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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported) September 30, 2005

NRG Energy, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

001-15891	**41-1724239**
(Commission File Number)	(IRS Employer Identification No.)
211 Carnegie Center	**Princeton, NJ 08540**
(Address of Principal Executive Offices)	(Zip Code)

609-524-4500
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 8.01 Other Events

NRG Energy, Inc., or NRG, is preparing to file a registration statement on Form S-3 to register senior debt securities, unsecured debt securities, preferred stock and common stock, the issuance of which are together referred to as the Financing Transactions. The Financing Transactions will be entered into to finance the Acquisition (described below) and re-capitalize the Company. In connection with this registration statement, NRG is filing the unaudited pro forma analyses as set forth below.

On September 30, 2005, NRG entered into an Acquisition Agreement (the "Acquisition Agreement") with Texas Genco LLC, a Delaware limited liability company ("Texas Genco"), and each of the direct and indirect owners of Texas Genco (the "Sellers"). Pursuant to the Acquisition Agreement, upon the terms and subject to the conditions set forth therein, the Company agreed to purchase all of the outstanding equity interests in Texas Genco (the "Acquisition"). We expect to close this transaction during the first quarter of 2006.

On a pro forma basis, we estimate that the total purchase price will be $6.121 billion. This amount is comprised of common stock, cash, preferred stock and capitalized expenses. The number of shares to be issued to the Sellers is 35,406,320, of this amount 19,346,788 are from treasury and 16,059,532 are newly issued shares, at a price of $45.37 which is the average NRG share price immediately before and after the pro forma date of closing, or September 30, 2005, with a total value of $1.6 billion for the shares. NRG will pay $4.031 billion in cash, issue Cumulative Redeemable Preferred Stock (the "Cumulative Preferred Stock") at a value of $368 million and will capitalize expenses of $120 million. This purchase price includes the assumption by the Company of approximately $2.74 billion of Texas Genco indebtedness. As a result of the Acquisition, Texas Genco will become a wholly owned subsidiary of the Company.

Of the pro forma $6.121 billion consideration to the Sellers upon consummation of the Acquisition, the Company is paying $4.031 billion in cash, and must issue a minimum of 35,406,320 shares of the Company's common stock. At the Company's election, the remaining consideration with a fair value of $368 million may be comprised of either an additional 9,038,125 shares of common stock, additional cash, shares of a new series of NRG's Cumulative Preferred Stock or a combination of the foregoing. If issued, the aggregate liquidation preference of the Cumulative Preferred Stock will be equal to the average trading value of 9,038,125 shares of the Company's common stock over a twenty trading day period prior to closing. If the Company elects to pay all or a portion of the remaining purchase price in cash, the amount payable in cash would be calculated in the same manner. On a pro forma basis we have assumed that the remaining consideration will be paid by issuing the Cumulative Preferred Stock. Thus, our interest expense increased on a pro forma basis for the Cumulative Preferred Stock. Interest expense increased by $41.4 million for the year ended December 31, 2004 and by $33.1 million for the nine months ended September 30, 2005. If we would elect to pay this consideration in cash or common stock, our income from continuing operations before tax would increase by these amounts, respectively.

If less than $200 million of aggregate liquidation preference of the Cumulative Preferred Stock is issued in the Acquisition, and the Company elects to issue the Cumulative Preferred Stock, then the initial dividend rate on the Cumulative Preferred Stock will be 9%. If more than $200 million of aggregate liquidation preference is issued, then the initial dividend rate on the Cumulative Preferred Stock will be 10%. In either case, the applicable dividend rate will increase by 1% per quarter to a maximum of 2% above the initial dividend rate. The Cumulative Preferred Stock will be redeemable at the option of the Company at any time for cash and will be mandatorily redeemable by the Company on the earlier of seven and one-half years from issuance and a change of control of the Company. On a pro forma basis we have calculated the dividend rate assuming the initial dividend rate is 10%, increasing to 12% after two quarters.

NRG expects to finance the cash requirements of the Acquisition through a combination of a new senior secured credit facility, an unsecured high yield notes offering and the sale of common and preferred equity securities in the public markets. We have received a commitment letter from Morgan Stanley Senior Funding, Inc. ("Morgan Stanley") and Citigroup Global Markets, Inc. ("Citigroup") to provide us with up to $4.8 billion in senior secured debt financing, including up to $3.2 billion under a senior first priority term loan facility, up to $1 billion under a senior first priority secured revolving credit facility and up to $1 billion under a senior first priority secured synthetic letter of credit facility. The commitment letter further provides for up to $5.1 billion in bridge financing to fund all necessary amounts not provided for under the senior secured debt financing. NRG does not intend to draw down on the bridge financing unless the contemplated high yield debt financing and preferred and common equity financings are for some reason unavailable at the time of the closing. The commitment letter is subject to customary conditions to consummation, including the absence of any event or circumstance that would have a material adverse effect on the business, assets, properties, liabilities, condition (financial or otherwise) or results of operations, taken as a whole, of Texas Genco, or Texas Genco and NRG combined, since June 30, 2005. We have agreed to pay Morgan Stanley and Citigroup $44.6 million in connection with the commitment letter, or the Bridge Loan Commitment Fee, and have agreed to indemnify Morgan Stanley and Citigroup against certain liabilities.

The Financing Transactions will enable us to refinance our outstanding Second Priority Notes and Credit Facility. This Credit Facility includes a senior secured term loan, a revolving credit facility and funded letter of credit facility. In addition, the new financing will supply the source of funds to acquire Texas Genco and to repay their Term Loan Facility and Senior Notes. The following is a brief summary of the companies' outstanding debt instruments that we expect to refinance with the new debt structure:

(in millions)	Old Debt Structure As of September 30, 2005 NRG	Texas Genco	New Debt Structure	New Debt Term
Term loan – adjustable interest	447	1,614	3,200	7 years
Second Priority Notes	1,080	n/a	n/a	n/a
Unsecured senior notes	n/a	1,125	3,600	7 years
Revolving credit facility	150	325	1,000	5 years
Funded letter of credit facility	350	694	n/a	n/a
Synthetic letter of credit facility	n/a	n/a	1,000	5 years

On a pro forma basis we have assumed that the fixed interest rate for the new unsecured senior notes will be 7.25%. For the new term loan facility we have assumed that the adjustable annual interest rate will be 6.504% for the year ended December 31, 2004 and 6.622% for the nine months ended September 30, 2005. NRG will pay an annual fee of 0.5% for the new revolving credit facility, and when drawn upon, the adjustable interest rate would be the London Interbank Offering Rate plus 2%. On a pro forma basis, we have assumed an annual fee of 2% to have access to the synthetic letter of credit facility.

On December 8, 2005 NRG entered into an Asset Purchase and Sale Agreement to sell all the assets of NRG Audrain Generating LLC, or Audrain, to AmerenUE, a subsidiary of Ameren Corporation. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation. The purchase price is $115 million, subject to customary purchase price adjustments. The transaction is expected to close during the first half of 2006. The sale is subject to customary approvals, including Federal Energy Regulatory Commission, Missouri Public Utilities Commission, Illinois Commerce Commission, and Hart-Scott-Rodino review. We expect to record a gain of approximately $15 million at closing.

On May 19, 2005, pursuant to the exercise of a right of first refusal by Texas Genco, subsequent to a third party offer to American Electric Power, or AEP, in early 2004, Texas Genco acquired from AEP an additional 13.2% undivided interest in South Texas Project, or STP. We refer to that acquisition as the "ROFR." As a result, Texas Genco now owns a 44.0% undivided interest in STP. For pro forma purposes, NRG has accounted for the ROFR as a business acquisition and included the ROFR in our pro forma adjustments to the statements of operation.

Transactional Pro Forma Analysis:

The following tables present historical condensed consolidated financial information of (i) NRG for the year ended December 31, 2004 and as of and for the nine months ended September 30, 2005, (ii) Texas Genco for the year ended December 31, 2004 and as of and for the nine months ended September 30, 2005, and (iii) the combined company on a pro forma basis for the year ended December 31, 2004 and as of and for the nine months ended September 30, 2005. The combined company on a pro forma basis is shown after giving effect to (a) the reclassification of Audrain as a discontinued operation; (b) the inclusion of the results pursuant to the ROFR; (c) the refinancing of NRG's old debt structure; and (d) the remaining financing and subsequent Acquisition.

The historical consolidated financial information of NRG for the year ended December 31, 2004 is derived from the historical financial information contained in the audited consolidated financial statements of NRG incorporated by reference in this current report Form 8-K. The unaudited historical consolidated financial information as of and for the nine months ended September 30, 2005 (i) have been derived from NRG's unaudited condensed consolidated financial statements which are incorporated by reference in this current report Form 8-K, (ii) have been prepared on a similar basis to that used in the preparation of the audited financial statements, and (iii) in the opinion of NRG's management, include all adjustments necessary for a fair statement of the results for the unaudited interim period.

The historical consolidated financial information for Texas Genco as of December 31, 2004 were derived from the audited consolidated financial statements of Texas Genco LLC as of December 31, 2004 and the audited consolidated financial statements of Texas Genco Holdings, Inc. as of December 31, 2004, and are included as Exhibits 99.02 and 99.03 to this current report Form 8-K. The historical consolidated financial information for Texas Genco as of and for the nine months ended September 30, 2005 (i) were derived from unaudited financial statements of Texas Genco LLC for the nine months ended September 30, 2005 and the unaudited financial statements of Texas Genco Holdings, Inc. for the period from January 1, 2005 through April 13, 2005 (on April 13, 2005 the remaining business of Texas Genco Holdings, Inc. was acquired by Texas Genco LLC) included as Exhibit 99.01 to this current report Form 8-K, (ii) have been prepared on a similar basis to that used in the preparation of the aforementioned audited financial statements and, (iii) in the opinion of Texas Genco's management, include all adjustments necessary for a fair presentation of the results for the unaudited interim period.

The unaudited pro forma combined income statement data and other financial and operating data for the combined company for the year ended December 31, 2004 and for the nine months ended September 30, 2005 give effect to (a) the reclassification of Audrain as a discontinued operation; (b) the inclusion of the results pursuant to the ROFR; (c) the refinancing of NRG's old debt structure; and (d) the remaining financing and subsequent Acquisition as if they had occurred on January 1, 2004. The unaudited pro forma combined balance sheet data as of September 30, 2005 gives effect to (a) the sale of Audrain as of September 30, 2005; (b) the refinancing of NRG's old debt structure; and (c) the remaining financing and subsequent Acquisition as if they had occurred on September 30, 2005. The combined unaudited pro forma financial data presented below do not purport to represent what the combined company's results of operations would actually have been had the Financing Transactions and the Acquisition in fact occurred on the dates specified above or to project the combined company's results of operations for any future period.

The historical consolidated financial information and the unaudited pro forma combined financial information set forth below should be read in conjunction with the consolidated financial statements of NRG Energy, Inc., the related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operation included in NRG Energy, Inc.'s annual report on Form 10-K for the year ended December 31, 2004 as amended by the Current Report on Form 8-K filed on December 20, 2005, and quarterly report on Form 10-Q for the nine months ended September 30, 2005 and the consolidated financial statements of Texas Genco LLC and Texas Genco Holdings, Inc., the related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operation for the year ended December 31, 2004 and for the nine months ended September 30, 2005 filed and incorporated herein by reference as Exhibits 99.01, 99.02 and 99.03 to this current report on Form 8-K.

The Acquisition will be accounted for using the purchase method of accounting and, accordingly, the purchase price will be allocated to the assets acquired and liabilities assumed based on the estimated fair value of such assets and liabilities at the date of acquisition. As it is difficult to estimate a pro forma allocation of purchase price without completed asset appraisals, we have made a preliminary allocation estimate based on the latest available information. For purposes of these pro forma statements we have assumed that the consideration paid in excess of the historical book value of net assets acquired is related to the step-up in fair value of Texas Genco's emission credit inventory, a step-up in the value of Texas Genco's fixed assets, and an increase in liabilities for assumed out-of-market contracts. Once the Acquisition is closed, the purchase price and allocation may change significantly from the pro forma amounts included herein based on the results of appraisals, changes in market prices, and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

The following summarizes the estimated pro forma purchase price and allocation impact of the Acquisition on NRG's financial statements at September 30, 2005:

		(in millions)
Cash paid to Sellers		$ 4,031
Fair value of 10% Mandatorily Redeemable Preferred Stock issued to Sellers		368
NRG common stock issued to Sellers[2]		1,606
Fees and transaction costs		
Fees for early repayment of existing Texas Genco debt	99	
Investment banker fees	17	
Total capitalized acquisition expenses		116
Total pro forma Purchase Price		6,121
Purchase price allocation:		
Net book value of Texas Genco assets and liabilities acquired		773
Write-off of Texas Genco deferred financing fees		(109)
Step-up in fixed assets		4,943
Step-up in emission credit inventory		1,309
Increase in out-of-market contracts[1]		(2,506)
Elimination of Texas Genco goodwill		(791)
Increase in current deferred tax assets		391
Increase in non-current deferred tax liabilities		(260)
NRG goodwill		2,371
Total allocated		$ 6,121

1 Assuming the acquisition had occurred at September 30, 2005, a number of energy and gas sale contracts initiated by Texas Genco were considered to be out-of-the-money and consequently, NRG would have to recognize a liability for these contracts at Acquisition. The fair value of these contracts was assessed based on forecasted energy prices that were calculated as of the pro forma acquisition date.

A number of these contracts have already been recorded as a liability by Texas Genco. At Acquisition, we will increase this liability by an additional $2.5 billion to a total fair value of $3.4 billion. The lives of these contracts extend until the end of 2010, however, approximately 91% of the value of these contracts extend until the end of 2008 only. The approximate amortization of these liabilities for the fiscal year of 2006 is $1.3 billion, for the fiscal year of 2007 is $1.1 billion and for the fiscal year of 2008 is $0.7 billion.

2 The Company will issue a minimum of 35,406,320 shares of its common stock. At the Company's election, the remaining consideration may be comprised of either an additional 9,038,125 shares of common stock, additional cash, shares of a new series of NRG's Cumulative Preferred Stock or a combination. The value of this remaining consideration will be equal to the average trading value of 9,038,125 shares of the Company's common stock over a twenty day trading period prior to closing.

Pro Forma Combined Condensed Balance Sheet as of September 30, 2005

(in thousands)	Historical		September 30, 2005 (unaudited) Pro Forma Adjustments			
	NRG Energy, Inc.	Texas Genco LLC	Audrain (1)	Refinancing	Acquisition	Pro Forma NRG Combined
Current Assets						
Cash and cash equivalents	$ 504,336	$ 222,393	$ 15,000	$ (269,209) (2)	$ (336,417) (9)	$ 136,103
Restricted cash	91,508	—	—	—	—	91,508
Accounts receivable, net	308,839	212,385	—	—	—	521,224
Current portion of notes receivable	24,934	—	—	—	—	24,934
Income taxes receivable	31,237	—	—	—	—	31,237
Inventory	203,547	113,918	(1,064)	—	—	316,401
Derivative instruments valuation	451,545	—	—	—	—	451,545
Prepayments and other current assets	129,289	7,931	—	—	—	137,220
Collateral on deposit in support of energy risk management activities	631,436	—	—	—	—	631,436
Deferred income taxes	44,832	—	—	—	391,221 (10)	436,053
Current assets held for sale and discontinued operations	—	23,497	—	—	—	23,497
Total current assets	2,421,503	580,124	13,936	(269,209)	54,804	2,801,158
Property, plant and equipment, net	3,226,714	3,541,822	(171,000)	—	4,942,801 (10)	11,540,337
Other assets						
Goodwill — Texas Genco LLC	—	790,893	—	—	(790,893) (10)	—
Goodwill — NRG Energy, Inc.	—	—	—	—	2,371,026 (10)	2,371,026
Equity investments in affiliates	651,412	—	—	—	—	651,412
Notes receivable, less current portion	712,020	—	(239,930)	—	—	472,090
Intangible assets, net	268,897	769,332	—	—	1,309,007 (10)	2,347,236
Derivative instruments, net	31,973	—	—	—	—	31,973
Funded letter of credit	350,000	—	—	(350,000) (3)	—	—
Other non-current assets	132,848	111,160	—	720 (4)	(44,795) (11)	199,933
Nuclear decommissioning trust	—	305,392	—	—	—	305,392
Total other assets	2,147,150	1,976,777	(239,930)	(349,280)	2,844,345	6,379,062
Total assets	$ 7,795,367	$ 6,098,723	$ (396,994)	$ (618,489)	$ 7,841,950	$ 20,720,557
Liabilities						
Current portion of long-term debt	176,024	18,045	—	(80,000) (5)	610,200 (12)	724,269
Accounts payable — trade	152,968	168,913	—	—	—	321,881
Derivative instruments valuation	973,143	145,255	—	—	—	1,118,398
Other bankruptcy settlement	175,945	—	(172,321)	—	—	3,624
Accrued expenses and other current liabilities	389,396	154,763	—	(84,019) (6)	(86,426) (13)	373,714
Out-of market contracts	—	249,419	—	—	1,076,150 (10)	1,325,569
Total current liabilities	1,867,476	736,395	(172,321)	(164,019)	1,599,924	3,867,455
Long-term debt and capital leases	2,866,374	2,724,865	(239,930)	(364,837) (7)	1,923,763 (14)	6,910,235
10% Mandatorily Redeemable Preferred Stock	—	—	—	—	368,123 (15)	368,123
Deferred income taxes	103,199	181,513	—	—	259,983 (10)	544,695
Derivative instruments valuation	198,554	188,023	—	—	—	386,577
Nuclear decommissioning reserve	—	291,829	—	—	—	291,829
Nuclear decommissioning trust liability	—	293,771	—	—	—	293,771
Out-of-market contracts	302,639	689,552	—	—	1,429,895 (10)	2,422,086
Other non-current liabilities	190,897	219,663	—	—	—	410,560
Total liabilities	5,529,139	5,325,611	(412,251)	(528,856)	5,581,688	15,495,331
Minority Interest	869	—	—	—	—	869
3.625% Convertible Preferred Stock	246,191	—	—	—	—	246,191
Stockholders' equity						
4% Convertible Preferred Stock	406,155	—	—	—	—	406,155
5.5% Convertible Preferred Stock	—	—	—	—	486,250 (16)	486,250
Members' equity	—	1,073,871	—	—	(1,073,871) (17)	—
Common stock	1,000	—	—	—	396 (18)	1,396
Additional paid-in capital	2,427,322	—	—	—	1,912,460 (19)	4,339,782
Retained earnings	203,973	—	15,257	(89,633) (8)	(29,261) (20)	100,336
Less treasury stock, at cost	(663,529)	—	—	—	663,529 (21)	—
Accumulated other comprehensive loss	(355,753)	(300,759)	—	—	300,759 (17)	(355,753)
Total Stockholders' Equity	2,019,168	773,112	15,257	(89,633)	2,260,262	4,978,166
Total Liabilities and Stockholders' Equity	$ 7,795,367	$ 6,098,723	$ (396,994)	$ (618,489)	$ 7,841,950	$ 20,720,557

Footnotes to Pro Forma Combined Balance Sheet as of September 30, 2005

(1) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation. The purchase price is $115 million, and the expected gain for the sale of Audrain is approximately $15 million before tax.

I. Refinancing of NRG's Long-Term Debt

(2) Reflects the proceeds from new debt issued by NRG for refinancing purposes and the payment to retire NRG existing debt:

Payment to retire NRG's existing term loan	$ (446,625)
Payment to retire NRG's existing Second Priority Notes	(1,080,412)
Payment to retire NRG's existing revolver balance	(80,000)
Payment of accrued interest for NRG's old debt structure	(25,376)
Refinancing portion of proceeds from issuing the new term loan	446,625
Refinancing portion of proceeds from issuing the new unsecured senior notes	1,080,412
Payment of a premium fee for the retirement of NRG's existing debt	(130,000)
Payment of financing fees for the new debt structure	(33,833)
Total	$ (269,209)

(3) Reflects the retirement of the existing letter of credit facility. We have assumed that the new synthetic letter of credit facility totaling $1 billion will remain off-balance sheet. The existing letter of credit facility required a deposit of $350 million, which will be released upon entering into the new facility.

(4) Reflects adjustment for the reduction of the old debt structure deferred financing costs, and the increase in deferred financing costs for the new debt structure:

Write-off of existing NRG deferred financing costs	$(33,113)
Addition of new deferred financing costs	33,833
Total	$ 720

(5) Movement for current portion of long-term debt for the new and old debt structure:

Reduction of current portion of NRG's existing term loan	$ (4,500)
Reduction of NRG's existing revolver balance	(80,000)
Increase for current portion of new term loan	4,500
Total	$(80,000)

(6) To record the reduction in accrued expenses for the payment of accrued interest and the current tax effect of the financing expenses:

Reduction in accrued interest due to payment	$(25,376)
Reduction in accrued taxes payable due to the write off of financing costs and incurring premium fees	(58,643)
Total	$(84,019)

(7) Movement for non-current portion of long-term debt related to the existing debt and proceeds from new debt issued by NRG:

Reduction of non-current portion of NRG's existing term loan	$ (442,125)
Reduction of non-current portion of NRG's existing Second Priority Notes	(1,080,412)
Reduction of non-current portion of NRG's existing funded letter of credit facility	(350,000)
Write-off of premium from NRG's existing debt	(14,837)
Addition to non-current debt which reflects the refinancing portion of the new term loan	442,125
Addition to non-current debt which reflects the refinancing portion of the new unsecured senior notes	1,080,412
Total	$ (364,837)

(8) Reflects write-offs of deferred financing fees associated with NRG's existing debt structure, and fees related to the refinancing:

Write-off of deferred finance costs associated with NRG's existing debt	(33,113)
Write-off of premium from NRG's existing debt	14,837
Payment of a premium fee for the retirement of NRG's existing debt	(130,000)
Tax effect of the above adjustments	58,643
Total	$ (89,633)

II. Acquisition of Texas Genco

(9) Reflects the proceeds from new debt issued by NRG, issuance of common and preferred stock as a source of funds to acquire Texas Genco, less payments to the Texas Genco shareholders and payments to retire Texas Genco existing debt:

Payment of accrued interest for Texas Genco's old debt structure	(26,437)
Payment to retire Texas Genco's existing term loan	(1,614,000)
Payment to retire Texas Genco's existing Senior Notes	(1,125,000)
Payment to Sellers	(4,030,699)
Proceeds from issuing the acquisition financing portion of the new term loan	2,753,375
Proceeds from issuing the acquisition financing portion of the new unsecured senior notes	2,519,588
Proceeds from issuance of 23,474,178 shares of common stock at $42.60 a share, net of issue costs	970,000
Proceeds from issuance of 500,000 shares of preferred stock at $1,000 a share, net of issue costs	486,250
Payment of the Bridge Loan Commitment Fee	(44,625)
Fees for early repayment of existing Texas Genco debt	(99,000)
Investment banker fees	(16,700)
Payment of financing fees for the acquisition financing portion of the new debt structure	(109,169)
Total	$ (336,417)

(10) The preliminary total consideration for the purchase of Texas Genco is comprised of the following:

Cost of 19,346,788 NRG common shares issued to Sellers from treasury	663,529	
Value in excess of cost of 19,346,788 NRG common shares issued to Sellers from treasury	214,235	
Par value of 16,059,532 newly issued NRG common shares to Sellers	161	
Value in excess of par value of 16,059,532 newly issued NRG common shares to Sellers	728,460	
Sub-total		1,606,385
Cash paid to Sellers		4,030,699
Fair value of 10% Mandatorily Redeemable Preferred Stock issued to Sellers		368,123
Fees for early repayment of existing Texas Genco debt		99,000
Investment banker fees		16,700
Total		$6,120,907

The preliminary purchase price allocation is as follows:

Elimination of Members Equity	1,073,871	
Elimination of Accumulated Other Comprehensive Loss	(300,759)	
Net book value of Texas Genco assets and liabilities acquired		773,112
Write-off of Texas Genco deferred financing fees		(109,339)
Step-up in Fixed Assets of Texas Genco		4,942,801
Step-up in emission credit inventory of Texas Genco		1,309,007
Incremental assumption of a liability for the fair value of current out-of-market contracts		(1,076,150)
Incremental assumption of a liability for the fair value of non-current out-of-market contracts		(1,429,895)
Goodwill recorded by Texas Genco from prior acquisition		(790,893)
Increase in current deferred tax asset		391,221
Increase in non-current deferred tax liability		(259,983)
Goodwill		2,371,026
Total		$ 6,120,907

Due to the lack of asset appraisals and a future closing date, it is very difficult to estimate a pro forma allocation of purchase price. However, for purposes of these pro forma statements, we have assumed that the consideration in excess of the net assets acquired is related to a step-up in the value of Texas Genco's fixed assets, a step-up in the value of Texas Genco's emission credit inventory and goodwill. Once the Acquisition is closed, the purchase price and allocation may change significantly from the pro forma amounts included herein based on the results of appraisals, changes in market prices, the purchase price and allocation to net assets acquired and liabilities assumed and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

(11) Reflects adjustment for the reduction of Texas Genco's old debt structure deferred financing costs, and the increase in deferred financing costs for the acquisition financing:

Write-off of existing Texas Genco deferred financing costs	$(109,339)
Write-off of Bridge Loan Commitment Fee	(44,625)
Addition of new deferred financing costs for the acquisition financing	109,169
Total	$ (44,795)

(12) Movement for current portion of long-term debt related to the Texas Genco existing debt and proceeds from the new debt issued by NRG for the acquisition financing:

Reduction of current portion of Texas Genco's existing term loan	(16,300)
Addition to current debt which reflects the acquisition financing of the new term loan	626,500
Total	$610,200

(13) To record the reduction in accrued expenses for the payment of accrued interest and the current tax effect of the acquisition financing expenses and to accrue for an expense related to change of control expenses:

Reduction in Texas Genco's accrued interest due to payment	$(26,437)
Reduction in accrued expenses due to payment of the Bridge Loan Commitment Fee	(44,625)
Increase in accrued expenses related to change of control clause	3,781
Reduction in accrued taxes payable	(19,145)
Total	$(86,426)

(14) Movement for non-current portion of long-term debt related to the Texas Genco existing debt and proceeds from the new debt issued by NRG for the acquisition financing:

Reduction of non-current portion of Texas Genco's existing term loan	(1,597,700)
Reduction of non-current portion of Texas Genco's existing unsecured senior notes	(1,125,000)
Addition to non-current debt which reflects the acquisition financing of the new term loan	2,126,875
Addition to non-current debt which reflects the acquisition financing of the new unsecured senior notes	2,519,588
Total	$ 1,923,763

(15) Reflects the value of the 10% Mandatorily Redeemable Preferred Shares issued to the Sellers for the purchase of Texas Genco as described in the Agreement. These preferred shares are considered to be a debt instrument as they are repayable at the earliest of (a) seven years and six months from the issue date; or (b) on a date of a change of control.

(16) Reflects the proceeds net of issuance costs for the issuance of 500,000 shares of 5.5% Mandatorily Convertible Preferred Stock at $1,000 a share.

(17) Elimination of Texas Genco's historical members equity and accumulated other comprehensive loss.

(18) Reflects the par value of 16,059,532 shares of NRG's common stock issued to Sellers due to the acquisition, and the par value of 23,474,178 shares of NRG common stock issued to the public.

(19) Reflects excess of fair value of $45.37 a share over par value for 16,059,532 shares of common stock issued to Sellers due to the acquisition, the excess of fair value of $42.60 over par value for the issue of 23,474,178 shares of NRG common stock to the public and the excess of fair value of $45.37 a share over cost for the 19,346,788 shares of NRG common stock issued to Sellers from NRG's treasury.

Fair value in excess of par value of newly issued NRG common shares to Sellers	$ 728,460
Fair value in excess of par value for the issue of NRG common stock to the public	969,765
Fair value in excess of cost of NRG common shares issued to Sellers from treasury	214,235
Total	$1,912,460

(20) Reflects write-offs of Bridge Loan Commitment Fee and change of control expenses:

Write-off of Bridge Loan Commitment Fee	(44,625)
Expenses related to change of control clauses	(3,781)
Tax effect of the above adjustments	19,145
Total	$(29,261)

(21) Reflects the issue of 19,346,788 shares of NRG common stock to Sellers from NRG's treasury, at cost.

III. Supplementary information:

Non-recurring charges – we have not included the following non-recurring charges in the Pro forma Statement of Operations for the year ended December 31, 2004:

Premium fee for the retirement of NRG's existing debt	$130,000
Bridge loan commitment fee	44,625
Total	$174,625

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Pro Forma Combined Statement of Operations for the Nine Months Ended September 30, 2005

	Nine Months Ended September 30, 2005 (unaudited)							
	Historical				Pro Forma Adjustments			
(in thousands)	NRG Energy, Inc.	Audrain (2)	NRG Energy, Inc. after Discontinued Operations	Pro Forma Combined Texas Genco LLC (1)	ROFR (3)	Refinancing	Acquisition	Pro Forma NRG Combined
Operating Revenues								
Revenues from majority-owned operations	$ 1,942,828	$ (4,955)	$ 1,937,873	$ 1,999,827	$ 35,623	—	990,740 (6)	$ 4,964,063
Operating Costs and Expenses								
Cost of majority-owned operations	1,555,737	(4,370)	1,551,367	1,306,275	21,413	—	84,000 (7)	2,963,055
Depreciation and amortization	144,317	—	144,317	146,728	2,370	—	187,500 (8)	480,915
General, administrative and development	149,641	(249)	149,392	70,032	—	—	—	219,424
Other charges								
Gain on sale of assets	—	—	—	(28,356)	—	—	—	(28,356)
Corporate relocation charges	5,651	—	5,651	—	—	—	—	5,651
Restructuring and impairment charges	6,223	—	6,223	—	—	—	—	6,223
Total operating costs and expenses	1,861,569	(4,619)	1,856,950	1,494,679	23,783	—	271,500	3,646,912
Operating Income	**81,259**	**(336)**	**80,923**	**505,148**	**11,840**	—	**719,240**	**1,317,151**
Other Income (Expense)								
Minority interest in earnings of consolidated subsidiaries	(36)	—	(36)	—	—	—	—	(36)
Equity in earnings of unconsolidated affiliates	82,501	—	82,501	—	—	—	—	82,501
Gain on sales of equity method investments	15,894	—	15,894	—	—	—	—	15,894
Other income, net	43,208	—	43,208	4,274	662	—	—	48,144
Refinancing expenses	(44,036)	—	(44,036)	—	—	—	—	(44,036)
Interest expense	(150,598)	—	(150,598)	(141,723)	—	24,311 (4)	(150,727)(9)	(418,737)
Total other expense	(53,067)	—	(53,067)	(137,449)	662	24,311	(150,727)	(316,270)
Income From Continuing Operations Before Income Taxes	28,192	(336)	27,856	367,699	12,502	24,311	568,513	1,000,881
Income Tax Expense	21,201	—	21,201	24,066	4,376	9,615 (5)	330,731 (5)	389,989
Income From Continuing Operations	**$ 6,991**	**$ (336)**	**$ 6,655**	**$ 343,633**	**$ 8,126**	**$ 14,696**	**$ 237,782**	**$ 610,892**
Weighted average number of common shares outstanding — Basic	85,860							144,740
Basic EPS from continuing operations	$ (0.08)							$ 3.98
Weighted average number of common shares outstanding — Diluted	85,860							166,392
Diluted EPS from continuing operations	$ (0.08)							$ 3.66

Also see Earnings per Share schedule for the nine months ended September 30, 2005.

Footnotes to Pro Forma Combined Statement of Operations for the Nine Months Ended September 30, 2005

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Nine Months Ended September 30, 2005 can be found in Exhibit 99.10.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with Ameren UE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Reflects pro forma results of additional 13.2% interest in STP acquired in the ROFR for the period from January 1, 2005 until ROFR acquisition date on May 19, 2005.

(4) Reflects the reversal of interest expense associated with NRG's existing debt structure, prior to the acquisition of Texas Genco and the recording of interest expenses associated with the new debt structure:

Reversal of interest expense associated with NRG's existing debt structure	$108,782
Interest expense associated with the refinancing of NRG's debt	(84,471)
Total	$ 24,311

(5) Reflects the tax effect of both the pro forma adjustments (pro forma effective tax rate of 39.5%) and Texas Genco's pass-through earnings (pro forma effective tax rate of 34.5% - the difference in tax rates is due to a 0% state corporate income tax rate for Texas Genco in the state of Texas), which will now generate taxable income for the combined entity.

(6) Reflects the increase in revenue due to the amortization of the out-of-money contracts recorded for the Acquisition of Texas Genco [2].

(7) Reflects the reversal of Management Fees of $7.5 million which will not be applicable following the Acquisition and the additional amortization expense for emission credits of $91.5 million based on the amount of credits used during this period by Texas Genco.

(8) Reflects the increase in depreciation expense due to the step-up in the value of fixed assets at the Acquisition of Texas Genco[2].

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2 Due to the lack of asset appraisals and a future closing date, it is difficult to estimate a pro forma allocation of purchase price. However, for purposes of these pro forma statements we have assumed that the consideration in excess of the net assets acquired is related to a step-up in the value of Texas Genco's fixed assets, a step-up in the value of Texas Genco's emission credit inventory and Goodwill. Once the Acquisition is closed, the excess of the estimated purchase price may differ considerably from these assumptions based on the results of appraisals, finalization of the purchase price as a result of closing and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

On a pro forma basis we have made a number of assumptions per our best estimates. We have assumed an average remaining useful life of 25 years of the fixed assets acquired, rendering a significant incremental pro forma increase in depreciation expense. The amortization of the emission credit inventory is based on Texas Genco's use of credits for the period. The amortization of the assumed liability for Texas Genco's out-of-market contracts is mimicking the expected amortization for the nine month period which would begin on January 1, 2006. Actual results may differ considerably from these pro forma assumptions.

