taxes	11,483	12,122	22,
Total	528,467	433,691	904,
OPERATING INCOME	50,044	119,027	32,
OTHER INCOME	1,089	1,667	1,
INTEREST EXPENSE, NET	(2,822)	(114)	(5,
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	48,311	120,580	28,
INCOME TAX EXPENSE	(15,018)	(40,464)	(6,
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	33,293	80,116	22,
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	--	--	98,
NET INCOME	$ 33,293	$ 80,116	$ 121,
BASIC AND DILUTED EARNINGS PER SHARE:			
Income Before Cumulative Effect of Accounting Change	$ 0.42	$ 1.00	$ 0
Cumulative Effect of Accounting Change, net of tax	--	--	1
Net Income	$ 0.42	$ 1.00	$ 1

See Notes to the Company's Interim Financial Statements

1

TEXAS GENCO HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	DECEMBER 31, 2003
ASSETS	
CURRENT ASSETS:	
Cash	$ 33
Short-term investments	44,525
Short-term note receivable - affiliated companies, net	--
Customer accounts receivable	78,122
Accounts receivable, other	3,716
Materials and supplies	92,409
Fuel stock	77,283
Prepaid expenses and other current assets	2,304
Total current assets	298,392
PROPERTY, PLANT AND EQUIPMENT:	
Property, plant and equipment	9,834,904

Less accumulated depreciation and amortization	(5,709,309)
Property, plant and equipment, net	4,125,595
OTHER ASSETS:	
Nuclear decommissioning trust	189,182
Other	26,462
Total other assets	215,644
TOTAL ASSETS	$ 4,639,631

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable - affiliated companies, net	$ 7,802
Accounts payable, fuel	68,747
Accounts payable, other	40,165
Taxes and interest accrued	107,605
Deferred capacity auction revenue	86,853
Other	17,579
Total current liabilities	328,751
OTHER LIABILITIES:	
Accumulated deferred income taxes, net	844,545
Unamortized investment tax credit	150,533
Nuclear decommissioning reserve	187,997
Benefit obligations	18,399
Accrued reclamation costs	6,000
Other	70,245
Total other liabilities	1,277,719
COMMITMENTS AND CONTINGENCIES (NOTE 4)	
SHAREHOLDERS' EQUITY:	
Common stock (80,000,000 shares outstanding at December 31, 2003 and June 30, 2004, respectively)	1
Additional paid-in capital	2,917,444
Retained earnings	115,716
Total shareholders' equity	3,033,161
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,639,631

See Notes to the Company's Interim Financial Statements

2

TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	SIX MONTHS ENDED JUN
	2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 121,321
Cumulative effect of accounting change	(98,910)
Income before cumulative effect of accounting change	22,411
Adjustments to reconcile income before cumulative effect of accounting change to net cash provided by operating activities:	
Depreciation and amortization	78,470
Fuel-related amortization	9,725
Amortization of deferred financing costs	--
Deferred income taxes	(10,121)
Investment tax credit	(6,073)
Changes in other assets and liabilities:	
Accounts receivable	(105,921)
Taxes receivable	4,368
Inventory	(14,073)
Accounts payable	79,862
Accounts payable, affiliate	(11,378)
Taxes and interest accrued	(1,105)
Accrued reclamation costs	3,898
Benefit obligations	1,335
Deferred revenue from capacity auctions	40,287
Other current assets	(5,485)
Other current liabilities	(4,565)
Other long-term assets	(2,962)
Other long-term liabilities	(6,861)
Net cash provided by operating activities	71,812
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures and other	(74,706)
Increase in note receivable, affiliate	--
Net cash used in investing activities	(74,706)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payment of common stock dividends	(40,000)
Debt issuance costs	--
Increase in short-term notes payables, affiliate	42,459
Increase in long-term notes payables, affiliate	11
Net cash provided by (used in) financing activities	2,470
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(424)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	578
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 154
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash Payments:	
Interest	$ 5,432
Income taxes	--

See Notes to the Company's Interim Financial Statements

TEXAS GENCO HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

General. Included in this Quarterly Report on Form 10-Q (Form 10-Q) of Texas Genco Holdings, Inc. (Texas Genco or the Company) are the Company's consolidated interim financial statements and notes (Interim Financial Statements) including its wholly owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Annual Report on Form 10-K of Texas Genco for the year ended December 31, 2003 (Texas Genco Form 10-K.

Background. The Company is an 81% owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy). CenterPoint Energy is subject to regulation by the Securities and Exchange Commission (SEC) as a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). Texas Genco, LP, a wholly owned subsidiary of the Company that owns and operates the Company's electric generating plants, is an exempt wholesale generator pursuant to an order of the Federal Energy Regulatory Commission (FERC). As a result, Texas Genco, LP is exempt from all provisions of the 1935 Act so long as it remains an exempt wholesale generator, and the Company is no longer a public utility holding company under the 1935 Act. SEC approval would be required, however, for CenterPoint Energy to issue and sell securities for the purpose of funding the Company's operations, or for CenterPoint Energy to guarantee the Company's securities. Also, SEC policy precludes the Company from borrowing from CenterPoint Energy's utility subsidiaries.

Basis of Presentation. The Interim Financial Statements include the operations of Texas Genco Holdings, Inc. and its subsidiaries, which manage and operate the Company's electric generation operations.

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

The Company's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's Statements of Consolidated Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal variations in energy consumption, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests.

Note 2(f) (Long-Lived Assets and Intangibles) and Note 8 (Commitments and Contingencies) to the consolidated annual financial statements included in the Texas Genco Form 10-K relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference.