(9) Reflects the reversal of interest expense associated with Texas Genco's existing debt structure and the recording of interest expenses associated with the acquisition financing:

Reversal of interest expense associated with Texas Genco existing debt structure	141,723
Interest expense associated with the acquisition financing	(292,450)
Total	$(150,727)

Supplementary information:

Sensitivity analysis for adjustable rate financing — as part of the refinancing, the new term loan will be subject to an adjustable rate of interest. For the nine months ended September 30, 2005, on a pro forma basis, if the interest rate would increase or decrease by 1/8% for the entire period, income from continuing operations would increase or decrease by $1.4 million, respectively.

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Pro Forma Combined Statement of Operations for the Year Ended December 31, 2004

	Year Ended December 31, 2004 (unaudited)							
	Historical		**NRG, Energy, Inc.**	**Pro Forma**	**Pro Forma Adjustments**			**Pro Forma NRG**
(in thousands)	**NRG Energy, Inc.**	**Audrain (2)**	**after Discontinued Operations**	**Combined Texas Genco LLC (1)**	**ROFR (3)**	**Refinancing**	**Acquisition**	**Combined**
Operating Revenues								
Revenues from majority-owned operations	$ 2,347,882	$ —	$ 2,347,882	$ 2,333,883	$ 103,270	—	—	$ 4,785,035
Operating Costs and Expenses								
Cost of majority-owned operations	1,490,228	(1,133)	1,489,095	1,394,016	49,530	—	112,000 (6)	3,044,641
Depreciation and amortization	208,036	—	208,036	326,212	6,223	—	250,000 (7)	790,471
General, administrative and development	210,185	(495)	209,690	93,102	—	—	—	302,792
Other charges (credits)								
Corporate relocation charges	16,167	—	16,167	—	—	—	—	16,167
Reorganization items	(13,390)	—	(13,390)	—	—	—	—	(13,390)
Restructuring and impairment charges	44,661	—	44,661	—	—	—	—	44,661
Total operating costs and expenses	1,955,887	(1,628)	1,954,259	1,813,330	55,753	—	362,000	4,185,342
Operating Income	**391,995**	**1,628**	**393,623**	**520,553**	**47,517**	—	**(362,000)**	**599,693**
Other Income (Expense)								
Minority interest in earnings of consolidated subsidiaries	(16)	—	(16)	—	—	—	—	(16)
Equity in earnings of unconsolidated affiliates	159,825	—	159,825	—	—	—	—	159,825
Write downs and losses on sales of equity method investments	(16,270)	—	(16,270)	—	—	—	—	(16,270)
Other income, net	26,688	—	26,688	5,654	676	—	—	33,018
Refinancing expenses	(71,569)	—	(71,569)	—	—	—	—	(71,569)
Interest expense	(266,145)	—	(266,145)	(185,914)	—	64,363(4)	(233,954) (8)	(621,650)
Total other expense	(167,487)	—	(167,487)	(180,260)	676	64,363	(233,954)	(516,662)
Income From Continuing Operations Before Income Taxes	224,508	1,628	226,136	340,293	48,193	64,363	(595,954)	83,031
Income Tax Expense	65,364	—	65,364	33,676	16,605	25,456(5)	(149,669) (5)	(8,568)
Income From Continuing Operations	**$ 159,144**	**$ 1,628**	**$ 160,772**	**$ 306,617**	**$ 31,588**	**$ 38,907**	**$(446,285)**	**$ 91,599**
Weighted average number of common shares outstanding — Basic	99,616							158,496
Basic EPS from Continuing Operations	**$ 1.59**							**$ .40**
Weighted average number of common shares outstanding — Diluted	100,371							158,908
Diluted EPS from Continuing Operations	**$ 1.59**							**$ .40**

Also see Earnings per Share schedule for the year ended December 31, 2004.

Footnotes to Pro Forma Combined Statement of Operations for the Year Ended December 31, 2004

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Year Ended December 31, 2004 can be found in Exhibit 99.11.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Amounts reflect the pro forma results of the additional 13.2% interest in STP acquired in the ROFR as if the acquisition had occurred on January 1, 2004.

(4) Reflects the reversal of interest expense associated with NRG's existing debt structure, prior to the acquisition of Texas Genco and the recording of interest expenses associated with the new debt structure:

Reversal of interest expense associated with NRG's existing debt structure	$ 181,908
Interest expense associated with the refinancing of NRG's debt	(117,545)
Total	$ 64,363

(5) Reflects the tax effect of both the pro forma adjustments (pro forma effective tax rate of 39.5%) and Texas Genco's pass-through earnings (pro forma effective tax rate of 35.2%) which will now generate taxable income for the combined entity.

(6) Reflects the reversal of Management Fees of $10 million which will not be applicable following the Acquisition and the additional amortization expense for emission credits of $122 million based on the amount of credits used during this period by Texas Genco

(7) Reflects the increase in depreciation expense due to the step-up in the value of fixed assets at the Acquisition of Texas Genco[3].

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3 Due to the lack of asset appraisals and a future closing date, it is difficult to estimate a pro forma allocation of purchase price. However, for purposes of these pro forma statements we have assumed that the consideration in excess of the net assets acquired is related to a step-up in the value of Texas Genco's fixed assets, a step-up in the value of Texas Genco's emission credit inventory and Goodwill. Once the Acquisition is closed, the excess of the estimated purchase price may differ considerably from these assumptions based on the results of appraisals, finalization of the purchase price as a result of closing and other analyses, which the Company is obtaining. The other analyses include actuarial studies of employee benefit plans, income tax effects of the Acquisition, analyses of operations to identify assets for disposition and the evaluation of staffing requirements necessary to meet future business needs. Ultimately, the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired will be recorded as goodwill.

On a pro forma basis we have made a number of assumptions per our best estimates. We have assumed an average remaining useful life of 25 years of the fixed assets acquired, rendering a significant incremental pro forma increase in depreciation expense. The amortization of the emission credit inventory is based on Texas Genco's use of credits for the year. We have not included amortization of the out-of-market contracts for the year ended December 31, 2004 as the majority of these contracts were entered in December 2004 or during 2005. Actual results may differ considerably from these pro forma assumptions.

(8) Reflects the reversal of interest expenses associated with NRG's existing debt structure, the reversal of interest expense associated with Texas Genco's existing debt structure and the recording of interest expenses associated with the new debt structure:

Reversal of interest expense associated with Texas Genco existing debt structure	185,914
Interest expense associated with the acquisition financing	(419,868)
Total	$(233,954)

Supplementary information:

Sensitivity analysis for adjustable rate financing – as part of the refinancing, the new term loan will be subject to adjustable rate of interest. For the year ended December 31, 2004, on a pro forma basis, if the interest rate would increase or decrease by 1/8% for the entire year, income from continuing operations would increase or decrease by $1.8 million, respectively.

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Pro Forma Combined Earnings per Share for the Nine Months Ended September 30, 2005

	Nine Months Ended September 30, 2005 (unaudited)							
	Historical				Pro Forma Adjustments			
(in thousands except per share data)	NRG Energy, Inc.	Audrain (2)	NRG Energy, Inc after Discontinued Operations	Pro Forma Combined Texas Genco LLC (1)	ROFR (3)	Refinancing	Acquisition	Pro Forma NRG Combined
Basic EPS:								
Income from continuing operations	$ 6,991	$ (336)	$ 6,655	$ 343,633	$ 8,126	$ 14,696	$ 237,782	$ 610,892
Less:								
Preferred stock dividends	(13,859)	—	(13,859)	—	—	—	(20,625) (4)	(34,484)
Net income/(loss) available to common stockholders from continuing operations	$ (6,868)	$ (336)	$ (7,204)	$ 343,633	$ 8,126	$ 14,696	$ 217,157	$ 576,408
Weighted average number of common shares outstanding	85,860	—	—	—	—	—	58,880 (5)	144,740
Basic EPS from continuing operations	$ (0.08)							$ 3.98
Diluted EPS:								
Net income/(loss) available to common stockholders from continuing operations	$ (6,868)	$ (336)	$ (7,204)	$ 343,633	$ 8,126	$ 14,696	$ 217,157	$ 576,408
Add:								
Dividend from dilutive Preferred Stock	—	—	—	—	—	—	33,225 (6)	33,225
Net income/(loss) available to common stockholders from continuing operations	$ (6,868)	$ (336)	$ (7,204)	$ 343,633	$ 8,126	$ 14,696	$ 250,382	$ 609,633
Weighted average number of common shares outstanding	85,860	—	—	—	—	—	58,880 (5)	144,740
Incremental shares attributable to the issuance of non-vested restricted stock units (treasury stock method)	—	—	—	—	—	—	393 (7)	393
Incremental shares attributable to the assumed conversion of deferred stock units (if-converted method)	—	—	—	—	—	—	100 (7)	100
Incremental shares attributable to the issuance of non-vested non-qualifying stock options (treasury stock method)	—	—	—	—	—	—	242 (7)	242
Incremental shares attributable to the assumed conversion of the 4% Convertible Perpetual Preferred Stock (if-converted method)	—	—	—	—	—	—	10,500 (7)	10,500
Incremental shares attributable to the assumed conversion of the 5.5% Mandatorily Convertible Preferred Stock (if-converted method)	—	—	—	—	—	—	10,417 (7)	10,417
Total dilutive shares	85,860	—	—	—	—	—	80,532	166,392
Diluted EPS from continuing operations	$ (0.08)							$ 3.66

Footnotes to Pro Forma Combined Earnings per Share for the Nine Months Ended September 30, 2005

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Nine Months Ended September 30, 2005 can be found in Exhibit 99.10.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Reflects pro forma results of an additional 13.2% interest in STP acquired in the ROFR for the period from January 1, 2005 until ROFR acquisition date on May 19, 2005.

(4) On a pro forma basis it is assumed that 5.5% Mandatorily Convertible Preferred Shares have been issued and outstanding as of January 1, 2004. As such, for the nine months ended September 30, 2005, there is an increase in dividends for preferred dividend of 20,625.

The 4% Convertible Perpetual Preferred Shares have been issued and outstanding for the entire nine month period ended September 30, 2005 and are already reflected in the historical NRG Earnings per Share calculation.

(5) This increase in the number of weighted average shares is for shares issued to the public, and for the shares issued to the Sellers:

Shares issued to the Sellers – new issuance	35,406
Shares issued to the public	23,474
Total increase in number of weighted average shares	58,880

It should be noted that for pro forma purposes we have assumed that all the shares issued to the Sellers are newly issued. Per the Acquisition Agreement 19,346,788 shares will be issued from treasury, however, on a pro forma basis that is not possible from January 1, 2004 as there were no shares in treasury. For this reason, the weighted average number of common shares outstanding for the nine months ended September 30, 2005 are also higher than what is expected after the closing of the Acquisition.

(6) This increase in the add back for preferred stock dividends is due to the following dilutive preferred stocks:

Dividend for 4% Convertible Perpetual Preferred Shares	12,600
Dividend for 5.5% Mandatorily Convertible Preferred Shares	20,625
Total Preferred Dividend	33,225

(7) On a pro-forma basis, these items are dilutive.

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Pro Forma Combined Earnings per Share for the Year Ended December 31, 2004

(in thousands except per share data)	Year Ended December 31, 2004 (unaudited) Historical NRG Energy, Inc.	Audrain (2)	NRG Energy, Inc after Discontinued Operations	Pro Forma Combined Texas Genco LLC (1)	Pro Forma Adjustments ROFR (3)	Refinancing	Acquisition		Pro Forma NRG Combined
Basic EPS:									
Income from continuing operations	$ 159,144	$ 1,628	$ 160,772	$ 306,617	$ 31,588	$ 38,907	$ (446,285)		$ 91,599
Less:									
Preferred stock dividends	(549)	—	(549)	—	—	—	(27,500)	(4)	(28,049)
Net income available to common stockholders from continuing operations	$ 158,595	$ 1,628	$ 160,223	$ 306,617	$ 31,588	$ 38,907	$ (473,785)		$ 63,550
Weighted average number of common shares Outstanding	99,616	—	—	—	—	—	58,880	(5)	158,496
Basic EPS from continuing operations	$ 1.59								$ .40
Diluted EPS:									
Net income available to common stockholders from continuing operations	$ 158,595	$ 1,628	$ 160,223	$ 306,617	$ 31,588	$ 38,907	$ (473,785)		$ 63,550
Add:									
Dividend from dilutive Preferred Stock	549	—	549	—	—	—	(549)	(6)	—
Net income available to common stockholders from continuing operations	$ 159,144	$ 1,628	$ 160,772	$ 306,617	$ 31,588	$ 38,907	$ (474,334)		$ 63,550
Weighted average number of common shares Outstanding	99,616	—	—	—	—	—	58,880	(5)	158,496
Incremental shares attributable to the issuance of non-vested restricted stock units (treasury stock method)	345	—	—	—	—	—	—		345
Incremental shares attributable to the assumed conversion of deferred stock units (if-converted method)	67	—	—	—	—	—	—		67
Incremental shares attributable to the assumed conversion of the 4% Convertible Perpetual Preferred Stock (if-converted method)	343	—	—	—	—	—	(343)	(6)	—
Incremental shares attributable to the assumed conversion of the 5.5% Mandatorily Convertible Preferred Stock (if-converted method)	—	—	—	—	—	—	—		—
Total dilutive shares	100,371	—	—	—	—	—	58,537		158,908
Diluted EPS from continuing operations	$ 1.59								$ .40

Footnotes to Pro Forma Combined Earnings per Share for the Year Ended December 31, 2004

(1) The Pro Forma Combined Texas Genco LLC Statement of Operations for the Year Ended December 31, 2004 can be found in Exhibit 99.11.

(2) On December 8, 2005 NRG Energy, Inc. signed an Asset and Purchase Sale Agreement with AmerenUE to sell all of the assets of Audrain. For purposes of these pro forma statements we have reflected the sale of assets of Audrain as a discontinued operation.

(3) Amounts reflect the pro forma results of the additional 13.2% interest in STP acquired in the ROFR as if the acquisition had occurred on January 1, 2004.

(4) On a pro forma basis it is assumed that the 5.5% Mandatorily Convertible Preferred Shares have been issued and outstanding as of January 1, 2004. As such, for the year ended December 31, 2004, there is an increase in dividends for their respective preferred dividend of 27,500.

(5) This increase in the number of weighted average shares is for shares issued to the public, and for the shares issued to the Sellers:

Shares issued to the Sellers — new issuance	35,406
Shares issued to the public	23,474
Total increase in number of weighted average shares	58,880

It should be noted that for pro forma purposes we have assured that all the shares issued to the Sellers are newly issued. Per the Acquisition Agreement 19,346,788 shares will be issued from treasury, however, on a pro forma basis that is not possible for January 1, 2004 as there were no shares in treasury. For this reason, the weighted average number of common shares outstanding for the nine months ended September 30, 2005 are also higher than what is expected after the closing of the Acquisition.

(6) On a pro-forma basis, these items have become anti-dilutive.

Item 9.01 Exhibits

Exhibits

23.1	Consent of Deloitte & Touche LLP
99.01	Texas Genco LLC Quarterly Report to the Noteholders for the Quarterly Period Ended September 30, 2005
99.02	Texas Genco Holdings, Inc. audited financial statements as of December 31, 2003 and December 31, 2004
99.03	Texas Genco LLC audited financial statements as of December 31, 2004
99.04	Pro Forma presentation of the Statements of Operation for Predecessor NRG Energy, Inc. for the year ended December 31, 2002, for the period January 1 through December 5, 2005 to reflect the reclassification for discontinued operations of Audrain
99.05	Pro Forma presentation of the Statement of Operation for Reorganized NRG Energy, Inc.'s for the period December 6, 2003 through December 31, 2003 to reflect the reclassification for discontinued operations of Audrain
99.10	Combined Texas Genco LLC pro forma financial statements for the nine months ended September 30, 2005
99.11	Combined Texas Genco LLC pro forma financial statements for the year ended December 31, 2004

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 hereunto duly authorized.

NRG Energy, Inc.
(Registrant)

By: /s/ TIMOTHY W. J. O'BRIEN
Timothy W. J. O'Brien
Vice President and General Counsel

Dated: December 20, 2005

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in NRG Energy, Inc.'s Registration Statement No. 333-123677 on Form S-3 and Registration Statement No. 333-114007 on Form S-8 of our reports dated June 3, 2005 relating to the financial statements of Texas Genco LLC as of December 31, 2004 and for the period from July 19, 2004 (Inception) to December 31, 2004 and Texas Genco Holdings, Inc. as of and for the three years ended December 31, 2004, appearing in this Current Report on Form 8-K.

DELOITTE & TOUCHE LLP

Houston, Texas
December 20, 2005

Exhibit 99.01

TEXAS GENCO LLC

Quarterly Report to the Noteholders for the Quarterly Period Ended September 30, 2005

Pursuant to Section 4.03(a)(1) of the Indenture dated as of December 14, 2004
Relating to the 6.875% Senior Notes Due 2014

Section 4.03(a)(1) Quarterly Financial Information Enclosed is the Texas Genco LLC quarterly report for the quarterly period ended September 30, 2005.

TEXAS GENCO LLC

QUARTERLY REPORT TO NOTEHOLDERS
PURSUANT TO SECTION 4.03(a)(1) OF THE INDENTURE DATED DECEMBER 14, 2004

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Financial Statements

Texas Genco LLC
Condensed Statements of Consolidated Income
(Thousands of Dollars, Except Earnings Per Unit)
(Unaudited)

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Revenues	876,893	1,999,827
Operating Expenses:		
Fuel and purchased power expense	433,829	912,907
Operations and maintenance	99,914	329,432
Depreciation	50,800	139,006
Amortization	44,011	114,392
Taxes other than income taxes	13,730	34,789
Net gain on sale of assets	(28,356)	(28,356)
Total Operating Expenses	613,928	1,502,170
Operating Income	262,965	497,657
Interest and Other Income, net	778	3,129
Interest Expense	(48,766)	(134,306)
Income Before Income Taxes	214,977	366,480
Income Taxes	(13,670)	(20,552)
Net Income	$ 201,307	$ 345,928
Basic Earnings Per Unit	$ 1.12	$ 2.05
Diluted Earnings Per Unit	$ 1.07	$ 1.98
Basic Weighted Average Units Outstanding	180,026,000	168,638,323
Diluted Weighted Average Units Outstanding	187,734,043	175,101,682

See Notes to the Company's Unaudited Interim Financial Statements.

Texas Genco LLC
Consolidated Balance Sheets
(Thousands of Dollars)
(Unaudited)

	September 30, 2005
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 222,393
Trade accounts receivable	212,385
Inventory	113,918
Assets held for sale	23,497
Prepaid and other current assets	7,931
Total Current Assets	580,124
Property, Plant and Equipment (net)	3,541,822
Other Assets	
Goodwill	790,893
Intangibles, net	769,332
Deferred financing costs, net	109,339
Nuclear decommissioning trust	305,392
Price-risk management assets – non current	—
Other non current assets	1,821
Total Other Assets	1,976,777
Total Assets	$ 6,098,723
LIABILITIES AND MEMBERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 168,913
Accrued property taxes	38,718
Accrued interest and other taxes	28,800
Current portion of long-term debt	18,045
Deferred revenue	61,751
Contractual obligations – power and coal	249,419
Price-risk management liabilities	145,255
Other current Liabilities	25,494
Total Current Liabilities	736,395
Long-Term Debt, net of current portion	2,724,865
Other Liabilities:	
Deferred income taxes	181,513
Contractual obligations – power and coal	689,552
Nuclear decommissioning reserve	291,829
Nuclear decommissioning trust liability	293,771
Benefit obligations	208,326
Price-risk management liabilities — non current	188,023
Other non current liabilities	11,337
Total Other Liabilities	1,864,351
Members' Equity	773,112
Total Liabilities and Members' Equity	$ 6,098,723

See Notes to the Company's Unaudited Interim Financial Statements.

Texas Genco LLC
Condensed Statement of Consolidated Cash Flows
(Thousands of Dollars)
(Unaudited)

	Nine Months Ended September 30, 2005
Cash Flows Provided by Operating Activities:	
Net income	$ 345,928
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	253,399
Net gain on the sale of assets	(28,356)
Amortization of deferred financing costs	8,063
Amortization of Nuclear Fuel	10,278
Amortization of contractual obligations – power & coal	(223,283)
Unrealized loss on price risk management activities	28,912
Accrued cost of workforce reduction plan	32,570
Changes – Other Assets and Liabilities	
Accounts receivable	(118,200)
Inventory	35,386
Prepayments and other current assets	11,220
Accounts payable	53,570
Accrued interest	24,160
Deferred capacity revenue	(16,431)
Pension	(31,993)
Other	23,598
Net cash provided by operating activities	$ 408,821
Cash Flows Used in Investing Activities:	
Acquisitions (net of cash acquired of $191.2 million)	(671,699)
Proceeds from the sale of assets (net of expenses of $6.7 million)	117,245
Additions to construction in progress	(73,781)
Net cash used in investing activities	$ (628,235)
Cash Flows Provided by Financing Activities:	
Long term borrowings	574,504
Repayment of long-term borrowings	(186,699)
Equity contributions from members	119,523
Equity distributions to members	(151,460)
Net cash provided by financing activities	$ 355,868
Net Increase in Cash and Cash Equivalents	136,454
Cash and Cash Equivalents at Beginning of Period	85,939
Cash and Cash Equivalents at End of Period	$ 222,393
Supplemental Disclosure of Cash Flow Information:	
Taxes paid	$ 20,450
Interest paid	$ 94,060

See Notes to the Company's Unaudited Interim Financial Statements.

Texas Genco LLC Consolidated Statement of Members' Equity
and Other Comprehensive Income (Loss)
(Thousands of Dollars)
(Unaudited)

	Contributed Capital	Distributed Capital	Accumulated Other Comprehensive Income/(Loss)	Accumulated Retained Earnings/(Loss)	Total Members Equity
Balance, December 31, 2004	$ 780,013	$ —	$ 11,636	$ (20,133)	$ 771,516
Contributions from members	119,523				119,523
Distributions to members		(151,460)			(151,460)
Net income				345,928	345,928
Other comprehensive income/loss (1)			(312,395)		(312,395)
Balance, September 30, 2005	$ 899,536	$(151,460)	$ (300,759)	$ 325,795	$ 773,112

(1) The balances for Other comprehensive Income/(Loss) relates entirely to the change in fair value of derivative financial instruments documented and designated as Cash Flow Hedges as defined by Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities".

See Notes to the Company's Unaudited Interim Financial Statements.

Texas Genco LLC
Notes to Condensed Consolidated
Financial Statements
(Unaudited)

(1) BASIS OF PRESENTATION

General

Included in this Quarterly Report of Texas Genco LLC (the "Company) are the Company's consolidated interim financial statements and notes ("Interim Financial Statements"). The Interim Financial Statements have been prepared by management without audit. Accordingly, they reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the financial results for the interim period. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report for the year ended December 31, 2004.

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. The Condensed Statement of Consolidated Income is not necessarily indicative of the amounts expected for a full year period due to the effects of, among other things, seasonal variations in the generation and sale of electricity and the timing of maintenance and other expenditures.

The Company did not exist prior to July 19, 2004, and the Company and its subsidiaries had no operations and no material activities until December 15, 2004 when the Company acquired in a merger transaction Texas Genco II, L.P. and Texas Genco Services, L.P., from Texas Genco Holdings, Inc. (the "Initial Acquisition"). Subsequent to the Initial Acquisition, the Company acquired, in a merger transaction, Texas Genco Holdings, Inc. on April 13, 2005 (the "Nuclear Acquisition") and, by the exercise of a right of first refusal, a 13.2% undivided interest in the South Texas Project ("STP") from a subsidiary of American Electric Power ("AEP") on May 19, 2005 (the "ROFR"). Consequently, comparable results for the third quarter and nine months of 2004 are not presented.

Acquisition Agreement between Texas Genco LLC and NRG Energy, Inc.

On September 30, 2005, Texas Genco LLC and NRG Energy, Inc. and the direct and indirect owners of the Company entered into a definitive agreement for NRG Energy, Inc. to acquire all the outstanding equity of Texas Genco LLC for approximately $5.8 billion, comprised of approximately $4.0 billion in cash and approximately $1.8 billion in common and preferred stock upon the terms and subject to the conditions set forth in the agreement. In addition, NRG will assume approximately $2.5 billion of Texas Genco net debt. Each of the parties' obligation to consummate the acquisition is subject to certain customary conditions. The closing date of this transaction is expected to be within the first quarter of 2006.

Inventory

Inventories consist principally of materials and supplies, coal and lignite, natural gas, petroleum coke, and fuel oil. Inventories used in the production of electricity are valued at average cost except for coal and lignite, which are valued under the last-in, first-out method. If coal and lignite inventories were valued at their current replacement cost, at September 30, 2005, total inventory would have increased by approximately $1.9 million. The following table provides the components of inventory as of September 30, 2005.

	September 30, 2005 (in thousands)
Natural Gas	$ 5,516
Fuel Oil	687
Coal	19,252
Lignite	2,282
Petroleum coke	260
Materials & Supplies	85,921
Total Inventory	$ 113,918

Nuclear fuel rod assemblies consumed by STP are not reflected as inventories. Once placed in service, fuel rods normally remain in the units for approximately four and a half years. As a result, the cost of the fuel rod assemblies is capitalized as a component of property, plant and equipment and is depreciated over the expected service lives of the assemblies.

Goodwill and Other Intangible Assets

The Company's intangible assets consist of goodwill resulting from the Initial Acquisition of approximately $790.9 million and other intangible assets. During the year, adjustments have been made to goodwill and other intangible assets based on revised estimates or finalization of valuations. Purchase price allocations for the Nuclear Acquisition and ROFR completed during the previous quarter did not result in any goodwill. However, intangible assets of $22.9 million related to forward sales contracts have been recognized as a part of the purchase price allocation associated with the Nuclear Acquisition. The following table presents the Company's goodwill and its intangible assets, their related amortization and estimated weighted-average useful life at September 30, 2005. The purchase price allocation for the Nuclear Acquisition and the ROFR are pending a final valuation of assumed contracts, additional information concerning the nature of certain deferred tax attributes, and the receipt of the final valuation report from our third party consultants.

	Weighted Average Life (years)	September 30, 2005 (in millions)
Goodwill		$ 790.9
Intangibles	6.5	896.7
Amortization of intangibles		(127.4)
Net Goodwill and Intangibles		$ 1,560.2

The following table presents expected amortization, beginning January 1, 2005, for the next five years and in total thereafter for the Company's amortizable intangible assets at September 30, 2005 (in millions):

	Acquired Customer Forward Sales Contracts	Decommissioning & Decontamination Enhancement Fees	Emission Allowances	Steam and Water Contracts	Total Finite-Lived Intangible Assets
2005	$ 104.7	$ 0.5	$ 26.1	$ 0.6	$ 131.9
2006	87.0	1.0	55.3	0.6	143.9
2007	114.0	0.8	42.4	0.6	157.8
2008	90.4	—	39.4	0.6	130.4
2009	11.5	—	37.3	0.6	49.4
Thereafter	—	—	223.3	8.8	232.1
Total	$ 407.6	$ 2.3	$ 423.8	$ 11.8	$ 845.5

The Company amortizes all finite lived intangible assets over their respective estimated useful life. Acquired forward sales contracts represents the intangible value assigned to all firm forward baseload capacity power sales resulting from the Initial Acquisition and the Nuclear Acquisition, the longest of which has a useful life of five years, which represents the number of years for which the power had been sold forward at their respective acquisition dates. Pursuant to the Clean Air Act Amendments of 1990, the acquired power plants are entitled to receive allowances to emit sulfur dioxide and oxides of nitrogen. These allowances or permits are transferable by the Company. The Company amortizes air emission allowances on a units of production basis as utilized. Steam and water contracts consist of a water rights agreement and a steam contract that have estimated useful lives of 22 and 11 years, respectively.

In connection with the Initial Acquisition, the Company recorded the fair value of certain power sales and coal contracts assumed. The Company estimated the fair value of these contracts using market value as of the acquisition date over the life of each contract. These contracts had negative fair values at the date of acquisition and were recorded as contractual obligations on the consolidated balance sheet. These contractual obligations are amortized as increases to revenue and decreases to fuel expense, as applicable, based on the estimated realization of the fair value established on the acquisition date over their contractual lives. Respectively, for the three months and nine months ended September 30, 2005, the Company amortized approximately $61.2 million and $186.3 million of assumed out-of-the-money contracts to increase revenue and approximately $13.3 million and $37.0 million to decrease fuel expense.

Derivative Instruments

The Company is subject to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138 and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. These statements require that derivatives be recognized at fair value on the balance sheet and that changes in fair value of such derivatives be recognized either currently in earnings or deferred as a component of other comprehensive income. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs. Cash flow hedges are those derivatives designated to hedge exposure to variability in expected future cash flows. Changes in the fair value of cash flow hedges, to the extent there is a high correlation between price movements in the derivative and the item designated as being hedged, are recognized as a component of other comprehensive income until the expected cash flow being hedged occurs. At such time, previously recognized amounts within comprehensive income are reversed, and the change in the fair value of the derivative is recognized within earnings.

The Company has entered into several natural gas swap agreements to sell approximately 199.0 million MMBtu's of natural gas through 2010 at fixed prices, with the Company as the floating price payor. These swap agreements are considered derivatives and are treated as cash flow hedges for accounting purposes. The aggregate fair market value of the natural gas swap agreements was ($324.1) million at September 30, 2005. The Company has recognized losses associated with these swaps in the amount of $23.3 million. As a result, $300.8 million was recorded as other comprehensive loss at September 30, 2005.

Assets Held for Sale

The Company previously determined that the Texas Genco fuels pipeline, a 90 mile fuel oil pipeline system, and the North Dayton gas storage facility, in which the Company has a long-term agreement to store gas and a purchase option to buy the facility, were not strategic assets for the business. The book values of the Texas Genco fuels pipeline and the North Dayton gas storage facility were recorded at their fair value (less estimated costs to sell) of $36.3 million and $31.0 million, respectively, as of December 31, 2004, and were reflected as assets held for sale on the consolidated balance sheet.

On May 16, 2005, the Company entered into an agreement with TEPPCO Partners, L.P. for the sale of the Texas Genco fuels pipeline and its associated equipment, a 5.5 million barrel storage facility and its associated equipment along with certain oil inventory. The transaction closed on July 15, 2005 for a total purchase price of approximately $71.1 million.

On June 27, 2005, the Company entered into an agreement with Kinder Morgan Energy Partners, L.P. for the sale of the Company's subsidiaries that indirectly own an option to purchase the North Dayton gas storage facility in Liberty County, Texas and associated equipment. The gas storage facility was owned by HNG Dayton Storage Company, with whom the Company had a long-term storage agreement under which it was entitled to purchase the North Dayton gas storage facility.

On June 27, 2005, the Company entered into an agreement with HNG Dayton Storage Company providing for the exercise of the Company's option to purchase the gas storage facility. The closings of the acquisition of the gas storage facility from HNG Dayton Storage Company and the sale to Kinder Morgan Energy Partners, L.P. occurred on August 1, 2005. At the closings, the Company received cash of approximately $53 million. The Company has entered into a long-term storage capacity and transportation agreement with Kinder Morgan Energy Partners, L.P.

During the second quarter of 2005, management announced that the Company would conduct an auction to sell the Deepwater, H.O. Clarke, and Webster power plants and associated land. The auction is expected to conclude prior to the end of 2005. The book value of these plants is zero since the original purchase price allocation from the Initial Acquisition placed a value of zero on these assets. Based on third party appraisals that the fair market value of these properties would exceed the current book value including the estimated cost to demolish the plants and remediate the property, no impairment has been recognized for these properties. The land associated with these plants has been valued at their book value of $0.9 million, $1.3 million, and $12.1 million for H.O. Clarke, Deepwater, and Webster, respectively.

During the third quarter of 2005, the Company determined that the facilities at the Texas Genco EDC complex other than the maintenance shop and maintenance equipment, are not strategic assets for the business. These Texas Genco EDC complex facilities were recorded at their fair value (less estimated costs to sell) of $9.2 million as of September 30, 2005, and are currently under contract to sell. These facilities are reflected as assets held for sale on the consolidated balance sheet.

Workforce Optimization Plans

On February 1, 2005, and in conjunction with the Initial Acquisition, the Company announced a workforce optimization plan (the "Plan"). The program consists of a voluntary retirement incentive, an involuntary severance, and a voluntary severance.

Voluntary Retirement Incentive. On February 14, 2005, the Company announced a Voluntary Retirement Incentive Program ("VRI") for its eligible 232 non-bargaining unit employees, and on March 15, 2005, an identical program was announced for its eligible 309 bargaining unit employees. To be eligible for the VRI, employees must have been (1) employed on February 1, 2005 (on March 1, 2005 for bargaining unit employees), (2) at least age 50 with at least 15 years of service on April 1, 2005, and (3) a participant in the Texas Genco II LP retirement plan ("Retirement Plan"). In summary, the VRI offers the eligible employee (i) an annuity payment from the Retirement Plan based on the greater of (a) the cash balance account in the Retirement Plan, or from the predecessor plan benefit formula, (b) the accrued lump sum benefit paid as a monthly annuity, or (c) the present value of the immediate life annuity; (ii) the present value of two years of base salary in the form of a twenty-four month annuity payment from the Retirement Plan (or, if the employee elects, in the form of a life annuity); (iii) a lump-sum healthcare bridge payment if the employee is under age 55; and (iv) payment of earned vacation and a pro-rated 2005 discretionary bonus. The election period to participate in the VRI expired on April 7, 2005 and as of September 30, 2005, 412 employees had elected to retire and did not revoke their election. SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, specifies that an employer that offers special termination benefits to employees shall recognize a liability and a corresponding cost when the employees accept the offer and the amount can be reasonably estimated. During the three and nine month periods ended September 30, 2005, a credit of $1.4 million and a charge of $57.2 million were recognized relative to the estimated increased pension cost related to the VRI plan. Additionally, for the nine month period ended September 30, 2005 $3.0 million was recognized as estimated liabilities for the health care bridge payment associated with the 412 electing employees.