For information regarding certain environmental matters and legal proceedings, see Note 4 to the Interim Financial Statements.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. On December 24, 2003, the FASB issued a revision to FIN 46 (FIN 46-R). For special-purpose entities (SPE's) created before February 1, 2003, the Company applied the provisions of FIN 46 or FIN 46-R as of

4

December 31, 2003. The revised FIN 46-R is effective for all other entities for financial periods ending after March 15, 2004. The Company evaluated two purchase power contracts with qualifying facilities as defined in the Public Utility Regulatory Policies Act of 1978 and concluded that it was not required to consolidate the entities that own the qualifying facilities.

On December 23, 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132 (R)) which increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. Companies are required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. SFAS No. 132 (R) also requires companies to disclose various elements of pension and postretirement benefit costs in interim-period financial statements for quarters beginning after December 15, 2003. The Company has adopted the disclosure requirements of SFAS No. 132 (R) in Note 5 to these Interim Financial Statements.

On May 19, 2004, the FASB issued a FASB Staff Position (FSP) addressing the appropriate accounting and disclosure requirements for companies that sponsor a postretirement health care plan that provides prescription drug benefits. The new guidance from the FASB was deemed necessary as a result of the 2003 Medicare prescription law which includes a federal subsidy for qualifying companies. FSP FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FAS 106-2)," requires that the effects of the federal subsidy be considered an actuarial gain and treated like similar gains and losses and requires certain disclosures for employers that sponsor postretirement heath care plans that provide prescription drug benefits. The FASB's related existing guidance, FSP FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," will be superseded upon the effective date of FAS 106-2. The effective date of the new FSP is the first interim or annual period beginning after June 15, 2004, except for certain nonpublic entities which have until fiscal years beginning after December 15, 2004. The Company does not expect the adoption of FAS 106-2 to have a material effect on its results of operations or financial condition.

(3) RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

As of December 31, 2003 and June 30, 2004, the Company had net accounts payable to affiliates of $8 million and $12 million, respectively.

As of June 30, 2004, the Company had short-term notes receivable from affiliates of $1 million, which represented funds invested in CenterPoint Energy's money pool for unregulated subsidiaries.

During the three months ended June 30, 2003 and 2004, the sales and services by the Company to Reliant Energy, Inc., (formerly named Reliant Resources, Inc.) (RRI) and its subsidiaries totaled $415 million and $340 million, respectively. During the six months ended June 30, 2003 and 2004, the sales and services by the Company to RRI and its subsidiaries totaled $659 million and $594 million, respectively. During the three months and six months ended June 30, 2003 and 2004, there were no sales and services by the Company to CenterPoint Energy and its affiliates. During the three months ended June 30, 2003 and 2004, the sales and services by the Company to another major customer, totaled $56 million and $107 million, respectively. During the six months ended June 30, 2003 and 2004, the sales and services by the Company to that customer, totaled $93 million and $189 million, respectively.

During the three months ended June 30, 2003 and 2004, purchases of natural gas by the Company from CenterPoint Energy and its affiliates were $4 million and $10 million, respectively. During the six months ended June 30, 2003 and 2004, purchases of natural gas by the Company from CenterPoint Energy and its affiliates were $9 million and $16 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 $7 million and $6 million for the three months ended June 30, 2003 and 2004, respectively, and are included primarily in operation and maintenance

5

expenses. Amounts charged to the Company for these services were $17 million and $12 million for the six months ended June 30, 2003 and 2004, respectively, and are included primarily in operation and maintenance expenses.

(4) COMMITMENTS AND CONTINGENCIES

Clean Air Standards. The 1999 Texas Electric Choice Law (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 June 30, 2004, the Company has invested $686 million for NOx emission control, and plans to make additional expenditures of up to approximately $109 million during the remainder of 2004 through 2007. Further revisions to these NOx requirements may result from the EPA's ongoing review of these TCEQ rules and from the TCEQ's future rules, expected by 2007, implementing the more stringent federal eight-hour ozone standard.

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.

Texas Antitrust Action. In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against Reliant Energy, Incorporated (Reliant Energy), RRI, Reliant Electric Solutions, LLC, several other RRI subsidiaries and a number of other participants in the Electric Reliability Council of Texas (ERCOT) power market. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleged that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit sought damages in excess of $500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. In February 2004, this complaint was amended to add CenterPoint Energy and CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), as successors to Reliant Energy, and Texas Genco, LP as defendants. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. In June 2004, the federal court dismissed the plaintiff's claims and in July 2004, the plaintiff filed a notice of appeal. The Company intends to contest the appeal. The ultimate outcome of this matter cannot be predicted at this time.

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 $10.8 billion as of June 30, 2004. 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.

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 $2.9 million in 2003 to trusts established to fund the Company's share of the decommissioning costs for the South Texas Project, and expects to contribute $2.9 million in 2004. There are various investment restrictions imposed upon the Company by the Public Utility Commission of Texas 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 $198 million as of June 30, 2004, of which approximately 36% were fixed-rate debt securities and the remaining 64% were equity securities. In May 2004, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $456 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 of CenterPoint Houston or its successor.

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.

(5) EMPLOYEE BENEFIT PLANS

The Company's employees participate in CenterPoint Energy's postretirement benefit plan. Net periodic cost in each of the three month periods ended June 30, 2003 and 2004 was $1 million. Net periodic cost in each of the six month periods ended June 30, 2003 and 2004 was $2 million. The Company expects to contribute $1 million to CenterPoint Energy's postretirement benefits plan in 2004. As of June 30, 2004, $0.5 million has been contributed.

(6) PURCHASE OF ADDITIONAL SOUTH TEXAS PROJECT INTEREST

On May 28, 2004, the Company announced that its Board of Directors had voted to exercise its right of first refusal to purchase up to the entire 25.2 percent interest in the South Texas Project that is currently owned by American Electric Power (AEP). In addition to AEP and the Company, the 2,500 megawatt nuclear plant is owned by two other co-owners. AEP had previously announced that it had received an offer of $333 million, subject to certain adjustments, to purchase its 630 megawatt interest. Under the South Texas Project Participation Agreement, co-owners wishing to acquire AEP's interest are entitled to do so at the proposed sale price. One co-owner did not exercise its right of first refusal, while the other co-owner exercised its right to purchase at least 12 percent, or 300 megawatts. Accordingly, the Company should be entitled to purchase a 13.2 percent interest, or 330 megawatts from AEP at an estimated price of $175 million. The Company expects to fund the purchase of its share of AEP's interest with internally generated funds and, if and to the extent required, a new bank credit facility. The Company expects to complete this transaction by the first quarter of 2005.

(7) SUBSEQUENT EVENTS

On July 21, 2004, CenterPoint Energy and the Company announced a definitive agreement for GC Power Acquisition LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire the Company for approximately $3.65 billion in cash.

7

The transaction will be accomplished in two steps. In the first step, expected to be completed in the fourth quarter of 2004, the Company will purchase the approximately 19% of its shares owned by the public in a cash-out merger at a price of $47 per share. Prior to its public shareholder buy-out, the Company will file with the SEC a Rule 13e-3 transaction statement and a Schedule

14C information statement relating to CenterPoint Energy's adoption of the transaction agreement and approval of the transactions it contemplates. Following the cash-out merger of the publicly owned shares, a subsidiary of the Company that will own the Company's coal, lignite and gas-fired generation plants will merge with a subsidiary of GC Power Acquisition. The closing of the first step of the transaction is subject to several conditions, including the mailing of the information statement described above, the receipt of debt financing under the financing commitments described below, the expiration or termination of any applicable waiting period under the antitrust laws (including the Hart Scott Rodino Antitrust Improvement Act of 1976) and the FERC's certification of the entity that will own Texas Genco's coal, lignite and gas-fired generation plants as an "exempt wholesale generator" under the 1935 Act.

In the second step of the transaction, expected to take place in the first quarter of 2005 following receipt of approval by the NRC, the Company, the principal remaining asset of which, at that time, will be the Company's interest in the South Texas Project nuclear facility, will merge with another subsidiary of GC Power Acquisition.

Cash proceeds to CenterPoint Energy will be approximately $2.2 billion from the first step of the transaction and $700 million from the second step of the transaction, for total cash proceeds of approximately $2.9 billion, or $45.25 per share for CenterPoint Energy's 81% interest. CenterPoint Energy intends to use the net after-tax proceeds of approximately $2.5 billion to pay down outstanding debt, including senior debt under its bank credit facility that is secured in part by CenterPoint Energy's 81% ownership interest in the Company.

GC Power Acquisition has entered into a commitment letter with financing sources, including Goldman Sachs, providing for up to $2.5 billion in the aggregate in debt financing for the transaction and a separate overnight loan of $717 million to the Company to fund its public shareholder buy-out in the first step of the transaction, each subject to customary closing conditions. This overnight loan will be repaid with the proceeds of the merger of the Company's coal, lignite and gas-fired generation plants with a subsidiary of GC Power Acquisition. In addition, GC Power Acquisition's sponsor firms have committed upon closing of the transaction to provide up to $1.08 billion in the aggregate in equity funding for the transaction.

The transaction has been approved by the board of directors of CenterPoint Energy and by the board of directors of the Company acting upon the unanimous recommendation of a special committee composed of independent members of the Company's board. CenterPoint Energy has signed a written consent that satisfies all state law voting requirements applicable to the transaction.

In connection with the transaction, a subsidiary of the Company, Texas Genco, LP, entered into a master power purchase and sale agreement with a member of the Goldman Sachs group. Under that agreement, the Company has sold forward a substantial quantity of its available base-load capacity through 2008 and pledged $175 million of its first mortgage bonds as collateral for its obligations. The Company's obligations under the power purchase agreement will continue regardless of whether the transaction is completed.

On July 23, 2004, two plaintiffs, both shareholders of the Company, filed virtually identical lawsuits in Harris County, Texas district court. The suits, purportedly brought on behalf of holders of the Company's common stock, name the Company and each of its directors as defendants. Both plaintiffs allege, among other things, self-dealing and breach of fiduciary duty by the defendants in entering into the July 2004 agreement to sell the Company. Plaintiffs seek to enjoin the transaction or, alternatively, rescind the transaction and/or recover damages in the event that the transaction is consummated. The Company expects the cases to be consolidated. The Company believes both lawsuits to be without merit and intends to vigorously defend against them.

On August 5, 2004, the Company's board of directors declared a dividend of $0.25 per share of common stock payable September 20, 2004 to shareholders of record as of the close of business on August 26, 2004.

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

The following discussion and analysis should be read in combination with the Company's Interim Financial Statements and notes contained in Item 1 of this Form 10-Q.

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 June 30, 2004, the aggregate net generating capacity of our portfolio of assets was 14,153 megawatts (MW), of which 2,585 MW of gas-fired capacity was then mothballed. In May 2004, 403 MW of previously mothballed gas-fired capacity was returned to service. The gas-fired capacity that is currently mothballed is expected to remain mothballed through April 2005. We sell electric generation capacity, energy and ancillary services in the Electric Reliability Council of Texas (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.

We are an 81% owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy). 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. Texas Genco, LP, our wholly owned subsidiary that owns and operates our electric generating plants, is an exempt wholesale generator (EWG) pursuant to an order of the Federal Energy Regulatory Commission (FERC). As a result, Texas Genco, LP is exempt from all provisions of the 1935 Act so long as it remains an EWG, and we are no longer a public utility holding company under the 1935 Act.