Involuntary Severance. The second component of the Plan involves targeted workforce reductions. Employees terminated pursuant to the Plan receive a lump-sum cash severance benefit payment based on a calculation which provides three weeks of base pay for each full year of service realized with the Company (and qualified predecessor employers), with a minimum of 12 weeks and a maximum of 52 weeks of severance benefits paid to an affected individual. In addition, terminated employees receive an additional lump sum equal to the employee's target award under the Company's annual short-term incentive plan based on eligible earnings for the period commencing on January 1 of the termination year through the employee's date of termination. Affected individuals also have the ability to continue medical, dental and vision benefits at the active employee contribution rates for coverage for the number of weeks used to calculate the individual's severance benefit. As of September 30, 2005, the Company had terminated 41 employees pursuant to this component of the Plan.

Voluntary Severance. On August 15, 2005, the third phase of the workforce restructuring, a Voluntary Severance Program covering collectively bargained employees, was announced. In accordance with our agreements with the union, the program was offered to selected union work groups within the Company. The Program provides the same level of severance benefits provided in the involuntary program. As of September 30, 2005, 17 employees had elected to terminate his/her employment in the following fourth quarter, effective October 1, 2005, pursuant to the Voluntary Severance Program.

During the first quarter of 2005, the Company completed an analysis that estimated the total minimum severance benefits for the total targeted workforce reduction plan. This estimated cost of the minimum severance benefits was accrued during the first quarter, and included an increase of $29.6 million in goodwill. This estimate may be adjusted in future periods, as the total actual severance liability is determined.

During the nine months ended September 30, 2005, the accrued liability for the minimum severance benefits was reduced by $24.7 million, reflecting the minimum severance benefits liability associated with the 412 employees electing the VRI as of September 30, 2005. In addition, the accrued liability for the minimum severance benefits was reduced by $2.1 million associated with 30 eligible employees who were severed during the period. As a result, Operations and Maintenance expenses for the nine month period ended September 30, 2005 includes a $57.2 million pension charge, and a $3.0 million health care bridge charge, which was partially offset by a $24.7 million minimum severance credit, all relating to the VRI plan.

As of September 30, 2005 the Company employed a total of 1,168 employees. Of these employees, 774 are covered by a collective bargaining agreement.

Business Segments

The Company manages the business as one reportable segment. This one reportable segment is an electric power generation business that presently conducts all of its power generation business within ERCOT.

Plant Decommissioning

On January 10, 2005, the Company filed notice with ERCOT to suspend operations at fifteen gas fired generation units located at the Company's Cedar Bayou, Webster, P.H. Robinson, H.O. Clarke, T.H. Wharton and Deepwater Stations. This was the first step in a process to retire the units permanently or to place them in mothball status for more than 180 days. ERCOT notified the Company that it required the continued operation of only P.H. Robinson Unit 2 and negotiated a contract with the Company to maintain the unit in operation on a "Reliability Must Run" basis ("Must-Run Contract"). Under the Must-Run Contract, the Company recovered the costs of operating and activating the unit from ERCOT and in turn the unit was available to ERCOT for reliability needs. The Must-Run Contract had a term of one year starting on May 17, 2005, with a right of early termination by ERCOT. On October 29, 2005, the Must-Run Contract was terminated pursuant to a notice of early termination issued by ERCOT on August 1, 2005. This unit is now in mothball status for more than 180 days.

Nuclear Decommissioning

As a result of the Nuclear Acquisition and ROFR, the Company has become the beneficiary of decommissioning trusts that have been established to provide funding for decontamination and decommissioning of 44% of the South Texas Project. CenterPoint Energy and American Electric Power collect, through rates or other authorized charges to their electric utility customers amounts designated for funding the Company's portion of the decommissioning of the facility. In the event funds from the trusts are inadequate to fund the Company's ownership portion of the actual decommissioning costs, CenterPoint Energy and American Electric Power or their successors will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utility Code all additional amounts required to fund the Company's 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 Energy, American Electric Power, or their successors. The fair value of the trust assets are reflected as a non-current asset by the Company with an associated long-term liability to reflect the future obligation to fund the decommissioning from the trust assets or to refund or collect additional amounts from the ratepayers or CenterPoint Energy, American Electric Power or their successors.

In addition to the nuclear decommissioning trusts, the Company has recorded asset retirement obligations and liabilities in accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations". The assets and liabilities were recorded on the respective acquisition dates based on the estimated future costs of decontamination and decommissioning of the Company's 44.0% interest in the South Texas Project. The asset is being amortized over the remaining licensing period for the South Texas Project and is reflected as a component of property plant and equipment. Accretion expense is being recognized with the associated liability.

As of September 30, 2005 the trust assets had a market value of $305.4 million. The unamortized portion of the retirement obligation asset was $280.2 million. The decommission liability was $291.8 million, and the liability to fund the decommissioning from the trust assets and payments to or from ratepayers was $293.8 million. The total value of all assets and all liabilities associated with the decommissioning and the trusts will always be equal, which is consistent with the Company not having any economic exposure for the decommissioning responsibilities.

Change in Initial Acquisition Estimate

The Company has revised the estimated value of the sulfur dioxide allowances acquired in the Initial Acquisition from $271.0 million to $301.0 million. These allowances are allocated on an annual basis by the Environmental Protection Agency and the revised value for these allowances was based on the estimated market value of the allowances for each year's grant. These allowances have an infinite life, but can only be used to offset emissions in the year for which they were allocated or later years. Therefore, amortization of this intangible asset is based on the sulfur dioxide allowances actually used during any reporting period on a FIFO basis, thus amortizing the older, more valuable allowances first. The allowances are currently used up on a 1 credit for 1 ton basis, and beginning in 2010 the ratio changes to 2 for 1 and in 2015 escalates to 2.85 to 1.

Unit-Based Compensation

The Company has established a unit option incentive plan for key employees. The options currently issued under this plan fall into three categories. The first are "Core" options that have a 10 year life and vest, subject to the participant's continued employment, in approximately 1/5 increments on each anniversary date of the grant. The second are "Performance" options that vest upon the earlier of successful achievement of established equity return targets or seven years. The third are "Vested" options that are fully vested and have a 10 year life. Under the plan, all unvested options vest immediately upon change of control of the business. During the quarter ended September 30, 2005, new Core and Performance options totaling 77,000 were granted at a price of $6.10, which have an immaterial intrinsic value. In addition, 1,200,000 Core and Performance options that were granted at $5.00 were forfeited during the quarter ended September 30, 2005.

The following table reflects the outstanding options as of September 30, 2005.

	Unvested Options	Vested Options
Options Granted	9,451,001	451,800
Range of Exercise Prices	$5.00 - $6.10	$ 5.00
Weighted Average Exercise Price	$5.40	$ 5.00
Expiration Dates	2014 - 2015	2014

Only vested options can be exercised. None of these options can be transferred unless certain future events occur, which include equity sales by the existing equity holders of the Company.

The Company complies with the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure; however, the Company has elected to continue to apply the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company uses the intrinsic value method to account for stock-based employee compensation, however, there is a requirement to disclose pro forma net income or loss as if the Company had applied the fair value methods prescribed by SFAS No. 123.

In order to determine a fair value of the options granted during the quarter, a traditional option pricing model approach was employed which indicated a fair value as of the date of grant of approximately $1.2 million, based on model input assumption terms which include a term of ten years, no volatility and an interest rate of approximately 4.34%. Because the options granted by the Company have either significant vesting and/or exercise restrictions, the Company believes that the traditional option pricing model approach overstates the fair value of the options on the grant date.

Compensation Relating to Sales of Non-Strategic Assets

During the third quarter, the Board of Directors approved a plan whereby certain employees would be granted additional compensation based on the net proceeds received from the sale of non-strategic assets. A percentage of the amounts earned under this plan will be paid annually based on vesting periods ranging from five to seven years, and vest immediately upon change of control of the business. During the third quarter, net cash proceeds from qualifying sales of non-strategic assets were received totaling approximately $124.0 million. The total potential amount to be earned by the employees from these sales over the entire vesting period is approximately $5.3 million. For the quarter ended September 30, 2005, approximately $0.4 million has been recognized as accrued compensation expense related to this plan.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In January 2005, the FASB issued a revision to FASB Statement No. 123, “Accounting for Stock-Based Compensation,” (“SFAS 123R”). This Statement establishes standards that account for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Company is currently evaluating the impact of SFAS 123R.

In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations”, which provides further clarification of the requirements of SFAS No. 143. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005, for calendar-year enterprises). The Company has analyzed Interpretation No. 47 and determined that the provisions of the statement do not have a material impact on the Company’s results of operations, financial condition or cash flows.

In May 2005, the Financial Accounting Standards Board issued SFAS No.154 “Accounting Changes and Error Corrections”, which replaces APB Opinion No. 20, “Accounting Changes,” and FASB Statement No. 3, “Reporting Accounting Changes in Interim Financial Statements.” The statement applies to all voluntary changes in accounting principle and changes resulting from adoption of a new accounting pronouncement that does not specify transition requirements. SFAS No. 154 requires retrospective application to prior periods’ financial statements for changes in accounting principle unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle should be recognized in the period of the accounting change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 with early implementation permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this statement is issued. SFAS No.154 will become effective for the Company on January 1, 2006 and will be applied when applicable.

(3) ACQUISITIONS

Nuclear Acquisition.

On April 13, 2005, the Nuclear Acquisition occurred, in which a wholly owned subsidiary of the Company merged with and into Texas Genco Holdings, Inc. As a result of the Nuclear Acquisition, Texas Genco Holdings, Inc. became a wholly owned subsidiary of the Company and the Company thereby indirectly acquired Texas Genco Holdings, Inc.'s assets and liabilities, including its 30.8% undivided interest in STP. The Company paid an affiliate of CenterPoint Energy, Inc. aggregate consideration of $700.0 million in cash in connection with the Nuclear Acquisition. The Company financed the Nuclear Acquisition with $475.0 million of borrowings under the term loan portion of the Company's senior secured credit facilities, approximately $99.5 million of revolver borrowings, an additional cash equity investment of $117.8 million by the members of the Company, investment funds (collectively, the "Members") affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group (the ''Sponsors") and, to a lesser extent, by certain members of management, and the balance from cash on hand (the "Nuclear Acquisition Financing", and the Initial Acquisition Financings and the Nuclear Acquisition Financing, together, the "Formation Financings"). In addition, because Texas Genco Holdings, Inc. had approximately $75.0 million of bank debt outstanding, which became due at the closing of the Nuclear Acquisition, the Company also paid approximately $75.0 million from the Company's cash on hand in order to discharge such debt. In connection with the Nuclear Acquisition, in an order from the Nuclear Regulatory Commission ("NRC") dated April 4, 2005, approving the indirect transfer of the STP license from CenterPoint Energy to Texas Genco LLC, the NRC required Texas Genco LLC to enter into a support agreement with Texas Genco LLC's subsidiary Texas Genco, LP to provide up to $120.0 million to Texas Genco, LP if necessary to support its share of operations at STP. Texas Genco LLC entered into that support agreement on April 13, 2005.

ROFR.

On May 19, 2005, the ROFR occurred, in which pursuant to the exercise of a right of first refusal by Texas Genco, LP subsequent to a third party offer to AEP in early 2004, the Company acquired from AEP an additional 13.2% undivided interest, equivalent to approximately 338 MW of capacity, in STP for approximately $174.2 million, less adjustments for working capital and other purchase price adjustments. As a result, the Company now owns a 44.0% undivided interest, equivalent to 1,127 MW, in STP. Texas Genco, LP had deposited cash collateral to secure stand-by letters of credit posted in favor of AEP to secure the obligation to pay AEP for the ROFR. The purchase price for the ROFR was funded from that deposited cash, and on May 19, 2005, excess cash in the amount of approximately $28.9 million securing the stand-by letters of credit was released to us. Pursuant to the purchase agreement for the ROFR, Texas Genco, LP agreed with AEP that, for a period of ten years from the date of the consummation of the ROFR, Texas Genco, LP would maintain minimum partners' equity, determined in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"), of $300 million.

(4) COMMITMENTS AND CONTINGENCIES

Long-Term Financing Obligations

Senior Notes, Credit Agreement and Funded Letter of Credit Facility. The Company's long-term financing obligations outstanding have been incurred under the Company's senior secured Credit Agreement dated as of December 14, 2004 ("Credit Agreement"), the Company's senior secured Funded L/C Credit Agreement dated as of June 24, 2005 ("Funded Letter of Credit Facility") and the Company's senior unsecured note Indenture, dated as of December 14, 2004, relating to the Company's 6.875% Senior Notes due 2014, and consisted of the following as of September 30, 2005:

	September 30, 2005 (in millions)
Long-term debt:	
6.875% Senior Notes, due 2014	$ 1,125.0
Term Loan Facilities, due 2011	1,614.0
Subtotal	2,739.0
Less:	
Current maturities	(16.3)
Total long-term financing obligations, less current maturities	$ 2,722.7

Aggregate maturities of the principal amounts of long-term financing obligations through 2010 and in total thereafter are as follows:

2005 (October – December)	$ 4.0
2006	16.3
2007	16.3
2008	16.3
2009	16.3
2010	16.3
Thereafter	2,653.5
Total long-term financing obligations, including current maturities	$ 2,739.0

Borrowings under the term loan facilities of the Company's Credit Agreement bear interest, at the Company's option, at either:

- a base rate, plus the applicable interest rate margin; or
- a reserve adjusted Eurodollar rate on deposits for one-, two-, three-, six-, nine- or twelve-month periods (in the case of nine- or twelve-month periods, to the extent available to all applicable lenders), plus the applicable interest rate margin.

The following table summarizes used and available portions of the various credit facilities made available to the Company under the Credit Agreement and the Funded Letter of Credit Facility at September 30, 2005:

Texas Genco LLC

Facility	Commitment Amount	Amounts Borrowed	Face Amount of Letters of Credit Issued	Total Unused
		(in millions)		
Term Loan Facility, due 2011	$ 1,141.4	$ 1,141.4	$ N/A	$ N/A
Delayed Draw Term Loan Facility, due 2011	472.6	472.6	N/A	N/A
Revolving Credit Facility, due 2009	325.0	—	39.7	285.3
Base Letter of Credit Facility, due 2009	200.0	—	134.8	65.2
Special Letter of Credit Facility, due 2009	344.3	N/A	344.3	—
Funded Letter of Credit Facility, due 2011	150.0	N/A	150.0	—
Total	$ 2,633.3	$ 1,614.0	$ 668.8	$ 350.5

Capital Lease Obligations. Current and long-term capital lease obligations at September 30, 2005 were $1.8 million and $2.1 million respectively. The aggregate liability, both current and non-current, recorded for capital lease obligations as of September 30, 2005 was $3.9 million. This amount reflects a reduction for imputed interest on the lease payments of $0.7 million.

Collateral Agreements

The Company provides collateral to many of the counterparties to the Company's power purchase agreements, bilateral contracts, fuel purchase agreements and natural gas swap agreements in order to secure the Company's performance under these contracts. This collateral generally consists of a letter of credit that is fixed in amount and, in some cases, a second lien on the Company's assets. As of September 30, 2005 the Company's counterparties had net credit exposure to the Company of approximately $2,160.2 million that was secured by second liens on the Company's assets.

Commitments

Operating Lease Obligations. During the quarter the Company entered into a new 76 month leasing agreement for the Company's corporate office space in Fulbright Towers at 1301 McKinney, Houston, Texas and a 60 month leasing agreement for the Company's data center at 1301 Fannin, Houston, Texas. Together, these leases are expected to cost approximately $0.5 million a year with a total commitment of approximately $3.0 million for the duration of these leases.

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 September 30, 2005. 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 reactor per accident per year.

The U.S. Energy Policy Act of 2005, which was signed by President Bush on August 8, 2005, extends the effective date of the Price-Anderson Act for 20 years to 2025 and increases the annual retrospective premium obligations under the Price-Anderson Act from $10 million to $15 million per reactor per accident and the total amount from $63 million to $95.8 million per reactor per accident, in each case adjusted for inflation.

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. Upon expiration of the operating licenses for the two generating units at STP (currently scheduled for 2027 and 2028), the co-owners of STP are required under federal law to decontaminate and decommission STP. External trusts have been created to fund Texas Genco, LP's share of the decommissioning costs for STP. In May 2004, an outside consultant estimated a 44.0% share of the STP decommissioning costs to be approximately $650 million in 2004 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. The DECON methodology involves removal of all radioactive material from the site following permanent shutdown of the generating units.

Currently, Texas Genco, LP's funding against this decommissioning obligation is contained within two separate trusts. In accordance with the terms of its current Texas Utility Commission rate order, CenterPoint Energy Houston Electric, LLC ("CenterPoint Houston") is currently authorized to collect approximately $2.9 million per year from its transmission and distribution customers and is obligated to deposit the amount collected into the STP decommissioning trust created by Texas Genco, LP to cover decommissioning of the Company's 30.8% interest in STP. AEP is currently authorized by the Texas Utility Commission to collect approximately $3.97 million per year from its transmission and distribution customers and is obligated to deposit the amount collected into the STP decommissioning trust created by Texas Genco, LP to fund decommissioning of the 13.2% interest in STP. As of September 30, 2005, the combined fair market value of the investments in the two separate external trusts established to fund the decommissioning of the Company's 44.0% interest in STP was $305.4 million.

On October 26, 2004, a new Texas Utility Commission rule to govern the transfer and administration of nuclear decommissioning trusts became effective. The new rule provides that the parties to the transfer of an interest in a nuclear generation facility must file for approval of all new agreements related to the decommissioning trusts prior to the closing of the transaction. In addition, the collecting utility (in this instance, both CenterPoint Houston and AEP) must file an application with the Texas Utility Commission for the establishment of a separate nonbypassable charge for collection of decommissioning costs consistent with the prior rate order of each collecting utility, not later than 30 days after the close of the transaction. On November 10, 2004, CenterPoint Houston and Texas Genco, LP jointly filed for Texas Utility Commission approval of (i) a decommissioning funds collection agreement and (ii) a separate nonbypassable decommissioning charge consistent with CenterPoint Houston's prior rate order in preparation for the Nuclear Acquisition. On February 10, 2005, AEP filed for approval of the agreements related to the transfer of the decommissioning trust funds related to the ROFR. On May 11, 2005, the Texas Utility Commission approved by separate final orders the agreements related to the transfer of the decommissioning trust funds related to the Nuclear Acquisition and the ROFR. On May 25, 2005, the Texas Utility Commission approved the establishment of a separate nonbypassable charge for CenterPoint Houston for collection of decommissioning costs consistent with the prior rate order of CenterPoint Houston. During the third quarter of 2005, AEP established a separate nonbypassable charge for collections of decommissioning costs and a new rate order. The new rule requires the Company to update the decommissioning cost study for STP at least once every five years, and provides for periodic adjustments to the annual decommissioning funding amount and the corresponding nonbypassable charges should the funding levels be inadequate.

In the event that the funds from the trusts are ultimately determined to be inadequate to decommission the STP facilities, CenterPoint Houston and AEP will be required to collect through their Texas Utility Commission-authorized nonbypassable charges to customers all additional amounts required to fund the decommissioning obligations relating to the Company's 44.0% share, provided that the Company has complied with the Texas Utility Commission's rules and regulations regarding decommissioning trusts. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trusts, any excess will be refunded to the respective rate payers of CenterPoint Houston or AEP (or their successors).

The owners of STP must provide a report on the current status of decommissioning funding to the NRC every two years. However, if a sale, merger or acquisition occurs, the report is required each year. The report compares the current external trust funding levels to that year's minimum decommissioning amounts calculated in accordance with NRC requirements. The NRC requirements determine the 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 most recent year-end and then multiplying by 44.0% to reflect the Company's share of each unit of STP. This estimate is the minimum required level of funding as of the most recent year-end. The last report was submitted to the NRC in March 2005 and showed that, as of December 31, 2004, the aggregate NRC minimum funding level for the Company's 44.0% interest in STP was $121.4 million. While the trust's funding levels have historically exceeded minimum NRC funding requirements, the Company cannot ensure that the amounts held in trust will be adequate to cover the actual decommissioning costs of STP. These costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials, equipment and waste burial.

Lignite Mine Reclamation. The lignite at the Limestone plant is supplied under a long term contract at a fixed price through 2007 with price and volume to be renegotiated for the period 2008 through 2015. The mine operator had indicated that the current fixed price was not sufficient to meet its costs and had requested early renegotiation of the price and volume terms. The operator is a single purpose subsidiary of Westmoreland Coal Company and the contract is not supported by a Westmoreland guarantee. Recently, an interim agreement between the company and Westmoreland was reached which provides interim surcharges and special management fees to fund operations and capital expenditures through 2007. The operator has continued to meet delivery schedules. Prior to the end of 2005, the parties are contractually obligated to resume discussions around a longer-term contract and plan for the mine. If the operator fails to perform or is unable to produce sufficient quantities of lignite, the Company could experience a disruption or discontinuance of supply which could result in a partial curtailment or partial shutdown of the Company's Limestone plant and cause the Company to produce power at its gas-fired plants or to acquire power in the spot market to cover its existing power sales obligations.

(5) ENVIRONMENTAL AND LEGAL

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. From January 1, 2000 through December 31, 2004, the Company invested approximately $700 million for NOx emission control, and the Company plans to make additional expenditures through 2006. Further NOx requirements may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards.

Asbestos

Texas Genco Holdings, Inc. 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, renovation or repair of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by Texas Genco Holdings, Inc. As of September 30, 2005, there were 3,864 claims pending against Texas Genco Holdings, Inc. For the nine months ended September 30, 2005, there were 211 claims filed against Texas Genco Holdings, Inc., 116 claims settled, 1,173 claims dismissed or otherwise resolved with no payment and the average settlement amount for each claim was approximately $3,150. Under the terms of the separation agreement between Texas Genco Holdings, Inc. and CenterPoint Energy, ultimate financial responsibility for uninsured losses relating to such claims has been assumed by Texas Genco Holdings, Inc., and under the terms of CenterPoint Energy's agreement to sell Texas Genco Holdings, Inc. to Texas Genco LLC, CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from Texas Genco LLC. Texas Genco Holdings, Inc. 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 Genco LLC

Litigation

In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against, as the lawsuit was subsequently amended, Texas Genco, LP, CenterPoint Energy, Inc., Reliant Energy, Inc., Reliant Electric Solutions, LLC, several other CenterPoint Energy, Inc. and Reliant Energy, Inc. subsidiaries and a number of other participants in the 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 $500.0 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. 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 an appeal that Texas Genco, LP contested. The court of appeals affirmed the lower court's decision in June 2005. The plaintiff moved for a rehearing en banc, which was subsequently denied. The plaintiff has petitioned the United States Supreme Court for a review of the case, and the ultimate outcome of this matter cannot be predicted at this time.

In February 2005, Utility Choice Electric filed in federal court in Houston, Texas a lawsuit against CenterPoint Energy, Inc., CenterPoint Energy Houston Electric, LLC, CenterPoint Energy Gas Services, Inc., CenterPoint Energy Alternative Fuels, Inc., Texas Genco, LP and a number of other participants in the ERCOT power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws, intentionally interfered with prospective business relationships and contracts, and committed fraud and negligent misrepresentation. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. Texas Genco, LP is vigorously defending the case. The federal court in Houston recently lifted its stay of the matter pending the outcome of the Texas Commercial Energy matter and Texas Genco, LP and other defendants have filed a motion to dismiss which is under consideration by the court. Trial is scheduled for April 2006. The ultimate outcome of this matter cannot be predicted at this time.

On February 20, 2004, Texas Genco, LP filed an injunction and declaratory judgment lawsuit in a Freestone County, Texas state district court seeking to enjoin Valence Operating Company ("Valence") from drilling or engaging in work to prepare for drilling a natural gas well in Texas Genco II, L.P.'s Class II Industrial Solid Waste Facility (the "Landfill") adjacent to the Limestone plant. The Landfill is used to dispose of ash byproducts from the combustion of coal and lignite at the Limestone Plant. Following a hearing in March 2004, the court granted Texas Genco, LP's request and enjoined Valence from drilling the well in the Landfill. In connection with that injunction, the court ordered, and Texas Genco, LP posted, a bond in the amount of $1.0 million to secure payment of any damages suffered by Valence should it be found to have been wrongfully enjoined. Valence filed a counter-claim against Texas Genco, LP for wrongful injunction and sought to recover the full amount of the bond. Trial on the merits in this case was held in September 2004. The jury found, among other things, that Texas Genco, LP had an existing use that would be precluded or substantially impaired if Valence drilled Well 8. Finally, the jury also found damages in the amount of $400,000 as compensation to Valence for the issuance of the temporary restraining order and temporary injunction. Both Texas Genco, LP and Valence moved to disregard certain of the jury's findings and for judgment in their respective favors. On October 24, 2004, the court accepted the jury's findings and entered judgment that Texas Genco, LP take nothing on its claim for permanent injunction, and that Valence recover $400,000 in damages, together with pre- and post-judgment interest and costs. Texas Genco, LP has appealed the final judgment. The trial court has reinstated the temporary injunction pending the resolution of Texas Genco, LP's appeal. The trial court also ordered, and Texas Genco, LP posted, a bond in the amount of approximately $860,000 in connection with the temporary injunction pending appeal. The ultimate outcome of this matter cannot be predicted at this time. In addition, a separate lawsuit was filed by Texas Genco, LP in the same court, to enjoin Valence from drilling another well (Well 9) in the Landfill. In that lawsuit, Texas Genco, LP obtained a temporary restraining order against drilling this other well. On October 26, 2004, the court signed an order granting Texas Genco, LP's requested injunctive relief and enjoining Valence from drilling Well 9 in the Landfill. The court ordered, and Texas Genco, LP posted, a bond in the amount of approximately $2.0 million to secure payment of any damages suffered by Valence should it be found to have been wrongfully enjoined. The court has rescheduled this case for trial on the merits in December 2005.

Valence currently has two active applications with the Railroad Commission of Texas for drilling permits for two additional wells that would be drilled in the Landfill. On October 18, 2005, the hearing examiner recommended the Commission deny one permit and grant the other. The Railroad Commission is expected to rule on the recommendation in the fourth quarter.

The Company is, from time to time, a party to other litigation arising in the normal course of its business, most of which involves contract disputes or claims for personal injury and property damage incurred in connection with its operations. The Company does not believe that any such existing litigation will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Regulatory

The Company is subject to regulation by various federal, state and local agencies. The Company's generation subsidiaries are registered as power generation companies with the Texas Public Utility Commission ("TPUC") subjecting the Company to limited regulation by the TPUC directly as well as indirectly by virtue of TPUC oversight of Electric Reliability Council of Texas, Inc. ("ERCOT"). The TPUC recently initiated proceedings to consider changes in the ERCOT market design, generation adequacy measures, and market power rules governing power generation companies. Specifically, the TPUC is considering changing the ERCOT market design from a zonal to a nodal design, implementing an "energy-only" market to promote the building of new generation, and revising market power rules. The Company is participating in these proceedings and expects the TPUC will commence formal rulemaking proceedings later this year or early next year.

Although the Company is not subject to regulation by the Federal Energy Regulatory Commission ("FERC") as a public utility because the Company operates solely within the ERCOT market, the Company is required to make certain filings with FERC to maintain the Company's status as an Exempt Wholesale Generator under the Public Utility Holding Company Act of 1935 ("PUHCA"). On August 8, 2005 the U.S. Energy Policy Act of 2005 was enacted. Six months after the date of enactment of the Energy Policy Act, PUHCA will be repealed and the jurisdiction of FERC will be expanded to cover a limited number of holding company activities, including the direct or indirect acquisition of an electric utility holding company by another electric utility or electric utility holding company. These changes are subject to future FERC rulemaking and interpretation. It is possible, as a result of FERC's expanded jurisdiction, that FERC approval might be required for future merger or acquisition transactions involving Texas Genco and an electric utility or an electric utility holding company even if the assets and operations of both parties are solely within ERCOT.

(6) RELATED PARTY TRANSACTIONS

Limited Liability Company Agreement of Texas Genco LLC.

The limited liability company agreement provides for cash distributions to the Members of the Company on a periodic basis for the purposes of funding their possible tax obligations in respect of the income of the Company that is allocated to them. The amount of those distributions is calculated based on an agreed tax rate of 45% multiplied by the net taxable income of the Company, excluding the earnings of Texas Genco Holdings, Inc., for the relevant tax period. During the third quarter, the Company made a member tax distribution for $65.7 million.

Other Distributions to Members.

The Company made two other distributions during the three and nine months ended September 30, 2005 to its Members in the amounts of $48.7 million and $37.1 million during the third quarter. These payments represent preliminary distributions of the estimated net proceeds of the sales of the Texas Genco fuels pipeline and the North Dayton gas storage facility, respectively, net of the tax distribution made in respect of the expected capital gain on each of these sales.

Transaction and Monitoring Fee Agreement

The Sponsors have entered into a transaction and monitoring fee agreement with the Company relating to certain monitoring, advisory and consulting services that the Sponsors provide. During the nine months ended September 30, 2005, the Company paid, in aggregate, $7.5 million in fees to the Sponsors.

(7) INCOME TAXES

Texas Genco LLC is a limited liability company that is treated as a partnership for federal income tax purposes and is therefore not subject to federal taxation. As a corporation, Texas Genco Holdings, Inc. is subject to corporate federal income tax. Thus, prior to the Nuclear Acquisition, all profit or losses were subject to taxation at the member interest level, whereas, after the Nuclear Acquisition, the earnings of Texas Genco Holdings, Inc. are subject to federal income tax and all other profit or losses continue to be subject to taxation at the member interest level.

The Company's Consolidated Statement of Income reflects the applicable tax expense of Texas Genco Holdings, Inc. The Company's Consolidated Balance Sheet reflects the historical balances of current and deferred taxes of Texas Genco Holdings, Inc., applicable adjustments to the deferred tax liability resulting from timing differences created by the Company's purchase price allocation and the applicable changes in the current and deferred tax liabilities of Texas Genco Holdings, Inc. from the Company's acquisition date through September 30, 2005.

The Company's current and deferred components of income tax expense (benefit) for the nine months ended September 30, 2005 are as follows:

	September 30, 2005 (In thousands)
Current	
Federal	$ 23,440
State	30
Total current	$ 23,470
Deferred	
Federal	$ (2,914)
State	(4)
Total Deferred	(2,918)
Total Income tax expense	$ 20,552

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

	September 30, 2005 (In thousands)
Income (loss) before income taxes	$ 366,480
Federal statutory rate	35%
Income tax expense (benefit) at statutory rate	128,268
Increase (decrease) in tax resulting from:	
Partnership Income	(107,231)
Other, net	(485)
Total	(107,716)
Income tax expense (benefit)	$ 20,552
Effective Rate	5.61%

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:

	September 30, 2005
	(In thousands)
Deferred tax liabilities (net):	
Non-current:	
Depreciation	180,055
Employee Benefits and Other	1,458
Total non-current deferred tax liabilities	$ 181,513

One of the provisions of the American Jobs Creation Act of 2004 was a special deduction for qualifying manufacturing activities. The Company's income tax expense includes an estimated benefit for such deductions attributable to Texas Genco Holdings, Inc.

In 2004, the Company submitted private letter ruling requests to the Internal Revenue Service seeking approval for the continued funding of certain amounts into qualified nuclear decommissioning trusts under section 486A associated with the Nuclear Acquisition and the ROFR. On July 28, 2005, the IRS approved the Company's ruling requests.

(8) EARNINGS PER UNIT

The Company's basic and diluted earnings per unit are calculated by dividing the weighted average units outstanding at the end of each period into the net income. Texas Genco LLC had weighted average units outstanding of 180,026,000 and 168,638,323 for the three and nine month periods ended September 30, 2005 respectively and unit options, which if converted would incrementally increase average units outstanding for the three and nine month periods ended September 30, 2005 by 7,708,043 and 6,463,359 respectively on a diluted basis.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Income available to unit holders	$ 201,307	$ 345,928
Basic Units outstanding	180,026,000	168,638,323
Basic earnings per unit outstanding	$ 1.12	$ 2.05
Effect of dilutive securities Unit options assumed converted	1,160,924	1,157,957
Income available to unit holders after assumed conversions	$ 201,307	$ 345,928
Diluted Units outstanding	187,734,043	175,101,682
Diluted earnings per unit outstanding	$ 1.07	$ 1.98

(9) SUBSEQUENT EVENTS

Labor Negotiations

In July 2005 the Company entered into discussions with IBEW local 66, which represents the Company's 774 union employees, regarding wages and benefits for 2006. In accordance with the terms of the Company's current labor agreement, the Company is to negotiate exclusively on the issues of wages paid and benefits delivered during the final year of the current three year agreement. The current labor agreement precludes any lock out, strike or cessation of work during the term of this agreement (which ends September 17, 2006). The Company does not foresee that these discussions will have any material adverse effect on business operations or on the Company's financial position, results of operations or cash flows.

Texas Genco LLC

Asset Sales

On October 19, 2005, the Company entered into an agreement with AES Western, LLC for the sale of the Deepwater Electric Generating Station for $7.4 million, less estimated cost to sell, and is expected to close in the fourth quarter. Deepwater Electric Generating Station is a facility located on 61 acres of land in the City of Pasadena and includes the 174MW gas-fired generating unit along with operating permits and associated emissions allowances.