EXECUTIVE SUMMARY

RECENT EVENTS

DEFINITIVE AGREEMENT FOR THE SALE OF THE COMPANY

On July 21, 2004, we and CenterPoint Energy announced a definitive agreement for GC Power Acquisition LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire us for approximately $3.65 billion in cash.

The transaction will be accomplished in two steps. In the first step, expected to be completed in the fourth quarter of 2004, we will purchase the approximately 19% of our shares owned by the public in a cash-out merger at a price of $47 per share. Prior to our public shareholder buy-out, we will file with the SEC a Rule 13e-3 transaction statement and a Schedule 14C information statement relating to CenterPoint Energy's adoption of the transaction agreement and approval of the transactions it contemplates. Following the cash-out merger of the publicly owned shares, a subsidiary of ours that will own our coal, lignite and gas-fired generation plants will merge with a subsidiary of GC Power Acquisition. The closing of the first step of the transaction is subject to several conditions, including the mailing of the information statement described above, the receipt of debt financing under the financing commitments described below, the expiration or termination of any applicable waiting period under the antitrust laws (including the Hart Scott Rodino Antitrust Improvement Act of 1976) and the FERC's certification of the entity that will own our coal, lignite and gas-fired generation plants as an "exempt wholesale generator" under the 1935 Act.

In the second step of the transaction, expected to take place in the first quarter of 2005 following receipt of approval by the Nuclear Regulatory Commission, the company, the principal remaining asset of which, at that time, will be our interest in the South Texas Project nuclear facility, will merge with another subsidiary of GC Power Acquisition.

Cash proceeds to CenterPoint Energy will be approximately $2.2 billion from the first step of the transaction and $700 million from the second step of the transaction, for total cash proceeds of approximately $2.9 billion, or $45.25 per share for CenterPoint Energy's 81% interest. CenterPoint Energy intends to use the net after-tax proceeds of approximately $2.5 billion to pay down outstanding debt, including senior debt under its bank credit facility that is secured in part by CenterPoint Energy's 81% ownership interest in us.

GC Power Acquisition has entered into a commitment letter with financing sources, including Goldman Sachs, providing for up to $2.5 billion in the aggregate in debt financing for the transaction and a separate overnight loan of $717 million to us to fund our public shareholder buy-out in the first step of the transaction, each subject to customary closing conditions. This overnight loan will be repaid with the proceeds of the merger of our coal, lignite and gas-fired generation plants with a subsidiary of GC Power Acquisition. In addition, GC Power Acquisition's sponsor firms have committed upon closing of the transaction to provide up to $1.08 billion in the aggregate in equity funding for the transaction.

The transaction has been approved by the board of directors of CenterPoint Energy and by our board of directors acting upon the unanimous recommendation of a special committee composed of independent members of our board. CenterPoint Energy has signed a written consent that satisfies all state law voting requirements applicable to the transaction.

In connection with the transaction, our subsidiary, Texas Genco, LP, entered into a master power purchase and sale agreement with a member of the Goldman Sachs group. Under that agreement, we have sold forward a substantial quantity of our available base-load capacity through 2008 and pledged $175 million of our first mortgage bonds as collateral for our obligation. Our obligations under the power purchase agreement will continue regardless of whether the transaction is completed.

On July 23, 2004, two plaintifs, both shareholders of the company, filed virtually identical lawsuits in Harris County, Texas district court. The suits, purportedly brought on behalf of holders of our common stock, name us and each of our directors as defendants. Both plaintiffs allege, among other things, self-dealing and breach of fiduciary duty by the defendants in entering into the July 2004 agreement to sell the company. Plaintiffs seek to enjoin the transaction or, alternatively, rescind the transaction and/or recover damages in the event that the transaction is consummated. We expect the cases to be consolidated. We believe both lawsuits to be without merit and intend to vigorously defend against them.

SOUTH TEXAS PROJECT RIGHT OF FIRST REFUSAL

On May 28, 2004, we announced that our Board of Directors had voted to exercise our right of first refusal to purchase up to the entire 25.2 percent interest in the South Texas Project that is currently owned by American Electric Power (AEP). In addition to AEP and Texas Genco, the 2,500 megawatt nuclear plant is owned by two other co-owners. AEP had previously announced that it had received an offer of $333 million, subject to certain adjustments, to purchase its 630 megawatt interest. Under the South Texas Project Participation Agreement, co-owners wishing to acquire AEP's interest are entitled to do so at the proposed sale price. One co-owner did not exercise its right of first refusal, while the other co-owner exercised its right to purchase at least 12 percent, or 300 megawatts. Accordingly, we should be entitled to purchase a 13.2 percent interest, or 330 megawatts from AEP at an estimated price of $175 million. We expect to fund the purchase of our share of AEP's interest with internally generated funds and, if and to the extent required, a new bank credit facility. Our purchase of a share of AEP's interest in the South Texas Project and the acquisition of the company by GC Power Acquisition described below are not dependent on each other. We expect to complete this transaction by the first quarter of 2005.

2ND QUARTER 2004 HIGHLIGHTS

In the second quarter of 2004, we reported net income of $80 million ($1.00 per diluted share) as compared to $33 million ($0.42 per diluted share) in the second quarter of 2003. The improvement was primarily related to higher capacity revenue for base-load products driven by continued high natural gas prices and their effect on wholesale electricity prices in the ERCOT market. Operation and maintenance expenses decreased due to a reduction in planned and unplanned outages in the second quarter of 2004 compared to the second quarter of 2003.