* * *

The following unaudited financial statements of Texas Genco Holdings, Inc. are being presented as the predecessor company. On April 13, 2005, as a result of the Nuclear Acquisition, Texas Genco Holdings, Inc. became a wholly-owned subsidiary of the Company. As a result, the Statement of Consolidated Income only includes the results through April 13, 2005. The results of Texas Genco Holdings, Inc. subsequent to April 13, 2005 are included in the consolidated results of the Company.

Texas Genco Holdings, Inc.
Statements of Consolidated Operations
(Thousands Of Dollars, Except Share and Per Share Amounts)
(Unaudited)

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004	Period from January 1 through April 13, 2005
Revenues	$ 637,885	$ 1,629,732	$ 61,593
Expenses:			
Fuel costs	315,644	765,951	5,687
Purchased power	17,506	43,874	—
Operation and maintenance	118,914	319,113	35,026
Depreciation and amortization	4,355	85,331	5,165
Write-down of assets	649,000	649,000	—
Taxes other than income taxes	8,721	33,099	3,467
Total	1,114,140	1,896,368	49,345
Operating Income (Loss)	(476,255)	(266,636)	12,248
Other Income	908	2,963	1,145
Interest Expense, net	—	(140)	(763)
Income (Loss) Before Income Taxes	(475,347)	(263,813)	12,630
Income Tax Benefit (Expense)	164,088	93,562	(3,514)
Net Income (Loss)	$ (311,259)	$ (170,251)	$ 9,116
Basic and Diluted Earnings Per Share:			
Net Income (Loss)	$ (3.89)	$ (2.13)	$ 0.14
Weighted Average Shares Outstanding	80,000,000	80,000,000	64,764,240

See Notes to Holding' Unaudited Interim Financial Statements

Texas Genco Holdings, Inc.
Statements of Consolidated Cash Flows

(Thousands of Dollars)
(Unaudited)

	Nine Months Ended September 30, 2004	Period from January 1 through April 13, 2005
Cash Flows from Operating Activities:		
Net income (loss)	$ (170,251)	$ 9,116
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	85,331	5,165
Fuel-related amortization	20,375	4,235
Amortization of deferred financing costs	1,651	318
Deferred income taxes	(213,332)	887
Investment tax credit	(8,653)	(972)
Write-down of assets	649,000	—
Changes in other assets and liabilities:		
Accounts receivable	(16,607)	(6,541)
Inventory	13,395	327
Accounts payable	24,522	(5,700)
Accounts payable, affiliate	(1,626)	(5,045)
Taxes and interest accrued	9,919	(93,242)
Accrued reclamation costs	(1,511)	—
Benefit obligations	20,612	—
Deferred revenue from capacity auctions	3,120	—
Other current assets	(10,026)	(756)
Other current liabilities	(1,790)	(488)
Other long-term assets	2,291	163
Other long-term liabilities	(6,919)	3,351
Net cash provided by (used in) operating activities	399,501	(89,182)
Cash Flows from Investing Activities:		
Capital expenditures and other	(45,751)	(8,934)
Proceeds from sale of investments	—	383,132
Net cash provided by (used in) investing activities	(45,751)	374,198
Cash Flows from Financing Activities:		
Increase in short-term borrowings	—	75,000
Payment of common stock dividends	(60,000)	—
Debt issuance costs	(1,252)	(54)
Payment to former shareholders	—	(383,132)
Net cash used in financing activities	(61,252)	(308,186)
Net Increase (Decrease) in Cash and Cash Equivalents	292,498	(23,170)
Cash and Cash Equivalents at Beginning of Period	44,558	23,499
Cash and Cash Equivalents at End of Period	$ 337,056	$ 329
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest	$ 885	$ 482
Income taxes	$ 52,732	$ 91,045

See Notes to Holding' Unaudited 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 of Texas Genco Holdings, Inc. (Holdings) are Holdings' 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 consolidated financial statements of Holdings for the year ended December 31, 2004, and the quarters ended March 31, 2005 and June 30, 2005.

Background. Prior to the Acquisition, Holdings was a wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy). In July 2004, Holdings entered into a definitive transaction agreement pursuant to which it agreed to be acquired by Texas Genco LLC. On December 15, 2004, Holdings completed the sale of its fossil generation assets (coal, lignite and gas-fired plants) to Texas Genco LLC for $2.813 billion in cash. Following the sale, Holdings distributed $2.231 billion in cash to CenterPoint Energy. Following that sale, Holdings' principal remaining asset was its ownership interest in a nuclear generating facility. The final step of the transaction, the merger of Holdings with a subsidiary of Texas Genco LLC in exchange for an additional cash payment to CenterPoint Energy of $700 million, was completed on April 13, 2005, following receipt of approval from the Nuclear Regulatory Commission.

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

Holdings' 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 Holdings' Statements of Consolidated Operations are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal variations in energy consumption, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests.

(2) New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS No. 154). SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The correction of an error in previously issued financial statements is not an accounting change and must be reported as a prior-period adjustment by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

(3) Short-Term Borrowings

In February 2005, Holdings established a $75 million term loan facility under which borrowings could be made for working capital purposes at the London interbank offered rate plus 50 basis points. Two drawings aggregating $75 million were made under the facility. This facility was secured by a lien on Holdings' equity and the partnership interests in its subsidiaries and cash collateral accounts set up in connection with the sale of the

Holdings' coal, lignite and gas-fired generation assets. As of April 13, 2005, borrowings outstanding under this facility totaled $75 million. In connection with the completion of the sale of Holdings on April 13, 2005, the amounts outstanding under the facility were repaid and the facility was terminated.

(4) Related Party Transactions and Major Customers

As of December 31, 2004, Holdings had net accounts payable to affiliates of $5 million.

During the three months ended September 30, 2004, the sales and services by Holdings to Reliant Energy, Inc., (formerly named Reliant Resources, Inc.) (RRI) and its subsidiaries totaled $423 million. During the nine months ended September 30, 2004, the sales and services by Holdings to RRI and its subsidiaries totaled $1 billion. During the three months and nine months ended September 30, 2004, there were no sales and services by Holdings to CenterPoint Energy and its affiliates. During the three months ended September 30, 2004, the sales and services by Holdings to another major customer totaled $95 million. During the nine months ended September 30, 2004, the sales and services by Holdings to that customer totaled $285 million.

During the period from January 1 through April 13, 2005, there were no sales and services by Holdings to RRI and its subsidiaries or to CenterPoint Energy and its affiliates.

During the three months ended September 30, 2004, purchases of natural gas by Holdings from CenterPoint Energy and its affiliates were $2 million. During the nine months ended September 30, 2004, purchases of natural gas by Holdings from CenterPoint Energy and its affiliates were $18 million.

CenterPoint Energy has previously provided some corporate services to Holdings. The costs of services have been directly charged to Holdings 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 Holdings not been an affiliate. Amounts charged to Holdings for these services were $8 million and $20 million, respectively, for the three months and nine months ended September 30, 2004, and are included primarily in operation and maintenance expenses. Amounts charged to Holdings for these services were $0.8 million for the period from January 1 through April 13, 2005.

(5) Employee Benefit Plans

(a) Pension.

For the period January 1 through August 31, 2004, Holdings' employees participated in CenterPoint Energy's pension plan. However, effective September 1, 2004, Holdings established a stand-alone pension plan for substantially all employees of Texas Genco.

(b) Postretirement Benefits.

Holdings' employees participate in CenterPoint Energy's postretirement benefit plan. Net periodic cost for the three months ended September 30, 2004 was $18 million (including $17 million of non-recurring curtailment costs attributable to the discontinued participation of the Holdings' workforce in the plan as active employees). Net periodic cost for the nine months ended September 30, 2004 was $20 (including $17 million of non-recurring curtailment costs attributable to the discontinued participation of the Holdings' workforce in the plan as active employees).

CenterPoint Energy used the following assumptions to determine net periodic cost relating to pension benefits allocated to Holdings:

	2004
Discount rate	6.25%
Expected return on plan assets	9.00%
Rate of increase in compensation levels	4.10%

Holdings' net periodic cost for the period January 1 through April 13, 2005 was not material.

* * *

Texas Genco LLC

Management's Discussion and Analysis of Financial Condition and Results of Operations
("MD&A")

The following discussion and analysis of financial condition should be read in combination with the interim financial statements contained in this Quarterly Report. Part A sets forth the MD&A for Texas Genco LLC for the three months and nine months ended September 30, 2005 and Part B sets forth the MD&A for Texas Genco Holdings, Inc. for the periods April 1, 2005 to April 13, 2005 and January 1, 2005 to April 13, 2005.

Forward Looking Statements

This Quarterly Report includes "forward-looking statements" within the meaning of Section 27A of Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements concerning our expectations, plans, objectives, goals, strategies, future events, future revenue or performance, impact on estimated gross margin from our base load plants, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends and other information that is not historical information. When used in this Quarterly Report, the words "could," "estimate," "expect," "anticipate," "project," "plan," "intend," "believe," "goal," "forecast" and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of operating trends, are based upon our current expectations and various assumptions. The Company's expectations, beliefs and projections are expressed in good faith and the Company believes there is a reasonable basis for them. However, there can be no assurance that the Company's expectations, beliefs or projections will result or be achieved.

There are a number of factors that could cause our actual results to differ materially from our expectations. Our gross margins are dependent upon the market price for power in the ERCOT market, our fuel costs, and plant availability. The revenue portion of our gross margins is primarily derived from the sale of power associated with our large base load generation units. The revenue associated with these units is impacted by natural gas prices. Because natural gas is the fuel of marginal plants 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 base load capacity generally rises and falls with natural gas prices. Our fuel costs for our base load units, on the other hand, are determined by prices for coal, lignite and nuclear fuel rod assemblies. These prices do not necessarily move in correlation with natural gas prices. In addition, the demand for power in the ERCOT market is seasonal, with higher demand occurring during warmer weather. ERCOT is primarily a bilateral market for power, and our ability to sell power is dependent on the willingness of market participants to enter into contracts to buy power from us. As a result of our high leverage, market participants may require us to provide credit support as a prerequisite to entering into power sales contracts and fuel supply contracts. The Company's ability to provide credit support is limited. If customers will not buy power from the Company on a forward basis, fuel suppliers may not sign long-term contracts with the Company, or the quantity of power the Company can sell to certain customers or the quantity of fuel the Company can buy from certain suppliers is limited, a greater proportion of the Company's power sales or fuel purchases may occur through spot or short-term power sales or fuel purchases, which will increase volatility in the prices the Company realizes for the power it sells and the prices it pays for the fuel it purchases.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Such risks, uncertainties and other important factors include, among others:

- fluctuation in market prices for power and related products;
- inability to generate power due to plant outages;
- inability to meet obligations under our forward sales obligations;
- our ability to negotiate successfully and enter into advantageous bilateral power sales and fuel supply agreements, as well as to sell capacity;

- a lower rate of growth in electricity usage than currently anticipated, as a result of factors such as regional economic conditions and the implementation of conservation programs;
- risks and hazards associated with the operation and maintenance of power generation facilities;
- the inability of customers to pay amounts owed under power sales agreements;
- customer creditworthiness precluding or limiting our ability to contract with that customer;
- alternative sources and supplies of energy becoming available due to new technologies and interest in self generation and cogeneration;
- increases in the costs of generation, particularly increases in lignite, coal, uranium or uranium enrichment and processing, railcar and railcar transport costs;
- failure of power transmission facilities to provide adequate transmission capacity;
- disruption of fuel supply and fuel transportation, including the failure or unwillingness of counterparties to honor their contractual obligations to us;
- surplus of generation capacity in the ERCOT market and competition in the wholesale power market, including the extent and timing of the entry of additional competitors in the ERCOT market;
- upgrades or additions to the electricity transmission system in and around the ERCOT market;
- the timing and extent of changes in commodity prices, particularly natural gas, coal and nuclear fuel and their relationship to hedging instruments;
- lack of access to capital and the impact of our substantial leverage on our ability to raise additional capital, enter into forward contracts with counterparties in a bilateral market or reduce the effects of volatility in fuel supply costs or on our ability to react to changes in our industry and on our ability to meet our obligations under the Senior Notes, Funded Letter of Credit Facility and Credit Agreement (each as defined below);
- restrictions and/or costs imposed by laws and regulations and our ability to obtain or maintain necessary governmental permits and approvals;
- 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 or other laws or regulations to which we are subject, or in the interpretation or enforcement of those laws or regulations;
- imposition of new taxes or fees related to the production of electricity imposed on our forward power sales where we have no contractual right to collect such additional cost from our customers;
- potential environmental liabilities;
- legal and administrative proceedings, settlements, investigations and claims, including claims relating to asbestos;
- insufficient insurance coverage and increased insurance costs;
- weather variations and other natural phenomena;

- our reliance on Reliant Energy, Inc. (“Reliant”) and J. Aron & Company (“J. Aron”) as major customers and on the ability of Reliant, J. Aron and other counterparties to our forward sale contracts to meet their obligations;
- our ability to operate as a stand-alone company and our reliance on CenterPoint Energy, Inc. and Reliant for transitional services;
- damage to our assets or our ability to serve our customers, market disruptions and other economic effects as a result of terrorism, military activity or war and action by the United States and other governments in reaction thereto;
- the possibility that the interests of our institutional members will conflict with our interests or the interests of our senior noteholders or secured lenders;
- costs and liabilities as a result of our undivided ownership interest in the South Texas Project Electric Generating Station (“STP”) associated with the operation and decommissioning of the nuclear units;
- inability to increase, in whole or in part, the net generation capacity at our Limestone plant and STP, in which we have an undivided ownership interest, in accordance with our business plan;
- labor disputes;
- changes in Federal and State income, property, and franchise tax laws; and
- the other market risk factors set forth under “Quantitative and Qualitative Disclosures about Market Risk.”

There may be other factors not presently known to us or which we currently consider to be immaterial that may cause our actual results to differ materially from those implied by the forward-looking statements.

All forward-looking statements and projections attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report. We undertake no obligation to publicly update or revise forward-looking statements, including any of the projections presented herein, to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

Part A — Texas Genco LLC

Overview

The Company is a wholesale electric power generation company engaged in the ownership and operation of a diverse portfolio of power plants in the state of Texas. According to ERCOT, the independent system operator for the electric market that services 85% of the electric demand in Texas, the Company is the second-largest generation company within the ERCOT market and the largest owner of power plants in the Houston zone of that market based on owned MW. The Company currently owns 48 operating generation units at nine power generation plants, including an undivided 44.0% interest in two nuclear generation units at STP. As of September 30, 2005, the aggregate net generation capacity of the Company's portfolio of operating assets was 10,939 MW, of which 5,220 MW represented the low marginal cost generation capacity of the Company's solid-fuel baseload plants. As a wholesale generator, the Company's principal business is selling electric wholesale power produced by the Company's power plants and measured in megawatt hours, to wholesale purchasers such as retail electric providers, power trading organizations, municipal utilities, electric power co-operatives and other power generation companies. The Company primarily achieves this by selling forward under fixed price power contracts with the Company's customers. The Company's forward power sales agreements result from either bilateral negotiation or capacity auctions. While the terminology and payment mechanics vary in these contracts, the power sales arrangements require the Company to deliver MWh of power and/or provide ancillary services to the Company's counterparties at prearranged prices.

Unlike power pools with independent operators in other regions of the country, the ERCOT market is not a centrally dispatched power pool. Wholesale power generators sell to buyers primarily through long-term and short-term bilateral agreements and capacity auctions. Energy not sold forward may be sold into the ERCOT balancing market on a real time basis to the extent ERCOT requires additional energy to meet load demand. The ERCOT market has only limited interconnections with other power markets in the United States and competition in the ERCOT market is affected by, among other factors, the amount of generation and transmission capacity in the market. Under the Texas Electric Restructuring Law, the Company is not subject to traditional cost-based regulation and therefore sells electric generation capacity, power and ancillary services to wholesale purchasers at prices determined by the market. As a result, the Company is not guaranteed any rate of return on its capital investments through mandated rates, and the Company's operations are impacted by changes in wholesale power prices and by changes in the prices of other commodities — in particular, natural gas prices. Due to the relatively small proportion in the ERCOT market of lower marginal cost generation capacity such as coal, lignite and nuclear plants (approximately 20,000 MW or 24% of the ERCOT market's net generation capacity), natural-gas fired plants set the market price of wholesale power more than 90% of the time. This means that power prices in the ERCOT market are highly correlated with natural gas prices.

The Company's primary expenses are energy costs, which consist primarily of fuel costs associated with consuming coal, lignite, natural gas and uranium to generate electricity, operation and maintenance costs, property taxes and the Company's incidental power purchases from the wholesale marketplace to cover the Company's obligations to customers.

Industry Trends

The wholesale electric power generation industry experienced a prolonged slump beginning in 2001 from which it has begun to emerge. For the past few years, the industry has experienced a number of challenges, including excess supply, the pace of economic recovery, industry consolidation and regulatory and legal uncertainties. The Company and others in the industry have experienced significant price volatility in the past several years. Wholesale power prices were relatively soft for much of 2002 and 2003 due to excess energy supply and slower electric energy demand growth nationwide due to mild weather over vast sections of the U.S. combined with slower regional economic growth. Wholesale power prices have been significantly higher in 2004 and 2005 to date due to higher priced natural gas and increased regional economic growth. This situation could change abruptly with decreases in industrial demand or a resurgence of milder-than-normal weather.

A surge in investment in gas-fired power generation facilities occurred in the early 2000s. Most of the recent increase in power generation capacity has been gas-fired, which exposes those generation companies' financial performance to greater risk due to fuel price volatility. Some of that investment led to an overabundance of generating capacity in certain regions of the country. In some instances, plants became financially distressed and several companies sold their plants and exited the sector. The Company expects that the power industry will continue to see corporate restructuring, debt restructuring and consolidation over the coming years.

In addition, in recent years, state and federal regulators have been evaluating the results of energy deregulation efforts of the 1990s. These efforts were intended to encourage competition, introduce consumer choice and attract additional investment in energy resources. In many states, electric utilities were required to disaggregate traditional functions of generation, transmission, distribution and marketing of electricity in an effort to open markets to competition. Due to a number of causes, energy consumers have been exposed to significant price increases and deterioration in service in recent years, and many state regulators are now seeking new policy directions to assure greater reliability and end-user value in the future. The Company feels that the threat to its performance by regulatory intervention in Texas is low, but the Company actively participates in both the regulatory and legislative arenas.

Factors Affecting The Company's Results

The Company's earnings and cash flows may be significantly affected by: (1) market prices for power and market prices for and availability of fuel, (2) changes in the Company's cost structure, including costs associated with operation, maintenance and repair of plants and facilities and labor and, (3) operating performance of the Company's facilities below expected levels of output or efficiency, (4) the credit quality of the counterparties to the Company's forward power sales, and (5) demand for power as affected by weather conditions and economic growth.

In response to the Company's exposure to fluctuations in the market prices of power and fuel, the Company has implemented a risk management strategy whereby the Company targets selling forward on a firm basis up to 80% of available baseload capacity for at least a rolling three-year period depending on market conditions and the Company's credit capacity. In addition, the Company has coordinated its forward sales of power and natural gas swap agreements with its forward purchases of solid fuel and fuel transportation for comparable time periods and quantities to the extent practicable. Through these contractual agreements, the Company has reduced its commercial risk and increased the predictability of its cash flows.

In addition, the Company has implemented initiatives designed to reduce its costs and improve its operating performance. For example, the Company has decentralized and streamlined its business processes and operations, including adoption of a workforce optimization plan that has, to date, resulted in 412 employees accepting early retirement and 58 employees resigning or being severed as of September 30, 2005 while minimizing disruption to the Company's operations. In addition, the Company has optimized its asset base by suspending operation of generating units that are uneconomic.

The Company's business results are dependent on the ability of its solid-fuel baseload plants to produce the amount of power the Company plans to sell. The relative operating performance of these units has been very strong. The availability of the Company's solid-fuel baseload plants exceeded industry averages. However, given the Company's high percentage of forward sales, lower than expected operational performance could negatively impact the Company's financial performance, not only by reducing revenues, but also, in an extreme case, by requiring the Company to generate power from its less efficient gas-fired plants, obtain power from a third-party source at a higher cost than the Company's cost of generation to satisfy its obligations or pay to its customers the difference between the higher market price at the delivery point and the contract price.

The Company's risk management policies are designed to mitigate the impact on the Company's financial performance in the event the Company experiences a significant operational issue. First, the Company targets selling forward on a firm basis up to 80% of available baseload capacity as described above. The remaining approximately 20% provides substantial reserve generation capacity in the case of an unforeseen failure at any one of the Company's eight baseload units. Second, the Company operates significant gas generation capacity, a portion of which is reserved as backup for the baseload fleet in the very unlikely event that two baseload units would have significant and simultaneous reliability issues. Third, the Company maintains power cost replacement insurance coverage, which is designed to minimize the Company's financial exposure in the event of a long-term unforeseen outage at one of its baseload units resulting from damage to the unit.

Texas Genco LLC

Given the Company's forward sales obligations, the Company is subject to credit risk from its customers. Should a customer enter bankruptcy, it would have the effect of re-exposing the Company's production to the then current market pricing. However, the Company believes it is well protected from credit risks because approximately 84% of the Company's forward sales are with investment grade rated counterparties. Additionally, the Company has very limited credit exposure to its counterparties given it has been selling energy forward in a rising market. Market prices would have to move dramatically down before the Company would have any material exposure.

Recent Developments

Acquisition Agreement between Texas Genco LLC and NRG Energy, Inc.

On September 30, 2005, Texas Genco LLC and NRG Energy, Inc. and the direct and indirect owners of the Company entered into a definitive agreement for NRG Energy, Inc. to acquire all the outstanding equity of Texas Genco LLC for approximately $5.8 billion, comprised of approximately $4.0 billion in cash and approximately $1.8 billion in common and preferred stock upon the terms and subject to the conditions set forth in the agreement. In addition, NRG will assume approximately $2.5 billion of Texas Genco net debt. Each of the parties' obligation to consummate the acquisition is subject to certain customary conditions. The closing date of this transaction is expected to be within the first quarter of 2006. The acquisition would preclude the proposed initial public offering discussed below.

Proposed Initial Public Offering

On June, 6, 2005, Texas Genco Inc., a newly formed Delaware corporation, filed a Registration Statement on Form S-1 (File No. 333-125524) with the U.S. Securities and Exchange Commission relating to a proposed initial public offering of Class A common stock of Texas Genco Inc. To facilitate the proposed initial public offering, the Company would undertake a reorganization. If the reorganization and the proposed initial public offering are consummated, the Company will become a wholly-owned subsidiary of Texas Genco Holdings LLC, a newly formed Delaware limited liability company, and Texas Genco Holdings LLC will be owned by the Company's existing equity holders and by Texas Genco Inc., which will be the sole managing member of Texas Genco Holdings LLC.

Asset Sales

On May 16, 2005, the Company entered into an agreement with TEPPCO Partners, L.P. for the sale of the Texas Genco fuels pipeline and its associated equipment, a 5.5 million barrel storage facility and its associated equipment along with certain oil inventory. The transaction closed on July 15, 2005 for a total purchase price of $71.1 million.

On June 27, 2005, the Company entered into an agreement with Kinder Morgan Energy Partners, L.P. for the sale of the Company's subsidiaries that own an option to purchase the North Dayton gas storage facility in Liberty County, Texas and associated equipment. The gas storage facility was owned by HNG Dayton Storage Company, with whom the Company had a long term storage agreement under which the Company was entitled to purchase North Dayton. On June 27, 2005, the Company entered into an agreement with HNG Dayton Storage Company providing for the exercise of the Company's option to purchase the gas storage facility. The closings of the acquisition of the gas storage facility from HNG Dayton Storage Company and the sale to Kinder Morgan Energy Partners, L.P. occurred on August 1, 2005. At the closings, Kinder Morgan Energy Partners, L.P. paid the Company cash of approximately $51 million and the Company received approximately $2 million from collateral accounts held by a lender of HNG Dayton Storage Company. The Company has entered into a long-term natural gas storage capacity and transportation agreement with Kinder Morgan Energy Partners, L.P.

In connection with these sales, the Company made distributions to its Members in the amounts of $48.7 million and $37.1 million on July 28, 2005 and August 8, 2005, respectively. These payments represent preliminary distributions of the estimated net proceeds of the sales of the fuel oil pipeline system and the North Dayton gas storage facility, respectively, net of the tax distribution made in respect of the expected capital gain on each of these sales.

Texas Genco LLC

Chief Financial Officer and Board of Directors

On July 8, 2005, the Company and Thomas Boehlert agreed that Mr. Boehlert would resign as Executive Vice President and Chief Financial Officer of the Company effective August 1, 2005. Effective October 3, 2005, Hamsa Shadaksharappa joined the Texas Genco management team as Executive Vice President and Chief Financial Officer.

During the quarter, the Company made three new additions to the Board of Directors. Paul Hobby, Pat Wood, and William Hantke joined in the third quarter. In addition, William Hantke also serves as the Chairman of the Audit Committee.

Power Sales

The Company has continued to sell power forward on both a firm and non-firm basis from its solid-fuel baseload plants. These recent forward solid-fuel baseload sales were sold exclusively to investment grade counterparties and require limited collateral on the Company's part. Through April 13, 2005, the Company purchased Texas Genco Holdings, Inc.'s share of energy generated by STP's output, pursuant to a contractual "back to back" arrangement. The Company also has entered into transactions to sell capacity from its natural gas-fired facilities for 2005-2007. Under these transactions the Company will receive monthly capacity payments and, to the extent the counterparties actually schedule energy delivery, energy payments to compensate the Company for fuel expenses. The Company will continue to evaluate opportunities for Forward Sales Obligations, as well as corresponding fuel purchases and hedging transactions where the Company believes these transactions will allow the Company to realize attractive margins on the capacity of its units.

Railcars

The Company intends to lease approximately 2,695 railcars over the next two years to replace its existing fleet of railcars. The Company has signed a definitive contract with the manufacturer to produce these railcars for delivery between March 2006 and March 2007. The Company expects the total cost will be approximately $165 million.

Joint Operating Agreement with the City of San Antonio

The Company has a joint operating agreement with the City Public Service Board of San Antonio ("CPS") to jointly dispatch our portfolio of generation units with CPS's portfolio of 4,823 MW of generation capacity as a joint operating system to meet our combined obligations. This agreement with CPS expires in 2009 and can be terminated at any time by either party with 90 days' notice. A notice was given to CPS on September 14, 2005 to terminate the joint operating agreement effective January 1, 2006.

Fuel Supply

The Company's W.A. Parish plant uses Powder River Basin coal for 100% of its fuel while the Limestone plant uses Powder River Basin coal for 30% of its fuel. The Powder River Basin coal is transported from Wyoming by rail. Rail delivery of coal has been disrupted by train derailments and other operational problems caused by deteriorated rail track beds in Wyoming resulting from adverse weather conditions earlier this year. The BNSF Railway Company who operates and maintains the rail line has been making major repairs to the affected track. These events created an initial disruption in May 2005, followed by an approximately 15% reduction from expected deliveries since then. The BNSF Railway Co. estimates the track repairs will be complete by mid-November 2005 and we expect our deliveries will return to normal at that time.

While this coal delivery disruption has not affected the amount of coal we burn at our facilities, it has caused us to burn coal that would normally be in our inventory pile, thereby significantly reducing our coal inventory levels at the Parish and Limestone plants. Additionally, as part of a risk management strategy we implemented in order to maintain a stable fuel supply, we have purchased alternative sources of fuel such as petroleum coke (“petcoke”) and South American coal. This program may continue in the near term until we are able to return our coal inventory to normal levels.

The Company believes it has sufficient coal inventories to maintain generation at its plants at the projected delivery levels. Actual power plant performance, power market conditions, weather-induced demand for power, availability of alternative fuel and transportation could have a significant impact on the effectiveness of this strategy.

The lignite at Limestone is supplied under a long term contract at a fixed price through 2007 with price and volume to be renegotiated for the period 2008 through 2015. The mine operator had indicated that the current fixed price was not sufficient to meet its costs and had requested early renegotiation of the price and volume terms. The operator is a single purpose subsidiary of Westmoreland Coal Company and the contract is not supported by a Westmoreland guarantee. Recently, an interim agreement between the company and Westmoreland was reached which provides interim surcharges and special management fees to fund operations and capital expenditures through 2007. The operator has continued to meet delivery schedules. Prior to the end of 2005, the parties are contractually obligated to resume discussions around a longer-term contract and plan for the mine. If the operator fails to perform or is unable to produce sufficient quantities of lignite, the Company could experience a disruption or discontinuance of supply which could result in a partial curtailment or partial shutdown of the Company’s Limestone plant and cause the Company to produce power at its gas-fired plants or to acquire power in the spot market to cover its existing power sales obligations.

Consolidated Results of Operations

The following table sets forth the consolidated results of operations for the three months and nine months ended September 30, 2005 for Texas Genco LLC, followed by a discussion of those results.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Revenues	876,893	1,999,827
Operating Expenses:		
Fuel and purchased power expense	433,829	912,907
Operations and maintenance	99,914	329,432
Depreciation	50,800	139,006
Amortization	44,011	114,392
Taxes other than income taxes	13,730	34,789
Gain on sale of assets	(28,356)	(28,356)
Total Operating Expenses	613,928	1,502,170
Operating Income	262,965	497,657
Interest and Other Income	778	3,129
Interest Expense	(48,766)	(134,306)
Income Before Income Taxes	214,977	366,480
Income Taxes	(13,670)	(20,552)
Net Income	$ 201,307	$ 345,928

Texas Genco LLC

Three Months and Nine Months Ended September 30, 2005

Net income for the three months and nine months ended September 30, 2005 was $201.3 million and $345.9 million respectively, which reflects the impact of favorable power prices, the effects of one planned outage and increased income resulting from the acquisition of a 30.8% interest in STP on April 13, 2005 and an additional 13.2% interest on May 19, 2005. Revenues were $876.9 million on 13,918,663 MWh sold and $1,999.8 million on 35,767,216 MWh sold for the three and nine month periods respectively. The revenue increase for the three month period ended September 30, 2005 as compared to the previous quarter is primarily due to increased generation from the Company's gas generation facilities, the lack of any significant planned or unplanned outage time and higher prices. Revenues for the three months ended and nine months ended September 30, 2005, include $61.2 million and $186.3 million respectively related to the amortization of contractual obligations for out-of- market power contracts assumed in the Initial Acquisition. Revenues for the three months ended and nine months ended September 30, 2005 have been reduced by $16.4 million and $19.7 million, respectively, as a result of hedge ineffectiveness and other fair value adjustments recognized on cash flow hedges in accordance with SFAS No. 133. Revenues for the nine months ended September 30, 2005 have been decreased by $9.3 million due to a fair value change in the first quarter of 2005 of a forward fixed price sales contract that was not designated as a normal sales transaction, in accordance with SFAS No. 133 until March 10, 2005. Fuel and purchased power expenses were $433.8 million and $912.9 million, respectively, for the three and nine month periods ended September 30, 2005, which reflects lower purchased energy costs offset by additional fuel costs associated with STP and increased natural gas fuel costs due to the higher gas-fired generation in the three months ended September 30, 2005 and a reduction of $13.3 million and $37.0 million respectively for the three and nine month periods ended September 30, 2005 related to the amortization of the Company's out-of-market purchase coal contracts assumed in the Initial Acquisition.

Operations and maintenance expenses for the three month and nine month period ended September 30, 2005 of $99.9 million and $329.4 million respectively were impacted by additional operations and maintenance expenses of STP and by a net reduction in cost of $1.4 million and a net charge of $35.5 million, respectively, for those periods related to the cost of the Company's workforce reduction program and an aggregate of $2.5 million and $7.5 million, respectively, in transaction and monitoring fees paid to the Sponsors. Interest expense for the three month and nine month period ended September 30, 2005 of $48.8 million and $134.3 million, respectively, reflects the combination of interest on the Company's debt and $6.7 million and $14.0 million respectively for the three month and nine month period ended September 30, 2005 in fees and amortization of deferred loan cost. A net gain on the sale of assets for the three month and nine month period ended September 30, 2005 was $28.4 million. This amount reflects the sale of the Texas Genco fuels pipeline and the North Dayton gas storage facility that closed on July 15, 2005 and August 1, 2005, respectively.

Baseload Capacity Sold Forward

The Company has continued to enter contracts to sell power forward on both a firm and non-firm basis from its baseload plants. Forward baseload contracts negotiated during the current year have been exclusively with investment grade counterparties, and require limited collateral on the Company's part. The substantial majority of the available baseload capacity has been sold to a few customers, including J. Aron, subsidiaries of Reliant Energy, Inc., BP Energy Company, Coral Energy Resources, L.P. and Constellation Energy Group. As of September 30, 2005 the Company had economically hedged the market price risk exposure associated with approximately 92% of its available baseload capacity for the remainder of 2005, 86% in 2006, 83% in 2007, 81% in 2008, 67% in 2009, and 27% in 2010. Through April 13, 2005, the Company purchased Texas Genco Holdings, Inc.'s share of energy generated by STP's output, pursuant to a contractual "back to back" arrangement. The Company also has entered into transactions to sell capacity from its gas-fired facilities for 2005. Under these transactions the Company will receive monthly capacity payments and, to the extent the counterparties actually schedule energy delivery, energy payments to compensate the Company for fuel expenses.

The following table summarizes the Company's forward power sales and natural gas swap agreements transacted through September 30, 2005. Approximately 86% of the Company's forward power sales and natural gas swap agreements are with investment grade rated counterparties, and the Company expects this percentage to increase over time as current contracts with below investment grade rated counterparties are fulfilled.

Texas Genco LLC

	2006	2007	2008	2009	2010
Baseload Capacity (MW) (1)	5,352	5,382	5,382	5,382	5,382
Available Baseload Capacity (MW)(2)	4,946	5,133	5,120	5,127	5,124
Forward Firm Sales (MW)(3)	3,279	4,071	3,650	2,275	500
Forward Natural Gas Swaps (MW)(4)	545	—	352	1,153	872
Forward Non-firm (MW)(5)	450	200	150	—	—
Total Baseload Sales	4,274	4,271	4,152	3,428	1,372
Available Baseload Capacity Sold Forward – Firm	77%	79%	78%	67%	27%
Available Baseload Capacity Sold Forward – Non-Firm(5)	9%	4%	3%	—	—
Total Baseload Capacity Sold Forward	86%	83%	81%	67%	27%
Weighted Average Forward Price ($ per MWh)	$ 44	$ 39	$ 41	$ 48	$ 52
Total Forward Sales Revenues ($ in millions)(3) (4)	$ 1,654	$ 1,445	$ 1,505	$ 1,434	$ 621

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(1) Baseload Capacity (MW) is the sum of the net generation capacity of the Company's solid-fuel baseload plants and is based on tests performed by the Company and reported to the Electricity Reliability Council of Texas as of September 30, 2005 and includes the 44.0% undivided interest in South Texas Project Electric Generating Station the Company now owns. Actual capacity can vary depending on factors including weather conditions, operational conditions and other factors. The Electricity Reliability Council of Texas requires periodic demonstration of capability, and the capacity may vary individually and in the aggregate from time to time.

(2) Available Baseload Capacity (MW) is the average capacity of the Company's solid-fuel baseload plants adjusted for planned outages during the course of a year.

(3) All forward sales attributable to Texas Genco Holding, Inc.'s share of the output of South Texas Project Electric Generating Station were passed through to Texas Genco, LP prior and subsequent to the close of the Nuclear Acquisition.

(4) The Forward Natural Gas Swap quantities reflected in equivalent MW are derived by first dividing the quantity of MMBtu of natural gas hedged by the forward market heat rate (in MMBtu/MWh, mid-point of the bid and offer as quoted by brokers in the market of the relevant Electric Reliability Council of Texas zones as of September 19, 2005) to arrive at the equivalent MWh hedged which is then divided by 8,760 to arrive at MW hedged. Revenues sold forward include revenues assumed to be associated with the natural gas price swap agreements. The natural gas price swap agreements are entered into as a hedge against fluctuations in the gas price component of future power sales and therefore the revenues associated with natural gas price swap agreements in the Total Revenue Sold Forward represent the assumed revenues of future power sales. The revenues of these future power sales are estimated by multiplying the fixed swap gas price we receive in the natural gas price swap agreements by the relevant forward market heat rate of the relevant ERCOT zone as of September 19, 2005. Under the terms of our natural gas price swap agreements, we receive (if the spot price of natural gas based on an index tied to the delivery point known as Henry Hub is less than the fixed price contracted under the price swap agreement) or pay (if the spot price of natural gas is more than the fixed price contracted under the price swap agreement) the difference between the cost of natural gas in the spot market and the fixed price contracted under the price swap agreement. Due to the high correlation between natural gas prices and power prices in the ERCOT market, these arrangements are designed to hedge the price of future power sales and, therefore, the revenues we will receive for the equivalent amount of capacity. Under these arrangements, as the price of natural gas rises or falls, the amount we pay or receive on the natural gas price swap agreements is offset by an increase or decrease in the price we expect to receive for future sales of power. This correlation between the amount we pay or receive under our natural gas price swap agreements and the price we receive for our power sales assumes a constant market heat rate and no relative change in the differential between the index price of natural gas under our natural gas price swap agreements and for the ERCOT market. Our total revenues will be affected by any ineffectiveness of the natural gas price swap agreements due to a change in the correlation between natural gas prices and electricity prices or a change in the relative differential between the index price of natural gas under our natural gas price swap agreements (Henry Hub) and the index price of natural gas in the Houston zone of the ERCOT market (the Houston Ship Channel).

(5) Forward Non-Firm Sales Obligations (MW) are sales for which the Company is not required to deliver electricity in the event of an outage at a baseload plant.

Liquidity and Capital Resources

Cash Flows

The following table sets forth selected consolidated cash flows derived from the Company's consolidated financial statements included herein, for the nine months ended September 30, 2005. The net cash provided by (used in) the Company's operating, investing and financing activities is as follows:

Texas Genco LLC

		Nine Months Ended September 30, 2005 (in millions)
Cash provided by (used in):		
Operating activities	$	408.8
Investing activities	$	(628.2)
Financing activities	$	355.9

Cash Provided by Operating Activities.

Net cash provided by operating activities in the nine month period ended September 30, 2005 was $408.8 million. Cash provided by operating activities primarily reflects the net income of $345.9 million, adjusted for non cash price risk management activity of $28.9 million, accrued workforce reduction of $32.6 million, depreciation and amortization expense of $253.4 million, a net gain on the sale of equipment of $28.4 million and changes in other balance sheet accounts for the nine month period ended September 30, 2005.

Cash Used in Investing Activities.

Net cash used in investing activities in the nine months ended September 30, 2005 was $628.2 million. Cash used in investing activities primarily consists of the Nuclear Acquisition and ROFR and additions to construction in progress and plant and equipment.

Cash Provided by Financing Activities.

Net cash provided by financing activities in the nine months ended September 30, 2005 was $355.9 million, which consisted of $119.5 million from Members' contributions, $(151.5) million of Members' distributions, borrowings of $574.5 million, and the repayment of $(186.7) million of long-term borrowings.

Future Sources and Uses of Cash

The Company expects that its future liquidity and capital requirements will be affected by its:

- capital requirements related to environmental compliance and maintenance projects;
- debt service requirements and planned distributions to Members in respect of estimated income tax obligations; and
- working capital requirements, including the possible need to provide collateral to support the Company's commercial obligations.

On September 30, 2005, the Company had cash and cash equivalents of approximately $222.4 million.

The Company currently expects funds generated from its operating activities, together with existing cash and cash equivalents, and availability of letters of credit and borrowings under the Credit Agreement and the Funded Letter of Credit Facility, will be adequate to fund the Company's ongoing operating and debt service requirements (including estimated tax distributions to Members), as well as possible collateral needs.

Long-Term Financing Obligations

Credit Agreement. On December 14, 2004, the Company executed a Credit Agreement with several lenders ("Credit Agreement"), under which various credit facilities were made available to the Company. Substantially all of the Company's assets are pledged as collateral to the Credit Agreement lenders. All payments under the Credit Agreement are jointly and severally, and unconditionally guaranteed by the Company's existing and subsequently acquired or organized restricted domestic subsidiaries. Interest expense under the term loan facilities, including amortized financing charges, was approximately $24.0 million and $59.6 million, respectively, for the three months and nine months ended September 30, 2005. The effective interest rate on the term loan facilities, after amortization of deferred financing costs, was approximately 5.8% and 5.4%, respectively, for the three months and nine months ended September 30, 2005.

The Credit Agreement provides for the payment to the lenders of commitment fees equal to 0.5% per annum of the undrawn portion of the revolving credit facility, the base letter of credit facility and the special letter of credit facility. The commitment fees are paid quarterly in arrears.

Funded Letter of Credit Facility. On June 24, 2005, Texas Genco LLC entered into a $150.0 million Funded L/C Credit Agreement (“Funded Letter of Credit Facility”) with several lenders, which will expire on December 14, 2011. The Funded Letter of Credit Facility provides for the payment to the administrative agent for the benefit of each lender of fees totaling 2.08% per annum on such lender’s credit-linked deposit funding amount. The Funded Letter of Credit Facility provides for the payment of fronting fees to the issuing lender in an amount equal to the stated amount of all funded letters of credit outstanding multiplied by 0.12% per annum. All fees are paid at least quarterly in arrears. The Funded Letter of Credit Facility provides for Texas Genco LLC to be able, at its option, to reduce commitments, without penalty or premium.

Texas Genco LLC’s obligations under the Funded Letter of Credit Facility are unconditionally and irrevocably jointly and severally guaranteed by each of its existing and subsequently acquired or organized domestic subsidiaries, other than unrestricted subsidiaries, and the obligations and guarantees are secured by a perfected lien on all of its and its guarantors’ assets, including all personal, real and mixed property (except for certain excluded assets).

For the three months and nine months ended September 30, 2005, commitment fees for the revolving credit facility, base letter of credit facility, special letter of credit facility, delayed draw term loan facility and Funded Letter of Credit Facility, excluding amortization of deferred financing charges, were approximately $4.0 million and $11.4 million in the aggregate, respectively.

The following table summarizes used and available portions of the various credit facilities made available to the Company under the Credit Agreement and the Funded Letter of Credit Facility at September 30, 2005:

Facility	Commitment Amount	Amounts Borrowed	Face Amount of Letters of Credit Issued	Total Unused
		(in millions)		
Term Loan Facility, due 2011	$ 1,141.4	$ 1,141.4	$ N/A	$ N/A
Delayed Draw Term Loan Facility, due 2011	472.6	472.6	N/A	N/A
Revolving Credit Facility, due 2009	325.0	—	39.7	285.3
Base Letter of Credit Facility, due 2009	200.0	—	134.8	65.2
Special Letter of Credit Facility, due 2009	344.3	N/A	344.3	—
Funded Letter of Credit Facility, due 2011	150.0	N/A	150.0	—
Total	$ 2,633.3	$ 1,614.0	$ 668.8	$ 350.5

Capital Lease Obligations. Current and long-term capital lease obligations at September 30, 2005 were $1.8 million and $2.1 million respectively.

Senior Notes. On December 14, 2004, the Company and Texas Genco Financing Corp., the Company’s wholly owned subsidiary, co-issued unsecured 6.875% Senior Notes due December 15, 2014 (the “Senior Notes”), in an aggregate principal amount of $1,125.0 million. Interest on the Senior Notes is payable semiannually in arrears on December 15 and June 15, commencing June 15, 2005. Interest expense related to the Senior Notes was approximately $19.3 million and $58.0 million for the three and nine month period ended September 30, 2005. The effective interest rate on the Senior Notes, after amortization of deferred financing costs, was approximately 7.2% for the three and nine month period ended September 30, 2005.

Estimated Capital Expenditure Requirements

The following table reflects approved or projected capital expenditures for the Company through 2009 (in millions) as of September 30, 2005:

Estimated Capital Expenditure Requirements:	Total	2006	2007	2008	2009	2010
Environmental expenditures	$ 5.2	$ 5.2	$ —	$ —	$ —	$ —
Capital and other expenditures	528.2	155.3	102.7	85.2	93.9	91.1
Total expenditure requirements	$ 533.4	$ 160.5	$ 102.7	$ 85.2	$ 93.9	$ 91.1

The estimated capital expenditure requirements in the above table include capital costs for plant upgrade projects of $22.9 million and $0.3 million in 2006 and 2007, respectively. These projects are expected to increase baseload plant capacity by 162 MW as the projects are completed in 2006 and 2007. The capital and other expenditure requirements also include expenditures for nuclear fuel of $45.0 million, $28.5 million, $40.9 million, $41.8 million and $31.2 million for the years 2005 through 20010, respectively. Included in these amounts are amounts approved by the Owners' committee of STP relating to significant uprate and fuel projects for STP for 2006 and beyond. These projects include the acquisition of a strategic refueling reload of uranium, replacement of LP turbine rotors and the replacement of nuclear reactor vessel heads.

Reclamation and Retirement Obligations

An affiliate of CenterPoint provided a $50.0 million guarantee to the Railroad Commission of Texas with respect to the reclamation obligations related to the Jewett mine. The Company has agreed with CenterPoint to cause the guarantee to be released within five years, which may require the Company to provide a bond or other security.

Tax and Other Member Distributions

The Company's limited liability company agreement provides for cash distributions to the Members of the Company on a periodic basis for the purposes of funding their tax obligations in respect of the income of the Company that is allocated to them. The amount of those distributions is calculated based on an agreed tax rate of 45% multiplied by the net taxable income of Texas Genco LLC, excluding the earnings of Texas Genco Holdings, Inc., for the relevant tax period. During the third quarter, the Company made a tax distribution to its Members of $65.7 million.

The Company also made distributions to its Members in the amounts of $48.7 million and $37.1 million during the third quarter. These payments represent preliminary distributions of the estimated net proceeds of the sales of the Texas Genco fuels pipeline and the North Dayton gas storage facility, respectively, net of the tax distribution made in respect of the expected capital gain on each of these sales.

Pension Plan, Retirement Benefits and Compensation Obligations

Based on an expected return on plan assets of 8.5% and a discount rate of 5.75% as of December 31, 2004, pension expense for the nine months ended September 30, 2005 was $68.9 million, which included $57.2 million related to the Company's Voluntary Retirement Incentive program. Future changes in plan assets, returns, assumed discount rates and various other factors related to the pension will also impact the Company's future pension expense and liabilities. The Company cannot predict with certainty what these factors will be in the future. The plan assets were invested in marketable securities for which an active market existed. In accordance with SFAS 87, "Employers' Accounting for Pensions," the fair value at the measurement date for each investment was determined by utilizing the market prices for each investment. The sum of these fair values was reflected as the "Fair value of the assets."

Employees of Texas Genco II, LP ("Genco II") participate in a retiree medical plan that provides certain healthcare benefits for retired employees on a contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plan. Employer contributions for medical coverage for certain healthcare benefits are limited by the plan's benefit design. Such benefit costs are accrued over the active service period of employees. The Company funds all of these obligations on a pay-as-you-go basis. Under an agreement between CenterPoint and the Company, CenterPoint has retained the obligation to pay retiree medical benefits for all Genco II employees who subsequently retire and had attained either age 55 with five years of service or 50 to 54 years of age with 20 years of service as of December 15, 2004. The Company's benefit payments under this plan are expected to be $-0- in 2005, $2 thousand in 2006, $17 thousand in 2007, $22 thousand in 2008, $30 thousand in 2009 and $1.3 million in the aggregate for 2010 through 2015.

Nuclear Acquisition and ROFR

On April 13, 2005, a wholly owned subsidiary of the Company merged with and into Texas Genco Holdings, Inc. (the "Nuclear Acquisition"). As a result of the Nuclear Acquisition, Texas Genco Holdings, Inc. became a wholly owned subsidiary of the Company and the Company thereby indirectly acquired Texas Genco Holdings, Inc.'s assets and liabilities, including its 30.8% undivided interest in STP. The Company paid an affiliate of CenterPoint Energy, Inc. aggregate consideration of $700.0 million in cash in connection with the Nuclear Acquisition. The Company financed the Nuclear Acquisition with $475.0 million of borrowings under the term loan portion of its senior secured credit facilities, approximately $99.5 million of revolver borrowings, an additional cash equity investment of $117.8 million by existing equityholders, investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group (collectively, the ''Members'') and, to a lesser extent, by certain members of management, and the balance from cash on hand (the "Nuclear Acquisition Financing" and the Initial Acquisition Financings and the Nuclear Acquisition Financing, together, the "Formation Financings"). In addition, because Texas Genco Holdings, Inc. had approximately $75.0 million of bank debt outstanding, which became due at the closing of the Nuclear Acquisition, the Company also paid approximately $75.0 million from its cash on hand in order to discharge such debt. In connection with the Nuclear Acquisition, in an order from the Nuclear Regulatory Commission ("NRC") dated April 4, 2005, approving the indirect transfer of the STP license from CenterPoint Energy to Texas Genco LLC, the NRC required Texas Genco LLC to enter into a support agreement with Texas Genco LLC's subsidiary Texas Genco, LP to provide up to $120.0 million to Texas Genco, LP if necessary to support its share of operations at STP. Texas Genco LLC entered into that support agreement on April 13, 2005.

On May 19, 2005, pursuant to the exercise of a right of first refusal by Texas Genco, LP subsequent to a third party offer to AEP in early 2004, the Company acquired from AEP an additional 13.2% undivided interest, equivalent to 338 MW, in STP for approximately $174.2 million, less adjustments for working capital and other purchase price adjustments (the "ROFR"). As a result, the Company now owns a 44.0% undivided interest, equivalent to 1,127 MW, in STP. Texas Genco, LP had deposited cash collateral to secure stand-by letters of credit posted in favor of AEP to secure the obligation to pay AEP for the ROFR. The purchase price for the ROFR was funded from that deposited cash, and on May 19, 2005, excess cash in the amount of approximately $28.9 million securing the stand-by letters of credit was released to us. Pursuant to the purchase agreement for the ROFR, Texas Genco, LP agreed with AEP that, for a period of ten years from the date of the consummation of the ROFR, Texas Genco, LP would maintain minimum partners' equity, determined in accordance with Generally Accepted Accounting Principles in the United States of America ("GAAP"), of $300 million.

The final purchase price allocation and estimated useful life of intangible assets for the Initial Acquisition, the Nuclear Acquisition and the ROFR are subject to refinement for changes in the Company's preliminary assumptions and analyses. The Company is in the process of obtaining a third party valuation of certain natural gas-fired electric generating facilities, emission allowances, customer-related intangible assets, goodwill and plant decommissioning costs or retirement obligations. Additionally, the Company is in the process of implementing a plan to reduce its workforce. The Company expects that involuntary termination costs associated with the workforce optimization plan will be included in the allocation of the acquisition cost when such amounts are estimable. The Company will utilize this information to make a final assessment of its purchase price allocation.

Suspension of Plant Operations

On January 10, 2005, the Company filed notice with ERCOT to suspend operations at fifteen gas fired generation units located at the Company's Cedar Bayou, Webster, P.H. Robinson, H.O. Clarke, T.H. Wharton and Deepwater Stations. This was the first step in a process to retire the units permanently or to place them in mothball status for more than 180 days. ERCOT notified the Company that it required the continued operation of only P.H.

Robinson Unit 2 and negotiated a contract with the Company to maintain the unit in operation on a "Reliability Must Run" basis ("Must-Run Contract"). Under the Must-Run Contract, the Company recovered the costs of operating and activating the unit from ERCOT and in turn the unit was available to ERCOT for reliability needs. The Must-Run Contract had a term of one year starting on May 17, 2005, with a right of early termination by ERCOT. On October 29, 2005, the Must-Run Contract was terminated pursuant to a notice of early termination issued by ERCOT on August 1, 2005. This unit is now in mothball status for more than 180 days.

Nuclear Decommissioning

As a result of the Nuclear Acquisition and ROFR, the Company has become the beneficiary of decommissioning trusts that have been established to provide funding for decontamination and decommissioning of the South Texas Project in which the Company owns a 44.0% interest. CenterPoint Energy and American Electric Power collect, through rates or other authorized charges to their electric utility customers, amounts designated for funding the decommissioning of the facility. In the event funds from the trusts are inadequate to fund the Company's ownership portion of the actual decommissioning costs, CenterPoint Energy and American Electric Power or their successors will be required to collect through rates or other authorized charges to customers as contemplated by the Texas utility Code all additional amounts required to fund the Company's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to the ratepayers of CenterPoint Energy, American Electric Power, or their successors. The fair value of the trust assets are reflected as a non-current asset by the Company with an associated long-term liability to reflect the future obligation to fund the decommissioning from the trust assets or to refund or collect additional amounts from the ratepayers or CenterPoint Energy, American Electric Power or their successors.

In addition to the nuclear decommissioning trusts, the Company has recorded asset retirement obligations and liabilities in accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations". The assets and liabilities were recorded on the respective acquisition dates based on the estimated future costs of decontamination and decommissioning of the Company's 44.0% interest in the South Texas Project. The asset is being amortized over the remaining licensing period for the South Texas Project and is reflected as a component of property plant and equipment. Accretion expense is being recognized associated with the liability.

As of September 30, 2005 the trust assets had a market value of $305.4 million. The unamortized portion of the retirement obligation asset was $280.2 million. The decommissioning liability was $291.8 million, and the liability to fund decommissioning from the trust assets and payments to or from ratepayers was $293.8 million. The total value of all assets and all liabilities associated with the decommissioning and the trusts will always be equal, which is consistent with the Company not having any economic exposure for the decommissioning responsibilities.

State Auction Application

Texas Genco Holdings, Inc., when it was a subsidiary of CenterPoint Energy, Inc., was required by Texas regulation to auction firm entitlements to 15% of its installed generation capacity and related ancillary services on a forward basis to non-affiliates (the "Texas Utility Commission state-mandated auctions"). The Company filed with the Texas Utility Commission for a declaratory ruling that the Company is not required to conduct Texas Utility Commission state-mandated auctions. The Texas Utility Commission ruled at an open meeting in June 2005 that the Company is required to conduct the auction, although it indicated that if the Company sells generation units in the interim the Company may be excused from the auction. The Texas Utility Commission issued a declaratory order on July 29, 2005 stating that the Company is still required to conduct the state-mandated auctions. The Company completed the September 12, 2005 auction to sell 567 MWs of baseload capacity. The Company is required to conduct Texas Utility Commission state-mandated auctions that will continue through December 31, 2006.

Workforce Optimization Plans

On February 1, 2005, and in conjunction with the Initial Acquisition, the Company announced a workforce optimization plan (the "Plan"). The program consists of a voluntary retirement incentive and an involuntary severance.

Voluntary Retirement Incentive. On February 14, 2005, the Company announced a Voluntary Retirement Incentive Program (“VRI”) for its eligible 232 non-bargaining unit employees, and on March 15, 2005, an identical program was announced for its eligible 309 bargaining unit employees. To be eligible for the VRI, employees must have been (1) employed on February 1, 2005 (on March 1, 2005 for bargaining unit employees), (2) at least age 50 with at least 15 years of service on April 1, 2005, and (3) a participant in the Texas Genco II LP retirement plan (“Retirement Plan”). In summary, the VRI offers the eligible employee (i) an annuity payment from the Retirement Plan based on the greater of (a) the cash balance account in the Retirement Plan, or from the predecessor plan benefit formula, (b) the accrued lump sum benefit paid as a monthly annuity, or (c) the present value of the immediate life annuity; (ii) the present value of two years of base salary in the form of a twenty-four month annuity payment from the Retirement Plan (or, if the employee elects, in the form of a life annuity); (iii) a lump-sum healthcare bridge payment if the employee is under age 55; and (iv) payment of earned vacation and a pro-rated 2005 discretionary bonus. The election period to participate in the VRI expired on April 7, 2005 and as of September 30, 2005, 412 employees had elected to retire and did not revoke their election. SFAS No. 88, Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, specifies that an employer that offers special termination benefits to employees shall recognize a liability and a corresponding cost when the employees accept the offer and the amount can be reasonably estimated. During the three and nine month periods ended September 30, 2005, a credit of $1.4 million and $57.2 million were recognized relative to the estimated increased pension cost related to the VRI plan. Additionally, for the nine month period ended September 30, 2005, $3.0 million was recognized as estimated liabilities for the health care bridge payment associated with the 412 electing employees.

Involuntary Severance. The second component of the Plan is being achieved by targeted workforce reductions. Employees terminated pursuant to the Plan receive a lump-sum cash severance benefit payment based on a calculation which provides three weeks of base pay for each full year of service realized with the Company (and qualified predecessor employers), with a minimum of 12 weeks and a maximum of 52 weeks of severance benefits paid to an affected individual. In addition, the terminated employee would receive an additional lump sum equal to the employee’s target award under the Company’s annual short-term incentive plan based on eligible earnings for the period commencing on January 1 of the termination year through the employee’s date of termination. Affected individuals will also have the ability to continue medical, dental and vision benefits at the active employee contribution rates for coverage for the number of weeks used to calculate the individual’s severance benefit. As of September 30, 2005, the Company has terminated 41employees pursuant to this component of the Plan.

Voluntary Severance. On August 15, 2005, the third phase of the workforce restructuring, a Voluntary Severance Program covering collectively bargained employees, was announced. In accordance with our agreements with the union, the program was offered to selected work groups within the Company. The Program provides the same level of severance benefits provided in the involuntary program. As of September 30, 2005, 17 employees had elected to terminate his/her employment in the following fourth quarter, effective October 1, 2005, pursuant to the Voluntary Severance Program.

During the first quarter of 2005, the Company completed an analysis that estimated the total minimum severance benefits for the total targeted workforce reduction plan. This estimated cost of the minimum severance benefits was accrued during the first quarter, and included a reduction of $29.6 million in goodwill. This estimate may be adjusted in future periods, as the total actual severance liability is determined.

During the nine months ended September 30, 2005, the accrued liability for the minimum severance benefits was reduced by $24.7 million, reflecting the minimum severance benefits liability associated with the 412 employees electing the VRI as of September 30, 2005. In addition, the accrued liability for the minimum severance benefits was reduced by $2.1 million associated with 30 eligible employees who were severed during the period. As a result, Operations and Maintenance expenses for the nine month period ended September 30, 2005 includes a $57.2 million pension charge, and a $3.0 million health care bridge charge, which was partially offset by a $24.7 million minimum severance credit, all relating to the VRI plan.

Part B — Texas Genco Holdings, Inc.

Consolidated Results of Operations

The following table sets forth the consolidated results of operations of Texas Genco Holdings, Inc. and its subsidiaries ("Holdings") for the period from January 1, 2005 to April 13, 2005 and three months and nine months ended September 30, 2004, followed by a discussion of Holdings' consolidated results of operations.

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004	Period from January 1 through April 13, 2005
	(in thousands, except for share and per share amounts)		
Revenues	$ 637,885	$ 1,629,732	$ 61,593
Expenses:			
Fuel costs	315,644	765,951	5,687
Purchased power	17,506	43,874	—
Operation and maintenance	118,914	319,113	35,026
Depreciation and amortization	4,355	85,331	5,165
Write-down of assets	649,000	649,000	—
Taxes other than income taxes	8,721	33,099	3,467
Total	1,114,140	1,896,368	49,345
Operating Income (Loss)	(476,255)	(266,636)	12,248
Other Income	908	2,963	1,145
Interest Expense, net	—	(140)	(763)
Income (Loss) Before Income Taxes	(475,347)	(263,813)	12,630
Income Tax Benefit (Expense)	164,088	93,562	(3,514)
Net Income (Loss)	$ (311,259)	$ (170,251)	$ 9,116
Basic and Diluted Earnings Per Share:			
Net Income (Loss)	$ (3.89)	$ (2.13)	$ 0.14
Weighted Average Shares Outstanding	80,000,000	80,000,000	64,764,240

Period from January 1 through April 13, 2005

For the period from January 1 through April 13, 2005, Holdings reported net income of $9 million as compared to $170 million for the nine months ended September 30, 2004. On December 15, 2004, Holdings sold its coal, lignite and gas-fired generation assets to the Company. In 2005, Holdings only remaining asset was its 30.8% interest in the South Texas Electric Generating Project nuclear generating facility, which was sold to Texas Genco LLC on April 13, 2005. Therefore, there is no meaningful comparison between 2004 and 2005.

Texas Genco Holdings, Inc.

Liquidity and Capital Resources

Historical Cash Flows

The net cash provided by/used in Holdings' operating, investing and financing activities for the nine months ended September 30, 2004 and the period from January 1 through April 13, 2005 is as follows (in millions):

	Nine Months Ended September 30, 2004	Period from January 1, through April 13, 2005
Cash provided by (used in):		
Operating activities	$ 400	$ (89)
Investing activities	(46)	374
Financing activities	(61)	(308)

Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities decreased $489 million for the period from January 1 through April 13, 2005 as compared to the nine months ended September 30, 2004 primarily due to the fossil generation assets no longer generating revenue after their sale, the different lengths of the reporting periods and increased income taxes paid related to the sale of Holdings' fossil generation assets.

Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities increased $420 million for the period from January 1 through April 13, 2005 as compared to the nine months ended September 30, 2004. The settlement of notes receivable from affiliates position in the first quarter of 2005 and a decrease in restricted cash of $383 million related to payments to former shareholders contributed to the increase as compared to the nine months ended September 30, 2004. Additionally, there were decreased capital expenditures due to the sale of the fossil generation assets on December 15, 2004.

Cash Used in Financing Activities

Cash used in financing activities increased $247 million for the period January 1 through April 13, 2005 as compared to the nine months ended September 30, 2004. Holdings borrowed $75 million under its revolving credit facility during the first quarter of 2005. Additionally, the dividend payment was eliminated in the first quarter of 2005. These increases were offset by the purchase of treasury shares for $383 million in the period from January 1 through April 13, 2005.

Texas Genco LLC

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Changes in interest rates affect the interest expense the Company incurs on the Company's variable-rate debt and the fair value of the Company's fixed-rate debt. In addition, changes in interest rates used in the estimation of the fair value of the Company's interest rate derivative positions can result in increases or decreases in the unrealized value of those positions; however, at September 30, 2005 the Company had no such derivative positions.

The table below shows the maturity for the carrying amount and related weighted-average interest rate on the Company's term loan facilities under the Credit Agreement and on the Senior Notes, by expected maturity date, and the fair value of the outstanding debt at September 30, 2005.

Long-Term Financing Obligations, including current portion	Expected Fiscal Year of Maturity of Carrying Amounts (in millions) 2005	2006	2007	2008	2009	Thereafter	Fair Value
Senior Notes (due December 15, 2014)	$ —	$ —	$ —	$ —	$ —	$1,125.0	$1,153.1
Average interest rate	6.875%	6.875%	6.875%	6.875%	6.875%	6.875%	6.875%
Term Loan Facilities	$ 4.0	$ 16.3	$ 16.3	$ 16.3	$ 16.3	$1,544.8	$1,622.1
Average interest rate (1)	6.47%	6.29%	6.30%	6.32%	6.33%	6.26%	5.91%

(1) Based on the Company's weighted average term loan interest rate of 5.96% at September 30, 2005

At September 30, 2005, a 1% change in interest rates on the term loan facilities of the Credit Agreement would have resulted in a $16.1 million change in pretax income on an annual basis.

Commodity Price Risk

The Company actively manages the risks associated with volatility in power prices and fuel costs through a combination of fixed price firm and non-firm forward power sales, natural gas swaps and long-term fuel arrangements. In addition, the Company's long-term rail transportation contracts for the W.A. Parish and Limestone plants' coal requirements provide for delivery to the plants at contracted prices.

The Company is subject to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138 and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. These statements require that derivatives be recognized at fair value on the balance sheet and that changes in fair value of such derivatives be recognized either currently in earnings or deferred as a component of other comprehensive income. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs. Cash flow hedges are those derivatives designated to hedge exposure to variability in expected future cash flows. Changes in the fair value of cash flow hedges, to the extent there is a high correlation between price movements in the derivative and the item designated as being hedged, are recognized as a component of other comprehensive income until the expected cash flow occurs. At such time, previously recognized amounts within comprehensive income are reversed, and the change in the fair value of the derivative is recognized within earnings.

The Company has entered into several natural gas swap agreements to sell approximately 199.0 million MMBtu's of natural gas through 2010 at fixed prices, with the Company as the floating price payor. These transactions hedge the Company's exposure to variability in expected future cash flows from fluctuations in the sale of power, which is highly correlated with natural gas prices in ERCOT. These swap agreements are considered derivatives and are treated as cash flow hedges for accounting purposes. The aggregate fair market value of the natural gas swap agreements was ($324.1) million at September 30, 2005. The Company has recognized losses associated with these swaps in the amount of $23.3 million. As a result, $300.8 million was recorded as an other comprehensive loss at September 30, 2005.

Texas Genco LLC

The table below presents the hypothetical sensitivity to immediate selected potential changes in the quoted market price of natural gas of the derivative commodity instrument the Company used to mitigate market risks that was outstanding at September 30, 2005 (in millions).

Impact of changes in commodity prices on derivative commodity instrument as of September 30, 2005:		10% Increase		10% Decrease	
	Current Fair Value	Fair Value	Increase (Decrease)	Fair Value	Increase (Decrease)
Natural gas swap agreement	$ (324.1)	$ (469.2)	$ (145.1)	$ (179.0)	$ 145.1

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Exhibit 99.02

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Members of Texas Genco LLC
Houston, Texas

We have audited the accompanying consolidated balance sheets of Texas Genco Holdings, Inc. as of December 31, 2003 and 2004, and the related consolidated statements of operations, cash flows, and capitalization and shareholders' equity for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of Texas Genco Holdings, Inc.'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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Texas Genco Holdings, Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Texas Genco Holdings Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Texas Genco Holdings, Inc. at December 31, 2003 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 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, Texas Genco Holdings, Inc. recorded asset retirement obligations to conform to Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

DELOITTE & TOUCHE LLP

June 3, 2005
Houston, Texas

The following audited financial statements of Texas Genco Holdings, Inc. are being presented as the predecessor company. On April 13, 2005, as a result of the Nuclear Acquisition, Texas Genco Holdings, Inc. became a wholly-owned subsidiary of the Company. As a result, the Statement of Consolidated Income only includes the results through April 13, 2005. The results of Texas Genco Holdings, Inc. subsequent to April 13, 2005 are included in the consolidated results of the Company.

TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED OPERATIONS
(Thousands of Dollars and Shares)

	Year Ended December 31,		
	2002	2003	2004
Revenues	$1,540,975	$2,002,368	$2,053,955
Expenses:			
Fuel and purchased power expense	1,083,401	1,170,778	1,021,515
Operation and maintenance	391,465	411,940	414,878
Depreciation and amortization	156,740	159,010	88,928
Write-down of assets	—	—	763,000
Taxes other than income taxes	42,930	38,681	40,494
Total	1,674,536	1,780,409	2,328,815
Operating Income (Loss)	(133,561)	221,959	(274,860)
Other Income	3,423	2,176	5,389
Interest Expense	(25,637)	(1,583)	(126)
Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Change	(155,775)	222,552	(269,597)
Income Tax Benefit (Expense)	62,832	(71,286)	170,479
Income (Loss) Before Cumulative Effect of Accounting Change	(92,943)	151,266	(99,118)
Cumulative Effect of Accounting Change, net of Tax	—	98,910	—
Net Income (Loss)	$ (92,943)	$ 250,176	$ (99,118)
Basic and Diluted Earnings Per Share:			
Income (Loss) Before Cumulative Effect of Accounting Change	$ (1.16)	$ 1.89	$ (1.25)
Cumulative Effect of Accounting Change, net of tax	—	1.24	—
Net Income (Loss)	$ (1.16)	$ 3.13	$ (1.25)
Weighted average shares outstanding	80,000	80,000	79,332

See Notes to Texas Genco Holdings, Inc.'s consolidated financial statements.