2004 OUTLOOK

In our capacity auctions held through July 2004, we have sold forward approximately 98% of our available firm base-load capacity for 2004, representing over $880 million of firm capacity revenue under contract. In addition, we have sold gas-fired and non-firm base-load capacity bringing the total 2004 contracted capacity revenues to over $1.08 billion. Available base-load capacity is defined as our total base-load capacity less planned outages and less up to 750 megawatts of operating reserves. For 2005, we have sold forward in our capacity auctions approximately 66% of our available firm base-load capacity, which represents over $560 million of contracted firm base-load capacity revenue. In addition, we have sold non-firm base-load capacity with revenues of approximately $60 million, bringing the total 2005 contracted capacity revenues to over $620 million. In August 2004, we plan to conduct additional auctions in which we will offer the remaining portion of our 2004 available capacity. These amounts do not include forward sales of base-load capacity under the master power purchase and sale agreement described above. In addition to capacity sales, we have sold approximately $10 million of surplus emission allowances in the first six months of 2004, and will evaluate future sales of emissions allowances as opportunities develop. Financial performance in 2004 and beyond is highly dependent on the operating performance of our base-load generating units.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth our consolidated results of operations for the three months and six months ended June 30, 2003 and 2004, followed by a discussion of our consolidated results of operations.

	THREE MONTHS ENDED JUNE 30,	
	2003	2004
	(IN THOUSANDS, EXCEP	
REVENUES	$ 578,511	$ 552,718
EXPENSES:		
Fuel costs	349,318	263,992
Purchased power	22,974	18,098
Operation and maintenance	105,301	98,872
Depreciation and amortization	39,391	40,607
Taxes other than income taxes	11,483	12,122
Total	528,467	433,691
OPERATING INCOME	50,044	119,027
OTHER INCOME	1,089	1,667
INTEREST EXPENSE, NET	(2,822)	(114)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	48,311	120,580
INCOME TAX EXPENSE	(15,018)	(40,464)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	33,293	80,116
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX	--	--
NET INCOME	$ 33,293	$ 80,116
BASIC AND DILUTED EARNINGS PER SHARE:		
Income Before Cumulative Effect of Accounting Change	$0.42	$ 1.00
Cumulative Effect of Accounting Change, net of tax	--	--
Net Income	$ 0.42	$ 1.00
Sales (MWH)	12,517,492	11,962,375
Generation (MWH)	12,077,631	11,542,226

11

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

In the second quarter of 2004, we reported net income of $80 million ($1.00 per diluted share) as compared to $33 million ($0.42 per diluted share) in the second quarter of 2003 primarily due to higher capacity revenue for base-load products driven by continued high natural gas prices and their effect on wholesale electricity prices in the ERCOT market. Most of these base-load products were sold in capacity auctions held when natural gas prices were higher than when we sold our capacity for 2003. Additionally, the sale of surplus air emission allowances contributed $6 million to revenues. Energy revenues and fuel and purchased power costs declined in the second quarter of 2004 as compared to the same period in 2003 reflecting a reduction in planned and unplanned outages and therefore an increase in availability of our lower-cost base-load units in 2004 as well as lower demand for gas-fired generation products. Operation and maintenance expenses decreased $6 million primarily due to the reduction in planned and unplanned outages in the second quarter of 2004 as compared to the same period in 2003.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

In the first six months of 2004, we reported net income of $141 million ($1.76 per diluted share) as compared to income of $22 million ($0.28 per diluted share) in the first six months of 2003 before the cumulative effect of an accounting change. Revenues increased $55 million in the first six months of 2004 as compared to the same period in 2003 due to higher capacity revenue for base-load products driven by continued high natural gas prices and their effect on wholesale electricity prices in the ERCOT market. Most of these base-load products were sold in capacity auctions held when natural gas prices were higher than when we sold our capacity for 2003. Additionally, the sale of surplus air emission allowances contributed $10 million to the increase in revenues. Fuel and purchased power costs declined $115 million in the first six months of 2004 as compared to the same period in 2003 reflecting a reduction in planned and unplanned outages and therefore an increase in availability of our lower-cost base-load units in 2004 as well as lower demand for gas-fired generation products. Operation and maintenance expenses decreased $11 million primarily due to the reduction in planned and unplanned outages in the first six months of 2004 as compared to the same period in 2003.

In connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), we completed an assessment of the applicability and implications of SFAS No. 143. As a result of the assessment, we identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations at the Jewett mine supplying 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. The first quarter 2003 results include a $99 million after-tax ($152 million pre-tax) non-cash gain ($1.24 per diluted share) from the adoption of SFAS No. 143.

RELATED PARTY TRANSACTIONS

We have entered into a number of agreements with CenterPoint Energy that govern our interim and ongoing relationships with CenterPoint Energy, including providing various interim services to us. Pursuant to the requirements of the 1935 Act, CenterPoint Energy has formed a service company through which these services are delivered. For information regarding our agreements and other relationships with CenterPoint Energy, please read Note 3 to our Interim Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Related Party Transactions" in the Texas Genco Form 10-K.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read the factors listed under "Cautionary Statement Regarding Forward-Looking Information" on Page ii of this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of Part II of the Texas Genco Form 10-K and "Risk Factors" in Item 1 of Part I of the Texas Genco Form 10-K, each of which is incorporated herein by reference.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by/used in our operating, investing and financing activities for the six months ended June 30, 2003 and 2004 is as follows (in millions):

	SIX MONTHS ENDED JUNE 30,	
	2003	2004
Cash provided by (used in):		
Operating activities.........................	$ 72	$218
Investing activities.........................	(75)	(38)
Financing activities.........................	2	(40)

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities increased $146 million for the six months ended June 30, 2004 as compared to the same period in 2003 primarily as a result of higher capacity auction prices, which were driven by continued high natural gas prices.

CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased $37 million for the six months ended June 30, 2004 as compared to the same period in 2003 primarily related to a planned reduction in NOx emissions control expenditures.

CASH PROVIDED BY FINANCING ACTIVITIES

Cash provided by financing activities decreased $42 million for the six months ended June 30, 2004 as compared to the same period in 2003. We had borrowed this amount from CenterPoint Energy in the first quarter of 2003.

FUTURE SOURCES AND USES OF CASH

Our liquidity and capital requirements will be affected by our:

- capital requirements related to environmental compliance and other projects;

- purchase of an additional interest in the South Texas Project pursuant to the exercise of our right of first refusal as described above under " -- Executive Summary -- Recent Events";

- dividend policy;

- debt service requirements; and

- working capital requirements.

As of June 30, 2004, we had temporary investments of $185 million. As of June 30, 2004, we had investments of $1 million in CenterPoint Energy's money pool for unregulated subsidiaries.

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 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, including sales of available base-load capacity under the master power purchase and sale agreement described above under " -- Executive Summary -- Recent Events -- Definitive Agreement for the Sale of the Company," and our external borrowing capability will be sufficient to meet the operational needs of our business for the next twelve months. As of June 30, 2004, 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 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, we expect 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.

Under the terms of the definitive transaction agreement for the sale of the company to GC Power Acquisition LLC, we have agreed to certain restrictions on our ability to incur indebtedness. Under these restrictions, prior to closing of the sale transaction we and our subsidiaries may not repurchase, repay or incur any indebtedness, issue any securities in respect of indebtedness or assume, guarantee, endorse or otherwise become responsible for the obligations or indebtedness of any person, other than:

- as otherwise contemplated by the transaction agreement;

- as required by applicable law;

- items for which GC Power Acquisition has given its prior written consent (which cannot be unreasonably withheld or delayed);

- repayments in the ordinary course of business consistent with past practice under our existing $75 million revolving credit agreement;

- borrowings of up to $75 million under our existing $75 million revolving credit agreement;

- borrowings under the $717 million overnight bridge loan financing commitment relating to the anticipated public shareholder buy-out in the first step of the sale transaction;

- borrowings under any new or amended credit agreement not containing prepayment penalties and on customary terms:

  - to fund the purchase price for an additional interest in the South Texas Project pursuant to the exercise of the right of first refusal described under " -- Recent Events -- South Texas Project Right of First Refusal";

  - to fund dividends or distributions allowed under the terms of the transaction agreement, including regular quarterly cash dividends not in excess of $0.25 per share per quarter; and

  - of up to $75 million to fund working capital requirements to meet operating cash needs (less any amount borrowed for working capital purposes under our existing $75 million revolving credit agreement).

Cash Flows From Operations -- Reliant Energy, Inc. (formerly named Reliant Resources, Inc. (RRI)) as a Significant Customer. To date, we have sold a substantial portion of our auctioned capacity entitlements to subsidiaries of RRI. Pursuant to a Master Power Purchase and Sale Agreement with a subsidiary of RRI 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 RRI to secure up to $250 million in purchase

obligations. For more information regarding the impact that RRI's financial condition may have on our cash flows, please read "Our Business -- Risk Factors " in Item 1 of the Texas Genco Form 10-K.

Intercompany Borrowings. As a result of Texas Genco, LP's certification by the FERC as an EWG under the 1935 Act, CenterPoint Energy has established a 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 annual financial statements included in the Texas Genco Form 10-K (Texas Genco Notes), we participate in CenterPoint Energy's qualified non-contributory pension plan covering substantially all our 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, a separate pension plan will be established for us in the third quarter of 2004. 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 a pension liability of approximately $68 million will be transferred to us from CenterPoint Energy. 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 reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe 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 of the Texas Genco Notes. We believe the following accounting policy involves the application of critical accounting estimates. Accordingly, these accounting estimates have been reviewed and discussed with the audit committee of the board of directors.

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 conditions 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 to the Interim Financial Statements for a discussion of new accounting pronouncements that affect us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

As discussed in Note 4 to the Interim Financial Statements, CenterPoint Energy Houston Electric, LLC (CenterPoint Houston) contributed $2.9 million in 2003 to trusts established to fund our share of the decommissioning costs for the South Texas Project. The securities held by the trusts for decommissioning costs had an estimated fair value of $198 million as of June 30, 2004, of which approximately 36% 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 June 30, 2004, the fair value of the fixed-rate debt securities would decrease by 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 36% and equity 64% securities as of June 30, 2004. 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 June 30, 2004, the resulting loss in fair value of these securities would be approximately $13 million.

16

COMMODITY PRICE RISK

Our gross margins (revenues less fuel and purchase power costs) related to unsold base-load capacity 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 4. 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 June 30, 2004 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 June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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. For a description of a number of lawsuits involving claims of asbestos exposure at properties owned by us, please read "Our Business -- Environmental Matters -- Asbestos" in Item 1 of the Texas Genco Form 10-K, which is incorporated herein by reference. For a description of a lawsuit involving alleged violations of state and federal antitrust laws, please read "Texas Antitrust Action" in Note 4 to our Interim Financial Statements, which is incorporated herein by reference. For a description of two lawsuits against the company and its directors involving alleged self dealing and breach of fiduciary duty, please read Note 7 to our Interim Financial Statements, which is incorporated herein by reference.