TEXAS GENCO HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	December 31, 2003	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 44,558	$ 23,499
Restricted investments	—	406,705
Customer accounts receivable	78,122	—
Accounts receivable, other	3,716	70,448
Inventory	169,692	27,322
Prepayments and other current assets	2,304	1,154
Total current assets	298,392	529,128
Property, Plant and Equipment, net	4,125,595	474,227
Other Assets:		
Nuclear decommissioning trust	189,182	215,849
Restricted investments	—	174,238
Other	26,462	1,534
Total other assets	215,644	391,621
Total Assets	$4,639,631	$1,394,976
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable, affiliated companies, net	$ 7,802	$ 5,045
Accounts payable, fuel	68,747	—
Accounts payable, other	40,165	16,884
Payable to former shareholders	—	389,743
Taxes and interest accrued	107,605	96,956
Deferred capacity auction revenue	86,853	—
Other	17,579	1,444
Total current liabilities	328,751	510,072
Other Liabilities:		
Accumulated deferred income taxes, net	844,545	70,032
Unamortized investment tax credit	150,533	40,920
Nuclear decommissioning reserve	187,997	233,278
Benefit obligations	16,970	—
Accrued mine reclamation costs	6,000	—
Unrealized gain on nuclear decommissioning trust	62,003	59,062
Other	9,671	28,095
Total other liabilities	1,277,719	431,387
Commitments and Contingencies (Note 6)		
Shareholders' Equity	3,033,161	453,517
Total Liabilities and Shareholders' Equity	$4,639,631	$1,394,976

See Notes to Texas Genco Holdings, Inc.'s consolidated financial statements.

TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Thousands of Dollars)

	Year Ended December 31, 2002	2003	2004
Cash Flows from Operating Activities:			
Net income (loss)	$ (92,943)	$ 250,176	$ (99,118)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	156,740	159,010	88,928
Amortization of deferred financing costs	—	—	2,854
Fuel-related amortization	25,113	23,385	27,156
Deferred income taxes	(27,161)	8,693	(865,773)
Current income taxes on sale of fossil generation assets	—	—	556,856
Investment tax credit	(12,144)	(10,876)	(11,187)
Write-down of assets	—	—	763,000
Cumulative effect of accounting change	—	(98,910)	—
Changes in other assets and liabilities:			
Accounts receivable	(34,975)	(8,690)	(41,078)
Inventory	24,082	(13,525)	11,261
Taxes receivable	(4,368)	4,368	—
Accounts payable	(75,659)	(11,364)	(19,727)
Accounts payable, affiliate	(25,772)	(14,852)	(7,234)
Taxes and interest accrued	(79,728)	64,646	67,106
Accrued reclamation costs	11,334	5,907	(1,445)
Benefit obligations	(17,423)	2,648	(12,089)
Deferred revenue from capacity auctions	48,721	38,132	(42,544)
Other current assets	(1,016)	1,720	(2,589)
Other current liabilities	1,257	1,661	13,727
Other long-term assets	15,757	678	50,600
Other long-term liabilities	(51,756)	(15,866)	(17,715)
Net cash provided by (used in) operating activities	(139,941)	386,941	460,989
Cash Flows from Investing Activities:			
Capital expenditures and other	(257,630)	(156,963)	(73,529)
Proceeds from sale of fossil generation assets	—	—	2,811,108
Increase in restricted investments	—	—	(580,943)
Net cash provided by (used in) investing activities	(257,630)	(156,963)	2,156,636
Cash Flows from Financing Activities:			
Payment of common stock dividends	—	(80,000)	(80,000)
Net change in capitalization activity	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)	—
Proceeds from overnight bridge loan	—	—	716,081
Payment to former shareholders	—	—	(326,338)
Repayment of overnight bridge loan	—	—	(716,081)
Dividend to CenterPoint Energy	—	—	(2,231,000)
Debt issuance costs	—	(819)	(1,346)
Net cash provided by (used in) financing activities	398,149	(185,998)	(2,638,684)
Net Increase in Cash and Cash Equivalents	578	43,980	(21,059)
Cash and Cash Equivalents at Beginning of Period	—	578	44,558
Cash and Cash Equivalents at End of Period	$ 578	$ 44,558	$ 23,499
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest	$ 4,270	$ 8,506	$ 885
Income taxes (refunds)	(7,749)	63,623	69,856

See Notes to Texas Genco Holdings, Inc.'s consolidated financial statements.

TEXAS GENCO HOLDINGS, INC.
STATEMENTS OF CONSOLIDATED CAPITALIZATION AND SHAREHOLDERS' EQUITY
(Thousands of Dollars)

	Capital Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Shareholders' Equity	Capitalization	Total Capitalization and Shareholders' Equity
Balance as of December 31, 2001	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,624,016	$ 2,624,016
Net loss(1)	—	—	—	—	(54,460)	(54,460)	(38,483)	(92,943)
Net transfers from parent	80	—	2,878,423	—	—	2,878,503	(2,585,533)	292,970
Balance as of December 31, 2002	80	—	2,878,423	—	(54,460)	2,824,043	—	2,824,043
Net income	—	—	—	—	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	80	—	2,917,365	—	115,716	3,033,161	—	3,033,161
Net loss	—	—	—	—	(99,118)	(99,118)	—	(99,118)
Common stock dividends — $1.00 Per share	—	—	—	—	(80,000)	(80,000)	—	(80,000)
Purchase of treasury shares	—	(716,081)	—	—	—	(716,081)	—	(716,081)
Dividend to CenterPoint Energy	—	—	(2,231,000)	—	—	(2,231,000)	—	(2,231,000)
Transfer of tax liability on sale of fossil generation assets to CenterPoint Energy	—	—	556,856	—	—	556,856	—	556,856
Minimum benefit liability adjustment	—	—	—	(3,573)	—	(3,573)	—	(3,573)
Net benefit transfers(2)	—	—	(6,902)	—	—	(6,902)	—	(6,902)
Other	—	—	174	—	—	174	—	174
Balance as of December 31, 2004	$ 80	$(716,081)	$ 1,236,493	$ (3,573)	$ (63,402)	$ 453,517	$ —	$ 453,517

(1) 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, Texas Genco Holdings, Inc and other power generators in Texas ceased to be subject to traditional cost-based regulation on January 1, 2002. Since that date, Texas Genco Holdings, Inc. has been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. Accordingly, for 2002, net loss reflects revenues received from market-based power sales. Retained deficit at December 31, 2002 reflects Texas Genco Holdings, Inc.'s net loss since August 31, 2002, the date of the restructuring as discussed in Note 1. Texas Genco Holdings, Inc.'s net loss prior to the restructuring is reflected as a component of capitalization.

(2) Effective September 1, 2004, Texas Genco Holdings, Inc. established a stand-alone pension plan for substantially all employees of Texas Genco Holdings, Inc. As of the establishment of the new plan, Texas Genco Holdings, Inc. received its allocation of net pension obligations from CenterPoint Energy of approximately $30 million, after-tax. Additionally, postretirement benefit obligations were adjusted to reflect the transfer of plan assets and certain postretirement benefit obligations to CenterPoint Energy as of December 15, 2004 in connection with the sale of the fossil generation assets. As a result of these transfers, Texas Genco Holdings, Inc.'s postretirement benefit obligations decreased by approximately $23 million, after-tax.

(3) Prior to the completion of the Initial Disposition, Texas Genco Holdings, Inc. repurchased 15.2 million shares of its common stock.

See Notes to Texas Genco Holdings, Inc.'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. represents the portfolio of generating facilities owned by the unincorporated electric utility division of Reliant Energy during the periods presented by these financial statements.

On August 24, 2001, Reliant Energy incorporated Texas Genco Holdings, Inc., a Texas corporation, as a wholly owned subsidiary. In February 2002, Texas Genco Holdings, Inc. 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 Texas Genco Holdings, Inc. During the period ended June 30, 2002, Reliant Energy made a capital contribution of $14,000 to Texas Genco Holdings, Inc. for payment of general and administrative expenses associated with maintaining its corporate structure. Texas Genco Holdings, Inc. 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 Texas Genco Holdings, Inc., which was accounted for as a business combination of entities under common control. Texas Genco Holdings, Inc. subsequently became an indirect wholly owned subsidiary of CenterPoint Energy. CenterPoint Energy is subject to regulation by the Securities and Exchange Commission (SEC) 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 (Genco LP), Texas Genco Holdings, Inc.’s wholly owned subsidiary that owns and operates its electric generating plants. As a result, Texas Genco Holdings, Inc. 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

(1) Background and Basis of Presentation (Continued)

of January 1, 2002, Texas Genco Holdings, Inc. ceased to be subject to traditional cost-based regulation. Since that date, Texas Genco Holdings, Inc. 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). Texas Genco Holdings, Inc.'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 Energy, Inc., formerly known as Reliant Resources, Inc. (RRI), is deemed to be an affiliate of CenterPoint Energy for purposes of this test.

On January 6, 2003, CenterPoint Energy distributed approximately 19% of the 80 million shares of Texas Genco Holdings, Inc.'s common stock that were then outstanding to CenterPoint Energy's shareholders.

Sale of Texas Genco Holdings, Inc. In July 2004, Texas Genco Holdings, Inc. entered into a definitive transaction agreement pursuant to which it agreed to be acquired in a multistep transaction by Texas Genco LLC (previously named 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. On December 15, 2004, prior to the closing of the Initial Disposition, Texas Genco Holdings, Inc. repurchased 15,235,750 shares of its common stock held by minority shareholders for $716 million. As of December 31, 2004, $390 million remained payable to former shareholders in connection with the repurchase described above. Texas Genco Holdings, Inc. had restricted investments to satisfy these obligations. On December 15, 2004, Texas Genco Holdings, Inc. completed the sale of its fossil generation assets (coal, lignite and natural gas-fired plants) to Texas Genco LLC for $2.813 billion in cash (Initial Disposition). Following the Initial Disposition, Texas Genco Holdings, Inc. distributed $2.231 billion in cash to CenterPoint Energy. The New York Stock Exchange was instructed to delist Texas Genco Holdings, Inc.'s shares on December 14, 2004 and the stock ceased to trade on December 15, 2004. Following the Initial Disposition on December 15, 2004, Texas Genco Holdings, Inc.'s principal remaining asset was its undivided 30.8% ownership interest in a nuclear generating facility. The final step of the transaction, the merger of Texas Genco Holdings, Inc. with a subsidiary of Texas Genco LLC in exchange for an additional cash payment of $700 million, was completed on April 13, 2005 (Nuclear Disposition), following receipt of approval from the Nuclear Regulatory Commission (NRC). In the third quarter of 2004, Texas Genco Holdings, Inc. recorded an after-tax impairment of approximately $426 million related to the write-down of coal, lignite and natural gas-fired generation assets in connection with the Initial Disposition. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," Texas Genco

(1) Background and Basis of Presentation (Continued)

Holdings, Inc. ceased depreciation on its coal, lignite and natural gas-fired generation plants at the time these assets were considered "held for sale." This resulted in a decrease in depreciation expense of $69 million for 2004 as compared to 2003.

Basis of Presentation. The consolidated financial statements include the operations of Texas Genco Holdings, Inc. and its subsidiaries, which manage and operate Texas Genco Holdings, Inc.'s electric generation operations. 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 Electricity Reliability Council of Texas (ERCOT) market at prices determined by the market. Accordingly, beginning in 2002, net income (loss) reflects the results of market prices for power. Included in operations for 2002, 2003 and 2004 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 the year 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. 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 Texas Genco Holdings, Inc. and interest was incurred on borrowings from CenterPoint Energy. These methodologies reflect the impact of deregulation on Texas Genco Holdings, Inc.'s assets and liabilities as of June 30, 1999.

Management believes these allocation methodologies are reasonable. Had Texas Genco Holdings, Inc. 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.

(2) Purchase of Additional South Texas Project Interest

In September 2004, Genco LP signed an agreement to purchase a portion of AEP Texas Central Company's (AEP) undivided 25.2% interest in the South Texas Project Electric Generating Station (STP) for approximately $174 million. Once the purchase is complete, Genco LP will own an additional undivided 13.2% interest in STP for a total of 44%, or approximately 1,100 MW. This purchase agreement was entered into pursuant to

(2) Purchase of Additional South Texas Project Interest (Continued)

Genco LP's right of first refusal to purchase this interest when AEP announced its agreement to sell this interest to a third-party. In addition to AEP's ownership interest and Genco LP's current 30.8% ownership, the 2,500 MW nuclear plant is currently 28%-owned by City Public Service of San Antonio (CPS) and 16%-owned by Austin Energy. CPS is expected to purchase AEP's remaining undivided 12% ownership interest under its right of first refusal. The sale is subject to certain regulatory approvals, including action by the NRC, the FERC, and the SEC. Texas Genco Holdings, Inc. expects to fund the purchase of its share of AEP's interest, including reimbursements of draws under letters of credit, with existing cash balances that have been provided to cash collateralize the letters of credit as described below and, if necessary, cash expected to be generated through operations. If CPS were to default and fail to purchase the undivided 12% interest it has agreed to acquire, Texas Genco Holdings, Inc. would purchase AEP's entire 25.2% interest in STP, in which case Texas Genco Holdings, Inc. would need approximately $158 million of additional cash.

In December 2004, prior to the consummation of the Initial Disposition, the $250 million revolving credit facility of Genco LP was terminated and the then outstanding letters of credit aggregating $182 million issued under the facility in favor of AEP relating to the right of first refusal were cash collateralized at 105% of their face amount. In connection with the termination of the $250 million revolving credit facility, liens on Texas Genco Holdings, Inc.'s real and tangible properties pursuant to the Mortgage (described in Note 3 below) were released.

(3) Summary of Significant Accounting Policies

(a) Use of Estimates

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 Texas Genco Holdings, Inc.'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 (in thousands):

(3) Summary of Significant Accounting Policies (Continued)

	December 31, 2003	December 31, 2004
Materials and supplies	$ 92,409	$ 27,322
Coal and lignite	49,835	—
Natural gas	21,340	—
Fuel oil	6,108	—
Total inventory	$169,692	$ 27,322

(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 (in thousands):

	Estimated Useful Lives (Years)	December 31, 2003	December 31, 2004
Natural gas-fired generation facilities	30—60	$ 2,277,591	$ —
Coal and lignite-fired generation facilities	50	3,934,683	—
Nuclear generation facilities	40	2,635,999	2,702,424
Nuclear fuel		356,037	368,505
Other	5—50	630,594	—
Total		9,834,904	3,070,929
Accumulated depreciation and amortization		(5,709,309)	(2,596,702)
Total property, plant and equipment, net		$ 4,125,595	$ 474,227

As further discussed in Note 1, on December 15, 2004, Texas Genco Holdings, Inc. sold its fossil generation assets with a net book value (as of December 31, 2003) of $3.7 billion to Texas Genco LLC.

Prior to the restructuring described in Note 1 (Background and Basis of Presentation), substantially all of Texas Genco Holdings, Inc.'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 Texas Genco Holdings, Inc.'s real and tangible properties, subject to certain exclusions, were subject to the lien of a First Mortgage Indenture (the Mortgage) dated December 23, 2003 between JPMorgan Chase Bank, as trustee, and Texas Genco Holdings, Inc.'s wholly owned subsidiary, Genco LP. As of December 31, 2003, Genco LP had issued $75 million aggregate principal amount of first mortgage bonds under the Mortgage to secure obligations under Texas Genco Holdings, Inc.'s $75 million 364-day revolving credit facility. In September 2004, Genco LP amended its $75 million senior secured revolving credit facility to increase the facility to $250 million. See Note 2 above for further discussion of the termination of the $250 million revolving credit facility.

For further information regarding removal costs previously recorded as a component of accumulated depreciation, see Note 3(j).

(3) Summary of Significant Accounting Policies (Continued)

(d) Depreciation and Amortization

Depreciation is computed using the straight-line method based on economic lives. Depreciation and amortization expense for 2002, 2003 and 2004 was $157 million, $159 million and $89 million, respectively.

(e) Capitalized Interest

Capitalized interest is reflected as a reduction to interest expense in the Statements of Consolidated Operations. Texas Genco Holdings, Inc. capitalized interest of $7 million, $9 million and $9 million, respectively for 2002, 2003 and 2004.

(f) Long-lived Assets and Intangibles

Texas Genco Holdings, Inc. 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 was recorded in 2002 or 2003. In the third quarter of 2004, Texas Genco Holdings, Inc. recorded an after-tax impairment of approximately $426 million related to the write-down of coal, lignite and natural gas-fired generation assets in connection with the Initial Disposition.

(g) Revenue Recognition

Texas Genco Holdings, Inc. 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. 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

Prior to the Nuclear Disposition, Texas Genco Holdings, Inc. was included in the consolidated income tax returns of CenterPoint Energy. Texas Genco Holdings, Inc. calculated its income tax provision on a separate return basis under a tax sharing agreement with CenterPoint Energy. Texas Genco Holdings, Inc. used the liability method of accounting for deferred income taxes and measured deferred income taxes for all significant income tax temporary differences. Investment tax credits were deferred and

***(3)* Summary of Significant Accounting Policies (Continued)**

were amortized over the estimated lives of the related property. Current federal and state income taxes payable were payable to or receivable from CenterPoint Energy.

(i) Statement of Consolidated Cash Flows

For purposes of reporting cash flows, Texas Genco Holdings, Inc. considers cash equivalents to be short-term, highly liquid investments readily convertible to cash.

(j) New Accounting Pronouncements

Effective January 1, 2003, Texas Genco Holdings, Inc. 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.

Texas Genco Holdings, Inc. has identified retirement obligations for nuclear decommissioning at STP and for lignite mine operations which supply the Limestone electric generation facility. Prior to adoption of SFAS No. 143, Texas Genco Holdings, Inc. 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, Texas Genco Holdings, Inc. reversed the $140 million previously accrued for the nuclear decommissioning of STP 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. Texas Genco Holdings, Inc. 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 in 2003. Texas Genco Holdings, Inc. 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, 2004 and the additions and accretion of the asset retirement obligation for the year ended December 31, 2004:

(3) Summary of Significant Accounting Policies (Continued)

	Balance, January 1, 2004	Liabilities Incurred	Liabilities Settled	Accretion	Cash Flow Revisions	Other(1)	Balance, December 31, 2004
				(In millions)			
Nuclear decommissioning	$ 188	$ —	$ —	$ 18	$ 27	$ —	$ 233
Lignite mine	6	—	—	—	—	(6)	—
	$ 194	$ —	$ —	$ 18	$ 27	$ (6)	$ 233

(1) Transferred in connection with the Initial Disposition on December 15, 2004.

The following represents the pro-forma effect on Texas Genco Holdings, Inc.'s net income for the year ended December 31, 2002, as if Texas Genco Holdings, Inc. had adopted SFAS No. 143 as of January 1, 2002 (in millions):

	Year Ended December 31, 2002
Net loss as reported	$ (93)
Pro-forma net loss	$ (86)

The following represents Texas Genco Holdings, Inc.'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

Texas Genco Holdings, Inc. had previously recognized removal costs as a component of depreciation expense. As of December 31, 2002, these removal costs of $115 million were reclassified from accumulated depreciation to other long-term liabilities in the Consolidated Balance Sheets. Upon adoption of SFAS No. 143, Texas Genco Holdings, Inc. 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).

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, Texas Genco Holdings, Inc. applied the provisions of FIN 46 or FIN 46-R as of December 31, 2003. The revised FIN 46-R is effective for all other entities for financial periods ending after March 15, 2004. Texas Genco Holdings, Inc. evaluated two

(3) **Summary of Significant Accounting Policies (Continued)**

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.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 has added additional criteria, which were effective on July 1, 2003, for new, acquired, or newly modified forward contracts. Texas Genco Holdings, Inc. engages in forward contracts for the sale of power. The majority of these forward contracts are entered into either through state-mandated auctions or auctions mandated by an agreement with RRI. All of Texas Genco Holdings, Inc.'s contracts resulting from these auctions specify the product types, the plant or group of plants from which the auctioned products are derived, the delivery location and specific delivery requirements, and pricing for each of the products. Texas Genco Holdings, Inc. has applied the criteria from current accounting literature, including SFAS No. 133 Implementation Issue No. C-15 — "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity", to both the state-mandated auctions and the contractually-mandated auction contracts and believes they meet the definition of capacity contracts. Accordingly, Texas Genco Holdings, Inc. considers these contracts normal sales contracts rather than derivatives. Texas Genco Holdings, Inc. has evaluated its forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 did not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state-mandated auctions or contractually-mandated auctions, and did not have a material effect on Texas Genco Holdings, Inc.'s consolidated 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 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 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 health care plans that provide prescription drug benefits. The FASB's related existing guidance, FSP 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," was superseded upon the effective date of FSP 106-2. Texas Genco Holdings, Inc. adopted FSP 106-2 prospectively in July 2004 with no material effect on its results of operations, financial condition or cash flows.

(4) Jointly Owned Electric Utility Plant

Texas Genco Holdings, Inc. owns an undivided 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 Texas Genco Holdings, Inc. 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. Texas Genco Holdings, Inc. 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, a Texas not-for-profit corporation (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. Texas Genco Holdings, Inc.'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, 2003 and 2004, Texas Genco Holdings, Inc.'s total utility plant in service for the South Texas Project was $431 million and $436 million, respectively (net of $2.2 billion and $2.3 billion accumulated depreciation, respectively, which includes an impairment loss recorded in 1999 of $745 million). As of December 31, 2003 and 2004, Texas Genco Holdings, Inc.'s investment in nuclear fuel was $40 million (net of $316 million amortization) and $34 million (net of $334 million amortization), respectively.

(5) Related Party Transactions and Major Customers

As of December 31, 2003 and 2004, Texas Genco Holdings, Inc. had no short-term or long-term borrowings from CenterPoint Energy and its subsidiaries, which were affiliates prior to the Nuclear Disposition. In addition, through August 31, 2002, $25 million of interest expense was allocated to Texas Genco Holdings, Inc. 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, 2003 and 2004, Texas Genco Holdings, Inc. had net accounts payable to CenterPoint Energy and its subsidiaries of $8 million and $5 million, respectively.

During 2002, 2003 and 2004, the sales and services by Texas Genco Holdings, Inc. to RRI and its subsidiaries totaled $1 billion, $1.4 billion and $1.3 billion, respectively. During 2002, 2003 and 2004, sales and services by Texas Genco Holdings, Inc. to CenterPoint Energy and its affiliates totaled $53 million, $-0- and $-0-, respectively.

During 2002, 2003 and 2004, the sales and services by Texas Genco Holdings, Inc. to a major customer other than RRI totaled $226 million, $205 million and $361 million, respectively.

(5) Related Party Transactions and Major Customers (Continued)

During 2002, 2003 and 2004, purchases of natural gas by Texas Genco Holdings, Inc. from CenterPoint Energy and its affiliates were $41 million, $29 million and $20 million, respectively.

CenterPoint Energy provides some corporate services to Texas Genco Holdings, Inc. The costs of services have been directly charged to Texas Genco Holdings, Inc. 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 Texas Genco Holdings, Inc. not been an affiliate. Amounts charged to Texas Genco Holdings, Inc. for these services were $47 million, $32 million and $29 million in 2002, 2003 and 2004, respectively, and are included primarily in operation and maintenance expenses.

Back-to-Back Power Purchase Agreement. At the time of the Initial Disposition, Genco LP entered into a power purchase agreement with Texas Genco II, LP, a subsidiary of Texas Genco LLC. Under the power purchase agreement, Genco LP will sell through December 31, 2008 the portion of its share of the power from the South Texas Project equal to its forward sales obligations relating to the South ERCOT Zone transferred to Texas Genco II, LP in connection with the sale of the fossil generation assets, which will be a substantial portion of its total share of the power from the South Texas Project but less in 2008 than in the prior years. This power will be sold on a unit-contingent basis, meaning that Texas Genco Holdings, Inc.'s subsidiary will be excused from its obligations to deliver this power to the extent the power is unavailable as a result of a derating or forced outage at the South Texas Project or certain other specified causes. Texas Genco II, LP will also purchase Texas Genco Holdings, Inc.'s excess power on a non-firm basis and sell it to third parties on a non-firm and short-term firm basis. For these services, Texas Genco Holdings, Inc. will pay Texas Genco II, LP a monthly fee.

During the period from the closing of the Initial Disposition until the closing of the Nuclear Disposition, the pricing for this power was at the weighted-average price achieved by Texas Genco II, LP on its forward sales in the South ERCOT Zone. After that period, the pricing for this power is at 90% of such weighted-average price.

(6) Commitments and Contingencies

When CenterPoint Energy transferred its electric generating assets and business to Texas Genco Holdings, Inc., that entity also assumed the rights and liabilities associated with that business and the assets transferred, including responsibilities for the litigation and other matters described below. As the current owner of that business and the related assets and liabilities, Texas Genco LLC has succeeded to those rights and obligations, except as modified in the sale agreement, in which CenterPoint Energy agreed to retain responsibility to defend litigation (primarily related to asbestos claims) to the extent, and only to the extent, the asserted claims are covered by certain insurance in effect at the time of the sale, subject to reimbursement of the cost of such defense by Texas Genco LLC.

(6) Commitments and Contingencies (Continued)

Fuel and Fuel Transport 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 derivative assets and liabilities in Texas Genco Holdings, Inc.'s consolidated balance sheet, 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. These agreements were transferred to Texas Genco LLC in connection with the Initial Disposition. Purchase commitments related to purchased power are not material to Texas Genco Holdings, Inc.'s operations. As of December 31, 2004, the pricing provisions in some of these contracts were above market.

Operating Leases. Total operating lease expense of Texas Genco Holdings, Inc. was $11 million in each of the years ended December 31, 2002, 2003 and 2004. These operating leases were transferred to Texas Genco LLC in connection with the Initial Disposition.

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 (NO_x) from electric generating units. Texas Genco Holdings, Inc. has installed cost-effective controls at its generating plants to comply with these requirements. From January 1, 2000 through December 31, 2004, Texas Genco Holdings, Inc. invested approximately $700 million for NO_x emission control.

Lignite Mine Reclamation. Texas Genco Holdings, Inc. obtains lignite for its Limestone facility under an amended long-term contract with the owner/operator of the mine, Texas Westmoreland Coal Co. ("TWCC") which contract was entered into in April 1999. Pursuant to the contract, TWCC is responsible for performing ongoing reclamation activities at the mine until all lignite reserves have been produced. When production is completed at the mine, Texas Genco Holdings, Inc. is responsible for final mine reclamation obligations. The Railroad Commission of Texas has imposed a bond obligation of approximately $70 million on TWCC for the reclamation of the lignite mine. Final reclamation activity is expected to commence in 2015. Pursuant to the contract with TWCC, an affiliate of CenterPoint Energy, Inc. has guaranteed $50 million of this obligation until 2010. The remaining sum of approximately $20 million has been bonded by TWCC. Under the terms of its contract with TWCC Texas Genco Holdings, Inc. is required to post a corporate guarantee of TWCC's reclamation bond when CenterPoint's obligation lapses. As of December 31, 2004 Texas Genco Holdings, Inc. had accrued $6.2 million related to the mine reclamation obligation.

Litigation. Although Genco LP or Texas Genco Holdings, Inc. are the named defendants in the matters described below, Texas Genco LLC is responsible for paying any damage awards in as much as the lawsuits relate to facilities that were transferred to Texas Genco LLC in the Initial Disposition.

(6) Commitments and Contingencies (Continued)

Asbestos. Texas Genco Holdings, Inc. 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, renovation or repair of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by Texas Genco Holdings, Inc. As of December 31, 2004, there were 4,926 claims pending against Texas Genco Holdings, Inc. For the year ended December 31, 2004, there were 477 claims filed against Texas Genco Holdings, Inc., 78 claims settled, 1350 claims dismissed or otherwise resolved with no payment and the average settlement amount for each claim was approximately $19,400. Under the terms of the separation agreement between Texas Genco Holdings, Inc. and CenterPoint Energy, ultimate financial responsibility for uninsured losses relating to such claims has been assumed by Texas Genco Holdings, Inc., and under the terms of CenterPoint Energy's agreement to sell Texas Genco Holdings, Inc. to Texas Genco LLC, CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from Texas Genco LLC. Texas Genco Holdings, Inc. 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 Actions. In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against Reliant Energy, CenterPoint Energy and CenterPoint Houston, as successors to Reliant Energy, Genco LP, RRI, Reliant Electric Solutions, LLC, several other RRI subsidiaries and a number of other participants in the 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. 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. Texas Genco Holdings, Inc. is contesting the appeal.

In February 2005, Utility Choice Electric filed in federal court in Houston, Texas a lawsuit against the CenterPoint Energy, CenterPoint Energy Houston, CenterPoint Energy Gas Services, Inc., CenterPoint Energy Alternative Fuels, Inc., Genco LP and a number of other participants in the ERCOT power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws, intentionally interfered with prospective business relationships and contracts, and committed fraud and negligent misrepresentation. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. Texas Genco Holdings, Inc. intends to vigorously defend the case. The ultimate outcome of this matter cannot be predicted at this time.

(6) Commitments and Contingencies (Continued)

Nuclear Insurance. Texas Genco Holdings, Inc. and the other owners of STP 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 STP 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 December 31, 2004. Owners are required under the Price-Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco Holdings, Inc. and the other owners currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of STP 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 reactor per year per incident.

There can be no assurance that all potential losses or liabilities associated with STP 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 Texas Genco Holdings, Inc.'s financial condition, results of operations and cash flows.

Nuclear Decommissioning. Texas Genco Holdings, Inc. maintains nuclear decommissioning trusts in accordance with the requirements of the NRC and the Texas Utility Commission in order to provide a fund for its share of the ultimate decommissioning of the South Texas Project. CenterPoint Houston, as collection agent for the nuclear decommissioning charge assessed on its transmission and distribution customers, deposits amounts collected into that decommissioning trust, and under an order of the Texas Utility Commission, Texas Genco Holdings, Inc. and CenterPoint Houston jointly administer the trusts currently. CenterPoint Houston contributed $2.9 million in 2004 to the decommissioning trusts, and Texas Genco Holdings, Inc. expects CenterPoint Houston to contribute $2.9 million in 2005. There are various investment restrictions imposed on Texas Genco Holdings, Inc. by the Texas Utility Commission and NRC relating to Texas Genco Holdings, Inc.'s nuclear decommissioning trusts. Texas Genco Holdings, Inc. and CenterPoint Houston 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 $216 million as of December 31, 2004, of which approximately 36% were fixed-rate debt securities and the remaining 64% were equity securities. In May 2004, an outside consultant estimated Texas Genco Holdings, Inc.'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 STP. 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

(6) Commitments and Contingencies (Continued)

continue to be subject to cost-of-service rate regulation and will be charged to transmission and distribution customers of CenterPoint Houston or its successor. Texas Genco Holdings, Inc. and CenterPoint Energy have agreed in the sale agreement to cooperate in seeking to obtain approvals for any modifications to the amounts collected under the decommissioning charge in order to provide required funding to the decommissioning trusts.

Joint Operating Agreement with City of San Antonio. Prior to the Initial Disposition, Texas Genco Holdings, Inc. had 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 shared equally the savings resulting from joint dispatch. The agreement with CPS was transferred in connection with the closing of the Initial Disposition.

Service Agreement Arrangements. At the closing of the Initial Disposition, Genco LP entered into a services agreement with Texas Genco II, LP ("Genco II"). Under that agreement, Genco II will provide energy dispatch and coordination services to Genco LP, administer Genco LP's PUC-mandated capacity auctions, market Genco LP's excess capacity and energy to third parties, and assist Genco LP generally in managing its trading business. For those services, Genco LP will pay Genco II a monthly fee at cost.

Leases. Pursuant to the terms of the transaction agreement for the sale of Texas Genco Holdings, Inc., CenterPoint Energy entered into leases with Genco LP for certain operating facilities and office space. The rights and obligations of Genco LP under these leases were allocated to Genco II prior to the Initial Disposition.

(7) Employee Benefit Plans

Incentive Compensation Plans

During 2003, Texas Genco Holdings, Inc. established a long-term incentive compensation plan (LICP) that provides cash-based performance units to key employees of Texas Genco Holdings, Inc. Texas Genco Holdings, Inc.'s compensation cost related to this plan was less than $1 million in both 2003 and 2004.

Pension

For the period January 1 through August 31, 2004, Texas Genco Holdings, Inc.'s employees participated in CenterPoint Energy's pension plan. The benefit accrual was in the form of a cash balance of a specified percentage of annual pay plus accrued interest. CenterPoint Energy's funding policy was to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. Pension expense was allocated to Texas Genco Holdings, Inc. based on covered employees. Assets of the plan were not segregated or restricted by CenterPoint Energy's

(7) Employee Benefit Plans (Continued)

participating subsidiaries and accrued obligations for Texas Genco Holdings, Inc. employees would have been the obligation of the retirement plan if Texas Genco Holdings, Inc. were to have withdrawn. Texas Genco Holdings, Inc. recognized pension expense of $15 million (including $9 million of non-recurring early retirement expenses) and $17 million for the years ended December 31, 2002 and 2003, respectively.

However, effective September 1, 2004, Texas Genco Holdings, Inc. established a stand-alone pension plan for substantially all employees of Texas Genco Holdings, Inc. As of the establishment of the new plan, Texas Genco Holdings, Inc received its allocation of net pension obligations from CenterPoint Energy. The funded status of the plan is as follows as of September 1, 2004 (in millions):

Reconciliation of Funded Status	
Projected benefit obligation	$ (148)
Plan assets	61
Funded status	(87)
Unrecognized prior service cost	(11)
Unrecognized net loss	51
Net amount recognized	$ (47)

Amounts Recognized in Balance Sheet	
Benefit obligations	$ (68)
Accumulated other comprehensive income	21
Net amount recognized	$ (47)

Actuarial Assumptions	
Discount rate	6.25%
Expected return on plan assets	9.00%
Rate of increase in compensation levels	4.10%

Additional information	
Accumulated benefit obligation	$ 129
Change in minimum liability adjustment included in other comprehensive income	21
Measurement date used to determine plan obligations and assets	December 31, 2003

During the fourth quarter of 2004, Texas Genco Holdings, Inc. received the results of an actuarial valuation to determine the amount of CenterPoint Energy's pension plan assets to be transferred to the new Texas Genco Holdings, Inc plan under the Employee Income Security Act of 1974. From the actuarial valuation, it was determined that Texas Genco Holdings, Inc.'s share of existing plan assets was $39 million.

The new pension plan is underfunded. Pension contributions were not required during 2004.

Since the plan's funded status was not remeasured for accounting purposes, Texas Genco Holdings, Inc.'s net periodic cost was not impacted by the establishment of the stand-alone plan. Net periodic cost for periods prior to September 1, 2004 represents solely Texas Genco Holdings, Inc.'s participation in CenterPoint Energy's pension plan. Texas Genco Holdings, Inc.'s net periodic cost for 2004 was $11 million.

(7) Employee Benefit Plans (Continued)

CenterPoint Energy used the following assumptions to determine net periodic cost relating to pension benefits allocated to Texas Genco Holdings, Inc.:

	2002	2003	2004
Discount rate	7.25%	6.75%	6.25%
Expected return on plan assets	9.50%	9.00%	9.00%
Rate of increase in compensation levels	4.10%	4.10%	4.10%

Effective December 15, 2004, the pension plan was assumed by Texas Genco LLC in connection with the Initial Disposition.

In addition to the plan, Texas Genco Holdings, Inc. participates in CenterPoint Energy's non-qualified pension plan, which allows participants to retain the benefits to which they would have been entitled under the non-contributory pension plan except for federally mandated limits on these benefits or on the level of salary on which these benefits may be calculated. The expense associated with the non-qualified pension plan was less than $1 million in each of the years 2002, 2003 and 2004.

Savings Plan

Texas Genco Holdings, Inc. 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 was initially invested in CenterPoint Energy common stock. CenterPoint Energy allocates to Texas Genco Holdings, Inc. the savings plan benefit expense related to Texas Genco Holdings, Inc.'s employees.

Savings plan benefit expense was $9 million, $7 million and $6 million for 2002, 2003 and 2004, respectively.

Effective December 15, 2004 the savings plan was assumed by Texas Genco LLC in connection with the Initial Disposition.

Postretirement Benefits

Texas Genco Holdings, Inc.'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. Texas Genco Holdings, Inc. funds all

(7) Employee Benefit Plans (Continued)

of its obligations on a pay-as-you-go basis. Net periodic expense for 2004 included $17 million of non-recurring curtailment costs attributable to the discontinued participation of Texas Genco Holdings, Inc.'s workforce in the plan as active employees.

The net postretirement benefit cost includes the following components:

	Year Ended December 31,		
	2002	2003	2004
		(In millions)	
Service cost — benefits earned during the period	$ 1	$ 1	$ 1
Interest cost on projected benefit obligation	3	3	2
Expected return on plan assets	(1)	(2)	(2)
Net amortization	1	2	2
Curtailment	—	—	17
Benefit enhancement	3	—	—
Net postretirement benefit cost	$ 7	$ 4	$ 20

Texas Genco Holdings, Inc. used the following assumptions to determine net postretirement benefit costs:

	Year Ended December 31,		
	2002	2003	2004
Discount rate	7.25%	6.75%	6.25%
Expected return on plan assets	9.5%	9.0%	8.5%

In determining net periodic benefit costs, Texas Genco Holdings, Inc. 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 Texas Genco Holdings, Inc.'s Consolidated Balance Sheets as of December 31, 2003 and 2004 for Texas Genco Holdings, Inc.'s postretirement benefit plans:

(7) Employee Benefit Plans (Continued)

	December 31, 2003	December 31, 2004
	(In millions)	
Change in Benefit Obligation		
Accumulated benefit obligation, beginning of year	$ 41	$ 44
Service cost	1	1
Interest cost	3	2
Benefits paid	(2)	(4)
Participant contributions	1	—
Plan amendments	(1)	(20)
Transfer to affiliate	—	(23)
Actuarial (gain) loss	1	—
Accumulated benefit obligation, end of year	$ 44	$ —
Change in Plan Assets		
Plan assets, beginning of year	$ 15	$ 18
Benefits paid	(2)	(4)
Employer contributions	1	1
Participant contributions	1	—
Transfer to affiliate	—	(17)
Actual investment return	3	2
Plan assets, end of year	$ 18	$ —
Reconciliation of Funded Status		
Funded status	$(26)	$ —
Unrecognized transition obligation	7	—
Unrecognized prior service cost	11	—
Unrecognized actuarial loss	(5)	—
Net amount recognized at end of year	$(13)	$ —
Amounts Recognized in Balance Sheets		
Benefit obligations	$(13)	$ —
Net amount recognized at end of year	$(13)	$ —

	December 31, 2003	December 31, 2004
Actuarial Assumptions		
Discount rate	6.25%	5.75%
Expected long-term rate of return on assets	8.5%	8.00%
Healthcare cost trend rate assumed for the next year	10.50%	9.75%
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, 2003	December 31, 2004

There are no plan assets as of December 31, 2004. Therefore, the following table displays only the weighted average asset allocations as of December 31, 2003 for Texas Genco Holdings, Inc.'s postretirement benefit plan:

(7) Employee Benefit Plans (Continued)

	December 31, 2003
Domestic equity securities	41%
International equity securities	9
Debt securities	48
Cash	2
Total	100%

The plan assets were invested in marketable securities for which an active market existed. In accordance with SFAS 87, "Employers' Accounting for Pensions," the fair value at the measurement date for each investment was determined by utilizing the market prices for each investment. The sum of these fair values was reflected as the "Fair value of the assets."

Texas Genco Holdings, Inc. contributed $1 million to its postretirement benefits plan in 2004. Thereafter, contributions and benefit payment activities are expected to be immaterial.

Postemployment Benefits

Texas Genco Holdings, Inc. 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 2002 and totaled $1 million in both 2003 and 2004. Included in "Benefit Obligations" in the accompanying Consolidated Balance Sheet at December 31, 2003 were $1 million of liabilities relating to postemployment benefits.

Other Non-Qualified Plans

Texas Genco Holdings, Inc. 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 Texas Genco Holdings, Inc. During 2002, 2003 and 2004, benefit expense relating to these programs was less than $1 million in each period. Included in "Benefit Obligations" in the accompanying Consolidated Balance Sheets at December 31, 2003 and 2004 was $4 million and $3 million, respectively, of liabilities relating to the deferred compensation plans.

(8) Income Taxes

Texas Genco Holdings, Inc.'s current and deferred components of income tax expense (benefit) were as follows (in millions):

	Year Ended December 31,		
	2002	2003	2004
Current			
Federal	$(24)	$73	$ 707
Deferred			
Federal	(39)	(2)	(877)
Income tax expense (benefit)	$(63)	$71	$(170)

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows (in millions):

	Year Ended December 31,		
	2002	2003	2004
Income (loss) before income taxes	$(156)	$ 223	$(270)
Federal statutory rate	35%	35%	35%
Income tax expense (benefit) at statutory rate	(55)	78	(94)
Increase (decrease) in tax resulting from:			
Write-off of unamortized investment tax credits related to sale of assets	—	—	(64)
Amortization of investment tax credit	(8)	(7)	(7)
Other	—	—	(5)
Total	(8)	(7)	(76)
Income tax expense (benefit)	$ (63)	$ 71	$(170)
Effective rate	40.4%	31.8%	63.0%

Texas Genco Holdings, Inc.'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 (in millions):

	December 31,	
	2003	2004
Deferred tax assets:		
Non-current:		
Employee benefits	$ 11	$ 1
Environmental reserves	2	—
Other	4	—
Total non-current deferred tax assets	17	1
Deferred tax liabilities:		
Non-current:		
Depreciation	853	71
Other	9	—
Total non-current deferred tax liabilities	862	71
Accumulated deferred income taxes, net	$ 845	$ 70

Prior to the Nuclear Disposition, Texas Genco Holdings, Inc. was 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 2003 consolidated federal income tax returns are currently under audit.

(9) Subsequent Event

As further discussed in Note 1, the merger of Texas Genco Holdings, Inc. with a subsidiary of Texas Genco LLC in exchange for an additional cash payment to CenterPoint Energy of $700 million, was completed on April 13, 2005, following receipt of approval from the NRC.

Exhibit 99.03

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Members of Texas Genco LLC:
Houston, Texas

We have audited the accompanying consolidated balance sheet of Texas Genco LLC and subsidiaries (the "Company") as of December 31, 2004, and the related consolidated statements of operations, cash flows, members' equity and comprehensive loss for the period from July 19, 2004 (Inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 as of December 31, 2004, and the results of its operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 3, 2005
Houston, Texas

TEXAS GENCO LLC
CONSOLIDATED STATEMENT OF OPERATIONS
($ in millions)

	Period from Inception (July 19, 2004) to December 31, 2004
Revenues	$ 95.8
Operating Expenses:	
Fuel and purchased power expense	45.3
Operation and maintenance	24.1
Depreciation and amortization	12.6
Total	82.0
Operating income	13.8
Interest and other income	0.2
Interest expense	(34.1)
Net loss	$ (20.1)
Loss per unit (basic and diluted)	$ (0.13)

See Notes to the Company's consolidated financial statements.

TEXAS GENCO LLC
CONSOLIDATED BALANCE SHEET
(in millions)

	December 31, 2004
ASSETS	
Current assets:	
Cash and cash equivalents	$ 85.9
Trade accounts receivable	76.0
Inventory	128.4
Prepayments	13.8
Assets held for sale	67.3
Other current assets	2.4
Total current assets	373.8
Property, plant and equipment, net	2,439.6
Other Assets:	
Goodwill	820.1
Other intangibles, net	814.8
Deferred financing costs	117.4
Other	21.9
Total other assets	1,774.2
Total Assets	$ 4,587.6
LIABILITIES AND MEMBERS' EQUITY	
Current liabilities:	
Trade accounts payable	$ 95.0
Accrued interest	6.1
Accrued property taxes	29.5
Long-term obligations, current portion	13.2
Deferred revenue	76.0
Contractual obligations, current portion	295.4
Other	11.8
Total current liabilities	527.0
Long-Term Obligations, net of current portion	2,266.9
Other liabilities:	
Contractual obligations, net of current portion	866.8
Benefit obligations	146.4
Other	8.9
Total other liabilities	1,022.1
Commitments and contingencies	
Members' equity	771.6
Total liabilities and members' equity	$ 4,587.6

See Notes to the Company's consolidated financial statements.

TEXAS GENCO LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

		Period from Inception (July 19, 2004) to December 31, 2004
Cash flows from operating activities:		
Net loss	$	(20.1)
Adjustments to reconcile net loss to net cash Provided by operating activities:		
Depreciation and amortization		12.6
Amortization of contractual obligations		(13.7)
Amortization of deferred financing costs		27.3
Derivative hedge ineffectiveness		3.6
Change in assets and liabilities net of effects from Initial Acquisition:		
Trade and other accounts receivable		95.7
Inventory		(0.8)
Prepayments and other assets		(20.8)
Trade accounts payable		53.2
Accrued liabilities		(64.9)
Deferred revenue		(47.3)
Other liabilities		11.2
Net cash provided by operating activities	$	36.0
Cash flows from investing activities:		
Payment for Initial Acquisition, no cash acquired		(2,854.7)
Additions to construction in progress		(5.7)
Net cash provided by investing activities	$	(2,860.4)
Cash flows from financing activities:		
Long-term borrowings		2,275.0
Short-term borrowings		40.0
Repayments of short-term borrowings		(40.0)
Deferred financing costs		(144.8)
Advances from sponsors		6.4
Repayments to sponsors		(6.4)
Equity contributions from members		780.1
Net cash provided by financing activities	$	2,910.3
Net increase in cash and cash equivalents		85.9
Cash and cash equivalents at beginning of period		—
Cash and cash equivalents at end of period	$	85.9

See Notes to the Company’s consolidated financial statements.

TEXAS GENCO LLC
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
AND ACCUMULATED OTHER COMPREHENSIVE LOSS
(in millions)

	Contributed Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Members' Equity	Comprehensive Loss
Balance, Inception (July 19, 2004)	$ —	$ —	$ —	$ —	$ —
Initial contribution from members (156.5 million units)	780.6	—	—	780.6	—
Other contributed capital	(0.5)	—	—	(0.5)	—
Net loss	—	—	(20.1)	(20.1)	(20.1)
Other comprehensive income — unrealized gain on cash flow hedge	—	11.6	—	11.6	11.6
Balance, December 31, 2004	$ 780.1	$ 11.6	$ (20.1)	$ 771.6	$ (8.5)

See Notes to the Company's consolidated financial statements.

(1) Background; Basis of Presentation and Acquisition

(a) Background

Texas Genco LLC (the "Company") was formed under Delaware law on July 19, 2004 ("Inception") with the name GC Power Acquisition LLC. The name change to Texas Genco LLC was effected on November 24, 2004.

In total, the Company owns and operates 60 generation units at 11 fossil fuel-fired power generation plants. At January 1, 2005, the aggregate net generation capacity of the Company's portfolio of assets was 13,396 megawatts ("MW"), of which 4,077 MW represented low marginal cost base load capacity. The Company generated 1,564,630 megawatt hours during the period from December 16 to December 31, 2004.

The Company is a wholesale electric power generation company engaged in the ownership and operation of a diverse portfolio of power plants in the state of Texas. As a result of the Initial Acquisition, the Company is the second-largest generation company within the Electric Reliability Council of Texas, Inc. ("ERCOT") market and the largest power generator in ERCOT's Houston Zone (see Note 2(i) for a discussion of goodwill and intangible assets). The Company sells power and related products to wholesale purchasers, such as retail power providers, power trading organizations, municipal utilities, electric power co-operatives, and other power generation companies. The substantial majority of the Company's revenues and cash flows are realized from the sale of power from eight electric generating units at its two solid fuel base load power plants. The Company expects these plants to operate nearly 100% of the time they are available due to their low marginal costs relative to natural gas-fired plants. A substantial portion of the output of the Company's solid fuel base load plants is sold forward under contracts that provide predictable revenue streams during the contract term and mitigate its overall exposure to changes in wholesale power prices. At December 31, 2004, the Company had approximately 81% of its available solid fuel base load capacity for 2005, 72% for 2006, 79% for 2007, 63% for 2008 and 8% for 2009 sold forward under contracts at fixed prices or hedged through a natural gas price swap agreement. Consistent with the Company's strategy of matching fuel purchases with power sales, it has also entered into a series of forward contracts to purchase fuel for its solid fuel base load plants. In addition to the Company's two base load plants, it also owns and operates a portfolio of intermediate, cycling and peaking natural gas-fired units in ERCOT's Houston Zone that provide additional opportunities to capture revenues both in support of system reliability and during periods of peak demand.

(1) Background; Basis of Presentation and Acquisition (Continued)

(b) Basis of Presentation

The Company's consolidated financial statements include the accounts of all majority-owned, controlled subsidiaries after the elimination of all significant intercompany accounts and transactions.

(c) Acquisition

On July 21, 2004, the Company entered into a Transaction Agreement ("the Transaction Agreement") to acquire Texas Genco Holdings, Inc.'s ("Holdings") non-nuclear electric generating assets and, after and subject to receipt of regulatory approval, 100% of Texas Genco Holdings, Inc.'s stock. Pursuant to the Transaction Agreement, the Company agreed to effect this acquisition in several steps. Holdings conducted substantially all of its business operations through Texas Genco, LP ("Genco"), one of its indirect wholly owned subsidiaries. On December 13, 2004, Holdings caused Genco to merge with Texas Genco II, LP ("Genco II"), a newly formed indirect wholly owned subsidiary of Holdings, in a multi-survivor merger under Texas law in which both Genco and Genco II survived. As a result of the merger and in accordance with the Transaction Agreement, all of Texas Genco Holdings, Inc.'s nuclear assets and liabilities, which relate primarily to the partial undivided interest in the assets of the South Texas Project Electric Generating Station ("STP"), and its available cash remained with Genco, and all of its Non-Nuclear Assets (as defined below) and liabilities, which relate primarily to the coal, lignite and natural gas-fired generation plants, were allocated to Texas Genco II.

On December 15, 2004, the Company acquired all of the Non-Nuclear Assets (other than cash) and liabilities of Holdings (the "Non-Nuclear Assets") through a merger of one of its indirect wholly owned subsidiaries with and into Genco II. The results of the Non-Nuclear Assets operations are included in the consolidated financial statements since that date. Simultaneously with that merger, the Company acquired Texas Genco Services, LP, one of Texas Genco Holdings, Inc.'s operating subsidiaries that owned certain assets unrelated to the wholesale generation business and which the Company refers to as "Texas Genco Services," through another merger of one of its indirect wholly owned subsidiaries with and into Texas Genco Services. As a result of these mergers (the "Initial Acquisition"), Genco II and Texas Genco Services became indirect wholly owned subsidiaries of the Company and the Company indirectly owns the Non-Nuclear Assets formerly owned by Holdings.

The purchase price for the Initial Acquisition was $2,854.7 million, which includes $2,813.0 million cash, paid to Holdings and $41.7 million of acquisition costs. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in millions):

(1) Background; Basis of Presentation and Acquisition (Continued)

Current assets	$ 367.5
Goodwill	820.1
Property, plant and equipment	2,441.0
Other intangibles	820.3
Other non-current assets	8.4
TOTAL ASSETS ACQUIRED	$ 4,457.3
Current liabilities	(269.3)
Benefit obligations	(145.4)
Contractual obligations—Power sales contracts	(880.0)
Contractual obligations—Coal purchase contracts	(296.0)
Other non-current liabilities	(11.9)
TOTAL LIABILITIES ASSUMED	(1,602.6)
NET ASSETS ACQUIRED	$ 2,854.7

The allocation of the purchase price includes the assumption of contractual obligations associated with power sales agreements that were below market rates by approximately $880 million as of the acquisition date and coal supply agreements with contractual prices in excess of then current market prices by approximately $296 million. These values have been established as liabilities in the purchase price allocation, and the values will be amortized over the lives of the respective contracts to neutralize the income effect of the unfavorable contract pricing. See Note 2(i) for further discussion of intangible assets. After giving effect to the Initial Acquisition as if it had occurred as of January 1, 2004, unaudited pro forma revenues, operating income, and net income would have been $2,333.9 million, $521.6 million, and $322.5 million for the year ended December 31, 2004, respectively.

The final purchase price allocation and estimated useful life of intangible assets are subject to refinement for changes in the Company's preliminary assumptions and analyses. The Company is in the process of obtaining a third party valuation of certain natural gas-fired electric generating facilities, emission allowances, customer-related intangible assets, goodwill and plant decommissioning costs or retirement obligations. Additionally, the Company is in the process of implementing a plan to reduce its workforce. The Company expects that involuntary termination costs associated with the workforce optimization plan will be included in the allocation of the acquisition cost when such amounts are estimable. See Note 8 for further discussion of the workforce optimization plan. The Company will utilize this information to make a final assessment of its purchase price allocation.

Contingent upon the satisfaction of certain conditions, including but not limited to, the approval by the Nuclear Regulatory Commission ("NRC") of any indirect license transfer, HPC Merger Sub, Inc., one of the Company's indirect wholly owned subsidiaries, will merge into Holdings, for a purchase price of $700.0 million (the "Nuclear Acquisition"), with Holdings surviving as the Company's wholly owned subsidiary. As a

(1) Background; Basis of Presentation and Acquisition (Continued)

result of this merger, the Company would become the indirect owner of the 30.8% undivided interest in the assets of STP. The Company expects the Nuclear Acquisition to occur on or prior to April 30, 2005. The Company intends to finance the $700.0 million Nuclear Acquisition with $475.0 million of borrowings under the delayed draw term loan portion of our Credit Agreement, an additional cash equity investment of $117.5 million by the Members and approximately $107.0 from a combination of cash on hand or revolver borrowings. See Note 3 for a description of the delayed draw term loan and the revolving credit facility.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts the Company reports as assets, liabilities, revenues and expenses and its disclosures in these financial statements. Actual results can, and often do, differ from those estimates. Critical estimates include the determination of the fair value of assets acquired and liabilities assumed through a business combination.

(b) Cash and Cash Equivalents

The Company considers short-term investments with an original maturity of three months or less to be cash equivalents.

The following represents the Company's consolidated cash flow information as of and for the period ended December 31, 2004:

	(in millions)
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest (excluding $29,000 of interest capitalized)	$ 0.1

(c) Allowance for Doubtful Accounts

The Company establishes provisions for losses on trade and other accounts receivable if it determines that it will not collect all or part of the outstanding balance. The Company reviews collectibles and establishes or adjusts its allowance as necessary using the specific identification method. There were no uncollectible trade or other accounts receivable balances outstanding at December 31, 2004.

(d) 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

(2) Summary of Significant Accounting Policies (Continued)

average cost or market except for coal and lignite, which are valued under the last-in, first-out method, and recorded at the fair value of the assets acquired. Below is a detail of inventory:

	December 31, 2004 (in millions)
Materials and supplies	$ 50.1
Coal and lignite	39.1
Natural gas	33.0
Fuel oil	6.2
Total inventory	$ 128.4

If coal and lignite inventories were valued at their current replacement cost, at December 31, 2004, total inventory would have increased by approximately $1.2 million.

(e) Property, Plant and Equipment

The Company's property, plant and equipment is recorded at fair value as of the date of acquisition (see Note 1(c)). The Company capitalizes the major units of property replacements or improvements. Repair and maintenance costs are recorded as expense in the period incurred. The following table presents the Company's property, plant and equipment by type, depreciation method (straight-line) and depreciable lives:

	Estimated Useful Lives (Years)	December 31, 2004 (in millions)
Coal and lignite-fired generation facilities	25	$ 2,325.1
Natural gas-fired generation facilities	15	25.7
Total		2,350.8
Accumulated depreciation and amortization		(7.1)
		2,343.7
Land	—	79.5
Construction work in progress	—	16.4
Total property, plant and equipment, net		$ 2,439.6

When the Company retires an asset, it reduces property, plant and equipment for its original cost, less accumulated depreciation and salvage value, and recognizes any gain or loss.

(2) Summary of Significant Accounting Policies (Continued)

(f) Depreciation

Depreciation is computed using the straight-line method based on estimated economic useful lives. Depreciation expense for the period ended December 31, 2004 was $7.1 million.

(g) Capitalized Interest

The Company capitalizes a carrying cost on funds invested in its construction of long-lived assets. This carrying cost consists of an interest cost of the investment financed by debt and is based on the average cost of the debt. Capitalized interest is reflected as a reduction to interest expense in the consolidated statement of operations. Capitalized interest for the period from inception to ended December 31, 2004 was $29,000.

(h) Long-Lived Assets

The Company applies the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to account for asset impairments. Under this standard, the Company evaluates an asset for impairment when events or circumstances indicate that its carrying value may not be recovered. 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. No impairment has been recorded in the period from Inception to December 31, 2004.

(i) Goodwill and Other Intangible Assets

The Company's intangible assets consist of goodwill resulting from the Initial Acquisition of approximately $820.1 million and other intangible assets. The Company applies SFAS No. 142, Goodwill and Other Intangible Assets, to account for these intangibles. Under these standards, we recognize goodwill separately from other intangible assets. In addition, goodwill and intangibles that have indefinite lives are not amortized. The Company has one indefinite lived intangible asset of $13.2 million associated with certain acquired water rights. Also, goodwill and indefinite lived intangible assets are periodically tested for impairment, at least annually on November 30, 2004 and whenever an event occurs that indicates that an impairment may have occurred. The goodwill of approximately $820.1 million at December 31, 2004 is not deductible for tax purposes.

The following table presents the Company's amortizable intangible assets and unamortizable intangible asset as a result of the Initial Acquisition and their respective estimated weighted-average useful lives at December 31, 2004 (in millions):

(2) Summary of Significant Accounting Policies (Continued)

Other Intangibles, net:	Acquired Customer Forward Sales Contracts	Emission Allowances	Steam and Water Contracts	Total Finite-Lived Intangible Assets	Water Rights Contract	Total
Average amortization period (years)	4-5	15	11-22		—	
Carrying value at December 31, 2004	$ 384.3	$ 411.0	$ 11.8	$ 807.1	$ 13.2	$820.3
Less: accumulated amortization	(4.6)	(0.9)	—	(5.5)	—	(5.5)
Carrying value, net, at December 31, 2004	$ 379.7	$ 410.1	$ 11.8	$ 801.6	$ 13.2	$814.8

	Acquired Customer Forward Sales Contracts	Emission Allowances	Steam and Water Contracts	Total Finite-Lived Intangible Assets
Expected amortization for the next five years and in total thereafter:				
2005	$ 104.7	$ 26.1	$ 0.6	$ 131.4
2006	78.9	26.5	0.6	106.0
2007	103.4	26.5	0.6	130.5
2008	82.3	26.5	0.6	109.4
2009	10.4	26.5	0.6	37.5
Thereafter	—	278.0	8.8	286.8
Total	$ 379.7	$ 410.1	$ 11.8	$ 801.6

The Company amortizes all finite lived intangible assets over their respective estimated useful life. Acquired forward sales contracts represent all firm forward base load capacity power sales at the Initial Acquisition date, the longest of which has a useful life of five years, which represents the number of years for which the power has been sold forward. The value of the acquired forward sales contracts is based on contractual prices and volumes on December 15, 2004. Pursuant to the Clean Air Act Amendments of 1990, the acquired power plants are entitled to receive allowances to emit sulfur dioxide and oxides of nitrogen. These allowances or permits are transferable by the Company. The Company amortizes air emission allowances on a units of production basis as utilized. Steam and water contracts consist of a water rights agreement and a steam contract that have estimated useful lives of 22 and 11 years, respectively. Amortization expense for finite lived intangible assets for the period ended December 31, 2004 was $5.5 million, comprised of approximately $4.6 million for acquired forward sales contracts, $.9 million for emission allowances and $24,000 for steam and water contracts.

In connection with the Initial Acquisition, the Company recorded the fair value of certain power sales and coal contracts assumed. The Company estimated the fair value of these contracts using market value as of the acquisition date over the life of each contract.

(2) Summary of Significant Accounting Policies (Continued)

These contracts had negative fair values at the date of acquisition and were recorded as contractual obligations in the consolidated balance sheet. These contractual obligations are amortized to revenues and fuel expense, as applicable, based on the estimated realization of the fair value established on the acquisition date over the contractual lives. The Company amortized $12.3 million of assumed out-of-the-money contracts as an increase to revenues and $1.5 million as a decrease to fuel expense for the period ended December 31, 2004 (see Note 2(p)).

(j) Deferred Financing Costs

At December 31, 2004, deferred financing costs for the Senior Notes and Credit Agreement (see Note 3) were $53.7 million and $63.7 million, respectively. The deferred financing costs for the Senior Notes and the Credit Agreement are amortized over the life of the related debt, ranging from five to ten years, using the effective interest rate method (see Note 3). Amortization expense for the period ended December 31, 2004 for the Senior Notes and Credit Agreement was $0.2 million and $0.8 million, respectively.

(k) Revenue Recognition

Our primary revenues are from sales of physically delivered electricity from our facilities. Capacity payments, which are paid under certain power sales arrangements, are received prior to the month of delivery and are recognized in the month in which the related energy is delivered. Energy payments are received in the month subsequent to delivery and are recognized in the month in which the related energy is delivered.

(l) Income Taxes

The Company is a limited liability company that is treated as a partnership for federal income tax purposes and is therefore not subject to federal income taxation. Profits or losses are subject to taxation at the member interest level.

(m) Derivative Instruments

The Company is subject to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities ("SFAS No. 133"), which establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. These statements require that derivatives be recognized at fair value on the balance sheet and that changes in fair value of such derivatives be recognized either currently in earnings or deferred as a component of other comprehensive income. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs. Cash flow hedges are those derivatives designated to hedge exposure to variability in expected future cash flows. Changes in the fair value of cash flow hedges, to the extent there is a high

(2) Summary of Significant Accounting Policies (Continued)

correlation between price movements in the derivative and the item designated as being hedged, are recognized as a component of comprehensive income until the expected cash flow occurs. At such time, previously recognized amounts within comprehensive income are reversed, and the change in the fair value of the derivative is recognized within earnings.

Changes in the fair value of these derivative instruments are recognized as a component of other comprehensive income to the extent that the market value of these instruments offsets changes in the value of the designated hedged transaction. Any ineffectiveness of this hedging relationship is immediately recognized in earnings.

If it becomes probable that an anticipated transaction will not occur, the Company realizes through earnings the deferred gains and losses recognized in accumulated other comprehensive income (loss). Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive income (loss) is reclassified and included in earnings. Cash flows resulting from these derivative hedges are included in the consolidated statement of cash flows in the same category as the item being hedged.

A significant portion of the Company’s contracts qualify and have been designated as normal purchases and normal sales, as defined by SFAS No. 133, as amended. As a result, these contracts are not required to be recorded on the consolidated balance sheet at their fair values and any fluctuations in these values are not required to be reported within earnings. In order to qualify as normal purchases and normal sales, the probability of physical delivery from the Company’s generation plants, in the case of electricity sales, and to its generation plants, in the case of natural gas contracts, is required over the life of the contract. Historically, forward sales through the capacity auctions have met the respective criteria and therefore changes to fair value of these forward sales have not been recognized in the consolidated financial statements. The Company does not expect the accounting for these transactions to change.

The Company entered into a natural gas price swap agreement in December 2004 to sell 36.5 million MMBtu of natural gas in 2006 at a fixed price, with the Company as the floating price payor. This price swap agreement is considered a derivative and is treated as a cash flow hedge for accounting purposes. This transaction hedges the Company’s exposure to variability in expected future cash flows from fluctuations in the sale of power, which is highly correlated with natural gas prices in ERCOT. Pursuant to SFAS No. 133, the fair value of the derivative instrument designated as a cash flow hedge is recorded as an asset or liability on the consolidated balance sheet with the offset reported as part of other comprehensive income, to the extent that the hedge is effective, with any ineffectiveness being reflected in earnings. The fair market value of the natural gas price swap agreement was $8.0 million at December 31, 2004. The change in the fair value of the natural gas price swap agreement from inception of the agreement to December 31, 2004 was $14.9 million, which resulted in $3.3 million of ineffectiveness being recognized in

(2) Summary of Significant Accounting Policies (Continued)

earnings. The remaining effective portion of the hedge of $11.6 million was recorded as other comprehensive income at December 31, 2004.

(n) Environmental Costs and Other Contingencies

The Company records liabilities when its environmental assessments indicate that remediation efforts are probable, and the costs can be reasonably estimated. The Company recognizes a current period expense for the liability when clean-up efforts do not benefit future periods. It capitalizes costs that benefit more than one accounting period, except in instances where separate agreements or legal or regulatory guidelines dictate otherwise. Estimates of its liabilities are based on currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of other societal and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediating contaminated sites, other companies' clean-up experience and data released by the Environmental Protection Agency or other organizations. These estimates are subject to revision in future periods based on actual costs or new circumstances and are included in the Company's consolidated balance sheet in other current and long-term liabilities at their undiscounted amounts (see Note 2 (p)). The Company evaluates recoveries from insurance coverage or government sponsored programs separately from its liability and, when recovery is assured, it records and reports an asset separately from the associated liability in its consolidated financial statements.

The Company recognizes liabilities for other contingencies when it has an exposure that, when fully analyzed, indicates it is both probable that an asset has been impaired or that a liability has been incurred and the amount of impairment or loss can be reasonably estimated. Funds spent to remedy these contingencies are charged against a reserve, if one exists, or expensed. When a range of probable loss can be estimated, the Company accrues the most likely amount or, if not determinable, the minimum of the range of probable loss.

(o) Pension Plan

On December 23, 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 132 (Revised 2003), Employer's Disclosures about Pensions and Other Postretirement Benefits. This standard increases the existing disclosure requirements by requiring additional detail 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 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 (see Note 5). In December 2003, the United States 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

(2) Summary of Significant Accounting Policies (Continued)

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). FSP FAS 106-1 did not have a significant impact on the Company's consolidated financial statements.