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

At the annual meeting of our shareholders held on May 13, 2004, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to such matters (including a separate tabulation with respect to each nominee for office), were as stated below:

The following nominees for director were elected to serve one-year terms expiring at the 2005 annual meeting of shareholders (there were no broker non-votes):

Nominees	For	Withhold
J. Evans Attwell	78,565,917	283,087
Donald R. Campbell	78,368,848	480,156
Robert J. Cruikshank	78,552,458	296,546
Patricia A. Hemingway Hall	78,367,056	481,948
David M. McClanahan	75,884,748	2,964,256
Scott E. Rozzell	75,886,732	2,962,272
David G. Tees	75,830,073	3,018,931
Gary L. Whitlock	75,904,656	2,944,348

The appointment of Deloitte & Touche LLP as independent accountants and auditors for Texas Genco for 2004 was ratified with 78,656,146 votes for, 177,426 votes against, 15,432 abstentions and no broker non-votes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

The following exhibits are filed herewith:

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing as indicated. Pursuant to Item 601(b)(2) of Regulation S-K, Texas Genco has not filed the exhibits and schedules to Exhibit 2.1. Texas Genco hereby agrees to furnish a copy of any such exhibit or schedule to the SEC upon request.

EXHIBIT NUMBER		DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER
2.1	--	Transaction Agreement dated July 21, 2004 among CenterPoint Energy, Inc., Utility Holding, LLC, NN Houston Sub, Inc., Texas Genco Holdings, Inc., HPC Merger Sub, Inc. and GC Power Acquisition LLC (excluding exhibits and schedules thereto)	Texas Genco's Current Report on Form 8-K dated July 21, 2004	1-31449
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
3.2	--	Amended and Restated Bylaws	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449
4.1	--	Specimen Stock Certificate	Texas Genco's registration statement on Form 10	1-31449
+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
+99.1	--	Items incorporated by reference from the Texas Genco Form 10-K: "Risk Factors" in Item 1, "Our Business -- Environmental Matters -- Asbestos" in Item 1, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7, and Notes 2(f) and 8 to the Texas Genco Notes

(b) Reports on Form 8-K.

On April 1, 2004, we filed a Current Report on Form 8-K dated April 1, 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.

On April 22, 2004, we filed a Current Report on Form 8-K dated April 22, 2004, in which we reported certain first quarter 2004 earnings information and furnished a press release under Item 12 of that form.

On June 2, 2004, we filed a Current Report on Form 8-K dated May 28, 2004, in which we reported that our Board of Directors had voted to exercise our right of first refusal to purchase up to the entire 25.2 percent interest in the South Texas Project Electric Generating Station that is currently owned by American Electric Power.

On July 22, 2004, we filed a Current Report on Form 8-K dated July 21, 2004, in which we reported that CenterPoint Energy and we had entered into a definitive agreement for GC Power Acquisition LLC to acquire the company.

On August 6, 2004, we filed a Current Report on Form 8-K dated August 6, 2004, in which we reported certain second quarter 2004 earnings information and furnished a press release under Item 12 of that form.

SIGNATURES

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

TEXAS GENCO HOLDINGS, INC.

By: /s/ James S. Brian

James S. Brian

Senior Vice President and Chief Accounting Officer

Date: August 6, 2004

21

INDEX TO EXHIBITS

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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
3.2	--	Amended and Restated Bylaws	Texas Genco's Form 10-K for the year ended December 31, 2002	1-31449
4.1	--	Specimen Stock Certificate	Texas Genco's registration statement on Form 10	1-31449
+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		

+99.1	--	Items incorporated by reference from the Texas Genco Form 10-K: "Risk Factors" in Item 1, "Our Business -- Environmental Matters -- Asbestos" in Item 1, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7, and Notes 2(f) and 8 to the Texas Genco Notes

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Normalized AFFO[3]

$146.8

7

(1) Sabra defines Sabra NOI as total revenues less facility operating expenses.

(2) Sabra defines Sabra Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, plus stock-based compensation and expensed acquisition pursuit costs.

(3) Sabra defines Sabra Normalized FFO in accordance with the definition of FFO used by NAREIT as adjusted for certain income and expense items that Sabra does not believe are indicative of its ongoing operating results. Specifically, Sabra defines Sabra Normalized FFO as net income attributable to common stockholders, computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and real estate impairment charges, and adjusted for certain income and expense items that Sabra does not believe are indicative of its ongoing operating results. Sabra defines normalized adjusted funds from operations attributable to common stockholders as Sabra Normalized FFO excluding straight-line rental income adjustments, stock-based compensation expense, amortization of deferred financing costs and expensed acquisition pursuit costs, as well as other non-cash revenue and expense items (including provisions and write-offs related to straight-line rental income, provision for loan losses, changes in fair value of contingent consideration, amortization of debt premiums/discounts and non-cash interest income adjustments), and adjusted for certain income and expense items that Sabra does not believe are indicative of its ongoing operating results. Sabra s computation of Sabra Normalized FFO and Normalized AFFO may not be comparable to normalized FFO and normalized AFFO reported by other real estate investment trusts that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define AFFO differently than Sabra does.

The disclosure on page 99 of the Proxy Statement is hereby amended by the insertion of the following language immediately following the footnotes to the table setting forth a summary of the CCP April 2017 projections (including unidentified transactions) under the heading Certain Unaudited Projections CCP Projections Including Unidentified Transactions :

Set forth in the below tables is a reconciliation, for 2017 only, of CCP Adjusted EBITDA, Total CCP NOI and Other Income, CCP Normalized FFO and Normalized FAD to Net Income Attributable to CCP Stockholders.

Reconciliation of CCP Adjusted EBITDA and Total CCP NOI and Other Income

Including Unidentified Transactions (as of April 28, 2017)

(In millions)	**2017**
Net Income Attributable to CCP stockholders	**$ 163.9**
Interest Expense and Deferred Financing Costs	64.6
(Gain) / Loss on Dispositions	(32.2)
Income Tax (Benefit) / Expense	0.8
Non-Controlling Interest	0.0
Transaction / Deal Expense	13.1
Depreciation and Amortization	101.1
Stock-Based Compensation	7.1
CCP Adjusted EBITDA(1)	**$ 318.4**
General and Administrative Expense (Excluding Stock-Based Compensation)	28.0
Other Expense	0.4
Total CCP NOI and Other Income(2)	**$ 346.8**

(1) CCP defines CCP Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization (but does not include any reduction for stock-based compensation) and adjusted for items which may be nonrecurring or recurring in nature and may not be consistent in amounts from period to period. CCP Adjusted EBITDA is a non-GAAP financial measure and should not be considered independently from, or as a substitute for, financial information presented in accordance with GAAP.

(2) CCP defines Total CCP NOI and Other Income as total revenue derived from real estate investments plus Other Income, which includes real estate services fee income attributable to CCP s specialty valuation firm, and other income. Total CCP NOI and Other Income is a non-GAAP financial measure and should not be considered independently from, or as a substitute for, financial information presented in accordance with GAAP.

Reconciliation of CCP Normalized FFO and Normalized FAD

Including Unidentified Transactions (as of April 28, 2017)

(In millions)	**2017**
Net Income Attributable to CCP stockholders	**$ 163.9**
Total Depreciation and Amortization	100.9
(Gain) / Loss on Dispositions	(32.2)
FFO	232.5
Transaction / Deal Expense	13.1

Other	(1.0)
CCP Normalized FFO[1]	**$ 244.6**
Stock-Based Compensation	7.1
Deferred Financing Costs	4.0
Above / Below Market Lease Amortization	(6.2)
Non-Cash Interest Income	(2.5)
Net Straight Line Rent	(1.7)
Capital Expenditures Non-Yielding	(1.8)
Transaction / Deal Expense Including Capitalized Costs	(13.8)
Normalized FAD[2]	**$ 229.7**

9

(1) CCP defines CCP Normalized FFO as FFO excluding items which may be nonrecurring or recurring in nature and may not be consistent in amounts from period to period. CCP Normalized FFO is a non-GAAP financial measure and should not be considered independently from, or as a substitute for, financial information presented in accordance with GAAP. CCP uses the NAREIT definition of FFO. NAREIT defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate property and impairment write-downs of depreciable real estate, plus real estate depreciation and amortization, and after adjustments for joint ventures. Adjustments for joint ventures will be calculated to reflect FFO on the same basis.

(2) CCP defines Normalized FAD as Normalized FFO excluding amortization of above and below market lease intangibles, amortization of deferred financing fees, accretion of direct financing lease, other amortization, straight-line rental adjustments and stock-based compensation, but including deal costs on a cash basis. Normalized FAD also includes a deduction for non-yielding capital expenditures. Normalized FAD is a non-GAAP financial measure and should not be considered independently from, or as a substitute for, financial information presented in accordance with GAAP.

NEITHER SABRA NOR CCP INTENDS TO UPDATE OR OTHERWISE REVISE THE ABOVE PROJECTIONS TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE WHEN MADE OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS UNDERLYING SUCH PROJECTIONS ARE NO LONGER APPROPRIATE, EXCEPT AS MAY BE REQUIRED BY LAW. IN LIGHT OF THE FOREGOING FACTORS AND THE UNCERTAINTIES INHERENT IN PROJECTIONS, SABRA AND CCP STOCKHOLDERS ARE CAUTIONED NOT TO PLACE UNDUE, IF ANY, RELIANCE ON THE INFORMATION PRESENTED ABOVE. INFORMATION PROVIDED ABOVE WITH RESPECT TO SABRA WAS PREPARED AND PROVIDED BY SABRA MANAGEMENT.

Additional Information about the Merger and Where to Find It

This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval. This communication may be deemed solicitation material in respect of the proposed merger of CCP with a wholly owned subsidiary of Sabra. The proposed Merger is being submitted to the stockholders of the Company for their consideration. In connection therewith, the Company has filed relevant materials with the Securities and Exchange Commission (the SEC), including the Proxy Statement, regarding the proposed Merger, which has been mailed to the stockholders of the Company on or about July 10, 2017.

STOCKHOLDERS OF THE COMPANY AND CCP ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE PROXY STATEMENT, CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE COMPANY, CCP AND THE MERGER. Stockholders may obtain copies of the Proxy Statement and other relevant materials and any other documents filed with the SEC by the Company and CCP for no charge at the SEC s website at www.sec.gov. Copies of the documents filed by the Company with the SEC are available free of charge on the Company s website at www.sabrahealth.com, or by directing a written request to Sabra Health Care REIT, Inc., 18500 Von Karman Avenue, Suite 550, Irvine, CA 92612, Attention: Investor Relations. Copies of the documents filed by CCP with the SEC are available free of charge on CCP s website at www.carecapitalproperties.com, or by directing a written request to Care Capital Properties, Inc., 191 North Wacker Drive, Suite 1200, Chicago, Illinois 60606, Attention: Investor Relations.

The Company and CCP, and their respective directors and executive officers and certain other employees, may be deemed to be participants in the solicitation of proxies in respect of the proposed transactions contemplated by the Merger Agreement. Information regarding persons who may be deemed to be participants in the proxy solicitation, including their respective interests by security holdings or otherwise, is set forth, or incorporated by reference, in the Proxy Statement. This document can be obtained free of charge from the sources indicated above.

SIGNATURES

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

SABRA HEALTH CARE REIT, INC.

Date: August 8, 2017

/s/ Harold W. Andrews, Jr.
Name: Harold W. Andrews, Jr.
Title: Executive Vice President, Chief Financial Officer and Secretary