(p) Contractual Obligations

Power Sales. As part of the allocation of the purchase price for the Initial Acquisition (see Note 1 (c)), approximately $880.0 million was identified as an assumed liability at that date for assumed out-of-market power contracts. The liability arises as a result from calculating the difference between the market value of the forward sales power contracts as of December 15, 2004, versus the contracts' value based on the contract price and volumes as of December 15, 2004. Market prices were above the contract prices resulting in a liability being recorded. The total contract volumes were approximately 129.2 million megawatt hours of fixed price forward power sales at December 15, 2004. The liability is being amortized over the life of the contracts as the fixed price forward power sales are realized. Amortization of the liability was approximately $12.3 million for the period ended December 31, 2004. The following table reflects the expected amortization of the liability for the next five years and thereafter (in millions):

Contractual Obligations — Power Contracts	$ 880.0
Less: accumulated amortization	(12.3)
Contractual Obligations — Power Contracts, net	$ 867.7

Expected amortization of assumed out-of-market power contracts for the next 5 years and in total thereafter are as follows:

2005	$ 239.3
2006	180.3
2007	236.2
2008	188.1
2009	23.8
Thereafter	—
Total Contractual Obligations — Power Contracts, net	$ 867.7

Coal Purchases. As part of the allocation of the purchase price for the Initial Acquisition (see Note 1), approximately $296.0 million was identified as an assumed liability at that date for assumed out-of-market coal purchase contracts. The liability arises as a result of calculating the difference between the market value of the coal contracts as of December 15, 2004, versus the contracts' value based on the contract price and volumes as of December 15, 2004. Market prices were below the contract prices resulting in a liability being recorded. The total estimated contract volumes were approximately 35.9 million tons

(2) Summary of Significant Accounting Policies (Continued)

of fixed price coal purchases at December 15, 2004. The liability is being amortized over the life of the contracts as the fixed price coal purchases are realized. Amortization of the liability was approximately $1.5 million for the period ended December 31, 2004. The following table reflects the expected amortization of the liability for the next five years and thereafter (in millions):

Contractual Obligations — Coal Contracts	$ 296.0
Less: accumulated amortization	(1.5)
Contractual Obligations — Coal Contracts, net	$ 294.5

Expected amortization of assumed out-of-market coal contracts for the next 5 years and in total thereafter are as follows:

2005	$ 56.1
2006	56.1
2007	56.1
2008	56.1
2009	56.1
Thereafter	14.0
Total Contractual Obligations — Coal Contracts, net	$ 294.5

(q) Asset Retirement Obligations

The Company accounts for asset retirement obligations pursuant to 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. As of December 31, 2004, the Company had accrued an asset retirement obligation of $6.2 million towards its obligation for the final reclamation of the lignite mine operations which supply the Limestone electric generation facility. 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. In connection with the Initial Acquisition, the Company is in the process of identifying any additional asset retirement obligations.

The following represents the balance of the asset retirement obligation as of the date of the Initial Acquisition and the additions and accretion of the asset retirement obligation for the year ended December 31, 2004:

	Balance, Initial Acquisition Date	Liabilities Incurrence	Liabilities Settled	Accretion	Cash Flow Revision	Balance December 31, 2004
			(in millions)			
Lignite mine	$ 6.2	—	—	$ —(*)	—	$ 6.2

* Accretion for the period ended December 31, 2004 was approximately $0.034 million.

(2) Summary of Significant Accounting Policies (Continued)

(r) Assets Held for Sale

The Company has determined that certain assets known as the Texas Genco Fuels Pipeline and the North Dayton Gas Storage Facility are not strategic assets for the business, and sales of these facilities are expected during 2005. The book values of the Texas Genco Fuels Pipeline and the North Dayton Gas Storage Facility have been recorded at their fair value less estimated costs to sell of $36.3 million and $31.0 million, respectively, as of December 31, 2004, and have been reflected as assets held for sale on the consolidated balance sheet.

(s) Unit-Based Compensation

The Company has established a unit option incentive plan for key executives. Under this plan, the exercise price of the unit option is $5 per unit, which is the estimated value of the underlying unit on the grant date. The Company has granted 2,565,000 unit options that have a 10 year life and vest, subject to the participant’s continued employment, in approximately $^1/_5$ increments on each anniversary date of the grant. The Company has also granted 1,975,500 unit options with a 10 year life which only vest upon successfully achievement of established return targets over a five year performance period. An additional 400,000 unit options have been granted which are fully vested and also have a 10 year life. These options cannot be exercised or transferred unless certain future events occur, which include equity sales by the current equity holders of the Company.

The Company complies with the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation — Transition and Disclosure; however, the Company has elected to continue to apply the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company uses the intrinsic value method to account for stock-based employee compensation, however, there is a requirement to disclose pro forma net income or loss as if the Company had applied the fair value methods prescribed by SFAS No. 123.

In order to determine a fair value of the options granted, a traditional option pricing model approach was employed which indicated a fair value as of the date of grant of approximately $8.5 million, based on model input assumption terms which include a term of ten years, no volatility and an interest rate of approximately 4.25%. Because the options

granted by the Company have significant vesting and exercise restrictions, the Company believes that the traditional option pricing model approach overstates the fair value of the options on the grant date. However, considering the traditional model-derived option fair value on the grant date, the result would not have a material impact to the pro forma results of operations.

(2) Summary of Significant Accounting Policies (Continued)

(t) Business Segments

The Company manages the business as one reportable segment. This one reportable segment is an electric power generation business that conducts all of its operations within ERCOT.

(u) Loss Per Unit

The Company's basic and diluted loss per unit is calculated by dividing the weighted average units outstanding at the end of the period into the net loss.

At December 31, 2004 Texas Genco LLC had 156,474,213 weighted average units outstanding. 4,540,000 unit options outstanding at December 31, 2004 were not included in the loss per unit calculation because their effect was anti-dilutive as a result of the loss for the period.

(3) Senior Notes and Credit Agreement

The Company's long-term funded financing obligations outstanding consisted of the following as of December 31, 2004:

	(in millions)
Long-term debt:	
6.875% Senior Notes, due 2014	$ 1,125.0
Initial Term Loan Facility, due 2011	1,150.0
Subtotal	2,275.0
Less:	
Current maturities	(11.5)
Total long-term financing obligations, less current maturities	$ 2,263.5

Aggregate maturities of the principal amounts of long-term financing obligations for the next five years and in total thereafter are as follows:

2005	$ 11.5
2006	11.5
2007	11.5
2008	11.5
2009	11.5
Thereafter	2,217.5
Total long-term financing obligations, including current maturities	$ 2,275.0

Credit Agreement

On December 14, 2004, the Company executed a Credit Agreement with several lenders, under which various credit facilities were made available to the Company (all facilities collectively, the "Credit Agreement"). Substantially all of the Company's assets are pledged as collateral to the Credit Agreement lenders. All payments under the Credit Agreement are jointly and severally, and unconditionally guaranteed by the Company's existing and subsequently acquired or organized restricted domestic subsidiaries. The

(3) Senior Notes and Credit Agreement (Continued)

Credit Agreement includes: a $1,150.0 million senior secured term loan facility which was used to fund in part the Initial Acquisition; a $475.0 million senior secured delayed draw term loan facility to be used to fund the Nuclear Acquisition; a $325.0 million senior secured revolving credit facility, which is also available as a letter of credit facility, to be used for on-going working capital requirements and for general corporate purposes, including to fund the Nuclear Acquisition or the STP Call (as defined below); a $200.0 million senior secured base letter of credit facility to be used to provide letters of credit to support the Company's commodity hedging obligations; and a $344.3 million senior secured special letter of credit facility to be used to provide letters of credit to support our and our affiliates' hedging obligations in respect of the power purchase agreement with Goldman, Sachs & Co. ("Goldman Sachs") (see Note 4 to our consolidated financial statements included in Item 8) and to support the Company's hedging obligations in respect of other commodity hedging obligations. The delayed draw term loan facility may only be utilized in a single drawing, to finance the Nuclear Acquisition or in an amount not to exceed $200.0 million, if the Company elects to redeem a like amount of Senior Notes if the Nuclear Acquisition does not occur ("STP Call"). If neither the Nuclear Acquisition is consummated nor the STP Call exercised on or prior to April 30, 2006, the commitments of the lenders under the delayed draw term loan facility will expire at such time.

The term loan facility and, if funded, the delayed draw term loan facility will each mature on December 14, 2011 and each such facility provides for quarterly amortization payments in an aggregate amount equal to 1% of the original principal amount of such facility per year, with the balance to be repaid in full at maturity. Each of the revolving credit facility, the base letter of credit facility and the special letter of credit facility will expire on December 14, 2009. The Company may borrow, repay and reborrow the total amount of the revolving credit facility until its maturity.

The Credit Agreement requires the Company to prepay loans outstanding under the term loan facility and, if funded, the delayed term loan draw facility, subject to certain exceptions and basket amounts, with excess cash flow, with the net cash proceeds it receives in the event of certain asset sales and casualty and condemnation events and with the net cash proceeds it receives upon its incurrence of certain indebtedness by the Company or its restricted subsidiaries. The foregoing mandatory prepayments will be applied without penalty or premium (except for breakage costs, if any) and will be applied on a pro rata basis between the term loan facility and, if funded, the delayed draw term loan facility and will be applied to scheduled amortization payments due within the 12 months following the prepayment event and then to remaining amortization amounts on a pro rata basis.

(3) Senior Notes and Credit Agreement (Continued)

Borrowings under the Credit Agreement bear interest, at the Company's option, at either:

- a base rate, plus the applicable interest rate margin; or
- a reserve adjusted Eurodollar rate on deposits for one-, two-, three-, six-, nine- or twelve-month periods (in the case of nine or twelve months, to the extent available to all applicable lenders), plus the applicable interest rate margin. The interest rate applicable to the Credit Agreement was 4.53% at December 31, 2004.

The applicable interest rate margin on loans made under the term loan facility and the delayed draw term loan facility is currently 1.00% for base rate loans under each such facility and 2.00% for Eurodollar rate loans under each such facility. The applicable interest rate margin on loans made under the revolving credit facility is currently 1.25% for base rate loans and 2.25% for Eurodollar loans. The applicable interest rate margin on loans made under the revolving credit facility is subject to downward adjustment based on a schedule that corresponds to the aggregate principal amount of loans repaid under the term loan facility and, if funded, the delayed draw term loan facility. The applicable interest rate on loans made under the term loan facility and, if funded, the delayed draw term loan facility is subject to adjustment based upon the achievement of certain credit ratings in respect of such facilities. Interest expense under the term loan facility was $2.4 million for the period ended December 31, 2004.

The Credit Agreement provides for the payment to the lenders of commitment fees equal to 0.5% per annum of the undrawn portion of the revolving credit facility, the base letter of credit facility and the special letter of credit facility and 1.25% per annum on the undrawn portion of the delayed draw term loan facility. The commitment fees are paid quarterly in arrears. For the period ended December 31, 2004, commitment fees for the revolving credit facility, base letter of credit facility, special letter of credit facility and delayed draw term loan facility were approximately $0.4 million in the aggregate.

The Credit Agreement provides for the payment of fees on letters of credit that are issued under the revolving credit facility, the base letter of credit facility and the special letter of credit facility. Fees payable on letters of credit issued under the revolving credit facility are calculated by multiplying (x) the stated face amount of the letters of credit issued under the revolving credit facility with (y) the applicable interest rate margin for loans bearing interest at the Eurodollar rate under the revolving credit facility. Fees payable on letters of credit issued under the base letter of credit facility are equal to (x) the stated face amount of the letters of credit issued under the base letter of credit facility multiplied by (y) 2.25%, subject to downward adjustment based on a schedule that corresponds to the aggregate principal amount of loans repaid under the term loan facility and, if funded, the delayed draw term loan facility. Fees payable on letters of credit issued under the special letter of credit facility to support that certain power purchase agreement with Goldman

(3) Senior Notes and Credit Agreement (Continued)

Sachs and certain other hedging agreements are in amounts equal to the sum of (A) (x) the stated amount of such letters of credit issued under the special letter of credit facility multiplied by (y) 1.00% and (B) (x) the average daily mark-to-market exposure of our hedging counterparties who are the beneficiaries of such letters of credit (or, if less, the stated face amount of letters of credit issued under the special letter of credit facility) multiplied by (y) 1.00%. Fees payable on letters of credit issued under the special letter of credit facility to support power purchase agreements with other hedging counterparties are equal to (x) the stated amount of such letters of credit issued under the special letter of credit facility to other hedging counterparties multiplied by (y) 2.00%, subject to downward adjustment based on the achievement of certain credit ratings for the term loan facility and the delayed draw term loan facility.

All letter of credit facilities provide for the payment of an additional fee to the fronting bank. Fronting and fees paid in respect of issued letters of credit under the special letter of credit facility were $0.3 million in the aggregate for the period ended December 31, 2004.

The following table summarizes used and available portions of the various credit facilities made available to the Company under the Credit Agreement at December 31, 2004:

Facility:	Commitment Amount	Amounts Borrowed	Face Amount of Letters of Credit Issued	Total Unused
		(in millions)		
Initial Term Loan Facility, due 2011	$ 1,150.0	$1,150.0	$ N/A	$ —
Delayed Draw Term Loan Facility, due 2011	475.0	—	N/A	475.0
Revolving Credit Facility, due 2009	325.0	—	—	325.0
Base Letter of Credit Facility, due 2009	200.0	N/A	—	200.0
Special Letter of Credit Facility, due 2009	344.3	N/A	344.3	—
Total	$ 2,494.3	$1,150.0	$ 344.3	$1,000.0

In connection with the financing of the Initial Acquisition and the Nuclear Acquisition, the Company received a commitment from affiliates of Goldman Sachs, Morgan Stanley, Deutsche Bank Securities and Citigroup to provide it with up to $1,375.0 million of high yield bridge loans to finance a portion of the Initial Acquisition purchase price in the event that the Company was unable to issue the Senior Notes (as defined below) at the time of consummation of the Initial Acquisition. In connection with such commitment, the Company paid to such affiliates a commitment fee of 1.0% of the total amount of such bridge loan commitment. The funding of the bridge loans, however, was not required in connection with the consummation of the Initial Acquisition and the commitment of such affiliates terminated when the Senior Notes were issued.

(3) Senior Notes and Credit Agreement (Continued)

Senior Notes

On December 14, 2004, the Company and Texas Genco Financing Corp., its wholly owned subsidiary, co-issued unsecured 6.875% Senior Notes due December 15, 2014 (the "Senior Notes"), in an aggregate principal amount of $1,125.0 million. Interest on the Senior Notes is payable semiannually in arrears on December 15 and June 15, commencing June 15, 2005. Pursuant to the indenture under which the Senior Notes were issued (the "Indenture"), on or before December 15, 2007, the Company, may, at its option, use the net proceeds from one or more equity offerings to redeem up to 40% of the aggregate principal amount of the Senior Notes less any Senior Notes redeemed to the STP Call (as defined below) originally issued at a price equal to 106.875% of their principal amount plus accrued and unpaid interest to the redemption date. Before December 15, 2009, the Company may redeem all or a portion of the Senior Notes at a price equal to 100% of the principal amount of the Senior Notes plus a "make-whole" premium. Additionally, it has the option to redeem all or a portion of the Senior Notes at any time on or after December 15, 2009 at the redemption prices set forth in the Indenture. In addition, on or before April 30, 2006, if the Company does not acquire STP, at its option it may redeem up to $200.0 million in aggregate principal amount of the Senior Notes at a redemption price of 101% of the aggregate principal amount of the Senior Notes, plus accrued and unpaid interest ("STP Call"). All payments on the Senior Notes, including principal and interest, are jointly and severally, fully and unconditionally guaranteed on a senior basis by all of our existing and subsequently acquired or organized domestic subsidiaries that guarantee the Credit Agreement.

Interest expense related to the Senior Notes was $3.7 million for the period ended December 31, 2004. The effective interest rate on the Senior Notes, after amortization of deferred financing charges, was 7.56% at December 31, 2004.

Restrictive Covenants

The Credit Agreement contains financial, affirmative and negative covenants applicable to the Company and its restricted subsidiaries. The negative covenants in the Credit Agreement include (each of which are subject to customary exceptions for financings of this type) restrictions on the Company and its restricted subsidiaries' ability to incur liens; incur additional debt; make certain restricted junior payments (including payments of dividends, redemptions and voluntary prepayments of certain debt); make investments and guarantees; and engage in mergers and acquisitions, asset sales, sale/leaseback transactions and transactions with affiliates. The Credit Agreement also contains the following financial covenants: a minimum interest coverage ratio; a maximum leverage ratio; and a maximum capital expenditure limitation.

The Indenture contains certain covenants that, among other things, limit the Company's ability and the ability of the Company's restricted subsidiaries to incur additional indebtedness, create liens, pay dividends or make other equity distributions,

(3) Senior Notes and Credit Agreement (Continued)

purchase or redeem capital stock, make investments, sell assets or consolidate or merge with or into other companies and engage in transactions with affiliates. Subject to certain exceptions, the Indenture permits the Company and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness. Many of the covenants will be suspended if the Senior Notes receive investment grade ratings from both Standard & Poor's Rating Group, a division of McGraw-Hill, Inc. ("S&P") and Moody's Investor's Service, Inc. ("Moody's") or if such ratings are not publicly available, from a nationally recognized statistical rating agency or agencies and no default or event of default has occurred and is continuing under the Indenture governing the Senior Notes. As of December 31, 2004, the Company has been in compliance with all of its debt covenants.

(4) Related Party Transactions, Transition Agreements and Major Customers

(a) Related Party Transactions

Members' Contributions. Members' interest capitalization at the Initial Acquisition date includes initial capital contributions from owner members of $780.6 million, of which $776.0 million was contributed by the Company's four institutional members, affiliates of The Blackstone Group ("Blackstone"), Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co., L.P. ("KKR") and Texas Pacific Group ("TPG") (the "Members") and $4.6 million was contributed by members of management.

Limited Liability Company Agreement of Texas Genco LLC. The Company's amended limited liability company agreement provides for the governance of the Company and contains specific rights and obligations of the holders of interests in the Company, such as registration rights, tag-along rights, drag-along rights and obligations, transfer restrictions, restrictions on affiliate transactions and rights of first refusal. The agreement also provides that the Company's Board consist of 11 managers. The board is composed of two managers appointed by funds controlled by Blackstone, two managers appointed by funds controlled by Hellman & Friedman, two managers appointed by funds controlled by KKR, two managers appointed by funds controlled by TPG, two independent managers to be chosen by a majority of the board and one manager who will be the Chief Executive Officer. The number of managers that a member may appoint will be reduced if that Member's interest in the Company is reduced below certain levels in accordance with provisions agreed upon by the Members in the amended limited liability company agreement. Each Member has the right to remove and replace its director-designee(s) at any time and for any reason, and to fill any vacancies otherwise resulting in such director positions.

The Members have the right to veto significant or extraordinary actions of the Company. For example, approval of Members holding a significant percentage of the limited liability company interests in the Company is required to take actions such as approving the annual operating budget, making significant acquisitions or dispositions, issuing equity securities (including any initial public offering) or significant indebtedness,

(4) **Related Party Transactions, Transition Agreements and Major Customers (Continued)**

and entering into material contracts. In addition, each Member has the right to veto certain extraordinary transactions, such as a sale of the Company, any action that would cause any adverse regulatory impact on the Member and certain adverse amendments to the limited liability company agreement.

The limited liability company agreement also provides for cash distributions to the members of the Company on a periodic basis for the purposes of funding their tax obligations in respect of the income of the Company that is allocated to them. The amount of those distributions is calculated based on an assumed tax rate of 45% multiplied by the net taxable income and gain of the Company for the relevant tax period.

Transaction and Monitoring Fee Agreement. Affiliates to the Members have entered into a transaction and monitoring fee agreement with the Company relating to certain monitoring, advisory and consulting services that those affiliates will provide. At the Initial Acquisition, the Company paid a transaction and advisory fee to those affiliates in an aggregate amount of approximately $50.0 million. In addition, the Company will pay to those affiliates an aggregate annual monitoring fee of approximately $10.0 million payable quarterly, beginning in 2005, subject to a 5% increase per year, and it will reimburse those affiliates for their out-of-pocket expenses in connection with their ongoing services. It will indemnify these affiliates of the Members and their respective affiliates, directors, officers and representatives for any and all losses relating to the services contemplated by the transaction and monitoring fee agreement and the engagement of those affiliates pursuant to, and the performance by them of the services contemplated by, the transaction and monitoring fee agreement. The transaction and monitoring fee agreement will terminate on the earliest to occur of (i) the twelfth anniversary of the closing date of the Initial Acquisition, (ii) the date on which these affiliates of the Members and their affiliates own less than a threshold amount of the outstanding limited liability company interests in the Company or (iii) such earlier date as the Company and these affiliates of the Members may mutually agree.

Member Loans. At the Initial Acquisition, the Company repaid to the Members $6.4 million in loans made by the Members in 2004 to fund expenditures prior to the Initial Acquisition.

Employment Agreements. The Company maintains employment agreements with Jack Fusco, its Chief Executive Officer, Thad Miller, its Chief Legal Officer, Thomas Boehlert, its Chief Financial Officer and Margery Harris, its Senior Vice President, Human Resources (each, an “Executive Officer”). Unless terminated earlier by the Company or the Executive Officer, the current terms of the employment agreements for Messrs. Fusco, Miller. Boehlert and for Ms. Harris are through December 2009. In the absence of an earlier termination, each employment agreement will renew automatically for a period of one additional year at the end of the initial term and at each following December unless the Company or the Executive Officer elects not to renew the agreement by delivering written

(4) Related Party Transactions, Transition Agreements and Major Customers (Continued)

notice no later than 60 days before the end of any renewal term. Mr. Miller, who provided services for TPG prior to the Initial Acquisition with respect to a matter unrelated to the Company, is permitted under his employment agreement to continue to provide services for TPG with respect to this matter.

(b) Transition Agreements

Transition Services Agreement. In connection with the Initial Acquisition discussed in Note 1, the Company entered into a transition services agreement with CenterPoint Energy Service Company, LLC, a wholly owned subsidiary of CenterPoint, effective December 15, 2004 through and including June 15, 2005. This agreement contains provisions governing the Company's relationship with CenterPoint following the Initial Acquisition and specifies the related ancillary services to be provided to the Company by CenterPoint. Services provided to the Company under the terms of the transition services agreement include certain treasury, corporate, information technology (including enterprise business systems operations and support), telecommunications services and support, records management, accounting and tax services. The Company has incurred approximately $0.8 million for these services for the period from December 16 to December 31, 2004.

Technical Services Agreement. The Company executed a technical services agreement with Reliant Energy Inc. ("Reliant"), effective December 1, 2004 through the earlier of termination or December 31, 2005. This agreement specifies the services to be provided to the Company by Reliant in support of generation management and market operation computer systems and various other information technology services. Generation management and market operation computer system services consist of the provision of computer systems hardware, software and computer operation services for certain functions associated with deployment of generation assets and commercial market operations. Other technical information technology support services will also be provided under the technical services agreement. The monthly minimum fee for these services is $0.3 million, commencing December 16, 2004. The Company has incurred approximately $0.2 million for these services for the period from December 16 to December 31, 2004. The agreement also includes a permanent license for certain software used by the Company.

Pipeline Operations and Maintenance Agreement. The Company is in the process of renewing its pipeline operations and maintenance agreement with CenterPoint Energy Pipeline Services that expires on April 1, 2005. This agreement specifies the services to be provided to the Company by CenterPoint Energy Pipeline Services, as contractor, for the operation and maintenance of the Company's pipeline assets. Fees under the agreement are billed on a cost-plus basis, and the contractor is compensated on the basis of the actual labor and equipment cost plus the agreed upon markups for personnel and equipment pursuant to the terms of the agreement. Fees for these services were approximately $0.2 million for the period ended December 31, 2004.

(4) Related Party Transactions, Transition Agreements and Major Customers (Continued)

Back-to-Back Power Purchase Arrangement. At the time of the closing of the Initial Acquisition, Genco entered into a power purchase agreement with Genco II. Under the power purchase agreement, Genco sold through December 31, 2008 the portion of its share of the power from STP equal to its forward sales obligations relating to the South ERCOT Zone transferred to Genco II in the Initial Acquisition, which will be a substantial portion of its total share of the power from STP but less in 2008 than in the prior years. This power is sold on a unit-contingent basis, meaning that Genco will be excused (subject to the contingent payment for economic costs described below) from its obligations to deliver this power to the extent the power is unavailable as a result of a derating or forced outage at STP or certain other specified causes. Genco II will also purchase Genco's excess power on a non-firm basis and sell it to third parties on a non-firm and short-term firm basis. For these services, Genco will pay Genco II a monthly fee.

During the period from the closing of the Initial Acquisition until the closing of the Nuclear Acquisition or the termination of the Transaction Agreement prior to the Nuclear Acquisition closing, the pricing for this power is at the weighted average price achieved by Genco II on its forward sales in the South ERCOT Zone pursuant to the forward sales obligations relating to the South ERCOT Zone transferred to Genco II in the Initial Acquisition. In the event the Nuclear Acquisition does not close and the transaction agreement is terminated, Genco must pay to Genco II 50% of the economic cost, which is the Company's cost of supplying replacement power either through open market purchases or through running its natural gas-fired plants, incurred by Genco II during that period as a result of power from STP being unavailable to meet the contract quantity. After that period, the pricing for this power is at 90% of such weighted-average price, with no contingent payment for economic costs.

Service Agreement Arrangements. At the Initial Acquisition, Genco entered into a services agreement with Genco II. Under the agreement, Genco II provides energy dispatch and coordination services to Genco with respect to its interest in STP, administers Genco's PUC-mandated capacity auctions, markets Genco's excess capacity and energy to third parties, and assists Genco generally in managing its trading business. For those services, Genco reimburses the Company for any costs incurred by the Company.

(c) Major Customers

For the period ended December 31, 2004, revenues from the Company's two largest customers in 2004, BP Energy Company and Reliant, were approximately $12.8 million and $53.8 million, respectively.

The Company has sold or hedged future sales for 35% of its available baseload capacity to Goldman Sachs under the PPA and a natural gas price swap agreement and

(4) Related Party Transactions, Transition Agreements and Major Customers (Continued)

24% of its available baseload capacity to Reliant for the period from January 1, 2005 through December 31, 2007.

Goldman Sachs Power Purchase Agreement. The Company has entered into a master power purchase agreement (“PPA”) with J. Aron & Company, an affiliate of Goldman, Sachs & Co. (“Goldman Sachs”). Under that agreement, it has sold a substantial portion of its available base load capacity through December 31, 2008 on a fixed price basis. The pricing for this power was based on current market prices for firm power in the ERCOT market for a transaction of this size at the time of execution of the agreement. It has also entered into a natural gas price swap agreement with Goldman Sachs, as discussed above. The obligations of Goldman Sachs under the PPA and natural gas price swap agreement are supported by an unlimited guarantee of The Goldman Sachs Group, Inc. which currently has senior unsecured debt ratings of Aa3 by Moody’s and A+ by S&P. If the Goldman Sachs Group, Inc. suffers certain downgrades, The Goldman Sachs Group, Inc. will be required to post collateral in the form of cash or letters of credit to the Company to the extent the Company has a mark-to-market exposure exceeding a specified threshold. In the event power prices decline in the future and Goldman Sachs fails to perform under the PPA, the Company would be entitled under the PPA to collect from Goldman Sachs the difference between the contract price and lower market price. However, the Company’s ability to collect would be dependent on the amount of any collateral then posted and The Goldman Sachs Group, Inc.’s creditworthiness at the time. The Company has posted an aggregate of $318.0 million face amount of letters of credit to Goldman Sachs to secure its obligations under the PPA and natural gas hedge. The face amount is subject to reduction in certain circumstances but not increase. Goldman Sachs has also been granted a second lien in substantially all of the Company’s assets, subject to the prior lien of the lenders under the Credit Agreement.

Reliant Power Purchase Agreement. The Company has entered into a power sale agreement with Reliant under which it has sold 24% of its available base load capacity for the period from January 1, 2005 through December 31, 2007, as well as capacity from the Company’s natural gas-fired plants in 2005.

To secure its obligation under this PPA, Reliant has pledged to the Company a security interest in up to $250.0 million of securitization notes associated with the sale of ERCOT retail accounts receivable (subject to receivables securitization facilities). The

Company may suffer a loss to the extent Reliant defaults on its obligations in excess of the amount, if any, the Company could realize on such collateral and such loss may adversely affect its results of operations, financial condition and cash flows. This pledge arrangement with Reliant will terminate with respect to new obligations incurred on and after June 6, 2005. The Company expects to negotiate a new security arrangement with Reliant regarding any such new obligations. Reliant has senior unsecured debt ratings below investment grade at B2 by Moody’s and B by S&P.

(4) Related Party Transactions, Transition Agreements and Major Customers (Continued)

Second Lien Credit Support. The Company enters into credit and collateral agreements with counterparties to secure performance or obligations under commercial contracts. Some of these agreements require us to issue letters of credit, post cash deposits or grant second liens on our assets as security to the counterparty in the event of a default. The second liens are only effective to the extent that credit exposure to the counterparty exceeds the levels of the letters of credit or cash deposits provided to the counterparty (excess exposure). The excess exposure under these second liens as of December 31, 2004 was $171.5 million.

(5) Employee Benefit Plans

(a) Incentive Compensation Plan

The Company has a long-term incentive compensation plan that provides cash-based performance units to key employees. The Company's compensation cost related to this plan was less than $0.1 million for the period ended December 31, 2004. The plan was assumed by the Company in conjunction with the Initial Acquisition.

(b) Pension Plan

Substantially all of the employees of the two companies acquired in the Initial Acquisition participate in the Company's qualified non-contributory pension plan. The plan benefit is a cash balance formula with annual pay accruals and interest credits. The Company's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations.

The net benefit cost includes the following components:

	December 16 to December 31, 2004 (in millions)
Components of Net Periodic Benefit Cost	
Service cost	$ 0.2
Interest cost	0.4
Expected return on plan assets	(0.1)
Net periodic benefit cost	$ 0.5

The Company's discount rate assumption is based on high-quality corporate bond rates such as Moody Aa rates.

(5) Employee Benefit Plans (Continued)

The Company used the following assumptions to determine the net periodic benefit cost:

	December 16 to December 31, 2004
Discount rate	5.75%
Expected long-term rate of return on plan assets	8.50%
Compensation increases	4.57%

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 sheet as of December 31, 2004 for the Company's pension plan:

	December 31, 2004 (in millions)
Change in Benefit Obligation	
Benefit obligation, December 16, 2004	$ 164.8
Service cost	0.3
Interest cost	0.3
Actuarial (gain) loss	—
Benefit obligation, end of year	$ 165.4
Change in Plan Assets	
Plan assets at fair value, December 16, 2004	$ 40.0
Actual return on plan assets	1.0
Plan assets at fair value, end of year	$ 41.0
Reconciliation of Funded Status, December 31	
Funded status — plan assets in excess of benefit (obligation)	$ (124.4)
Unrecognized net (gain) loss	(0.9)
Prepaid (accrued) benefit cost before balance sheet adjustments	$ (125.3)
Amounts Recognized in Consolidated Balance Sheet, December 31	
(Accrued) benefit liability — minimum of (accrued) benefit cost and minimum (liability)	$ (125.3)
Prepaid (accrued) benefit cost before balance sheet adjustments	$ (125.3)

The Company used the following assumptions to determine the pension plan benefit obligations:

	December 31, 2004
Discount rate	5.75%
Compensation increases	4.57%

(5) Employee Benefit Plans (Continued)

Additional information related to the Company's pension plans is as follows:

	December 31, 2004
	(in millions)
Projected benefit obligation	$ 165.4
Accumulated benefit obligation	146.4
Fair value of assets	41.0

The plan assets were invested in marketable securities for which an active market existed. In accordance with SFAS 87, "Employers' Accounting for Pensions," the fair value at the measurement date for each investment was determined by utilizing the market prices for each investment. The sum of these fair values was reflected as the "Fair value of the assets."

The expected long-term rate of return assumption was developed using a policy framework that includes an annual review of several factors including the analysis of historical returns, gauging market consensus, historical returns of the pension plan's portfolio, reviewing longer term historical asset returns and incorporating the results of asset return models.

The following table displays the current asset allocation for the Company's pension plan trust:

	December 31, 2004
Large cap equity	55%
International equity	15%
Fixed income	30%
Total	100%

The current asset allocation noted above is consistent with the Company's targeted asset allocation.

The following benefit payments are expected to be paid from the pension plan (in millions):

2005	$ 5.2
2006	6.0
2007	7.0
2008	8.2
2009	9.6
2010 through 2014	62.6

The Company expects to contribute $42.3 million in cash to its pension plan in 2005.

(5) Employee Benefit Plans (Continued)

(c) Retiree Medical Plan

The Company's employees participate in the retiree medical plan which provides certain healthcare benefits for retired employees on a contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plan. Employer contributions for medical coverage for certain healthcare benefits are limited by the plan's benefit design. 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.

The net retiree medical benefit cost includes the following components:

	December 16 to December 31, 2004 (in millions)
Components of Net Periodic Benefit Cost	
Service cost	$ (*)
Interest cost	(*)
Expected return on plan assets	—
Net periodic benefit cost	$ 0.1

(*) Service cost is $31,000 and interest cost is $46,000 for a total of approximately $0.1 million.

The Company used the following assumptions to determine the net periodic postretirement benefit cost:

	December 16 to December 31, 2004
Discount rate	5.75%

Plan costs are not affected by actual medical trends since the Company's subsidy is limited to a fixed dollar amount.

The following table displays the change in the retiree medical benefit obligation, the fair value of plan assets and amounts included in the Company's consolidated balance sheet as of December 31, 2004 for the Company's retiree medical benefit plan:

(5) Employee Benefit Plans (Continued)

		December 31, 2004 (in millions)
Change in Benefit Obligation		
Benefit obligation, December 16, 2004	$	20.6
Service cost		(*)
Interest cost		(*)
Actuarial (gain) loss		—
Benefit obligation, end of year	$	20.7
Change in Plan Assets		
Plan assets at fair value, December 16, 2004	$	—
Actual return on plan assets		—
Plan assets at fair value, end of year	$	—
Reconciliation of Funded Status, December 31		
Funded status — plan assets in excess of benefit (obligation)	$	(20.7)
Unrecognized net (gain) loss		—
Prepaid (accrued) benefit cost before balance sheet adjustments	$	(20.7)
Amounts Recognized in Consolidated Balance Sheet, December 31		
(Accrued) benefit liability — minimum of (accrued) benefit cost and minimum (liability)	$	(20.7)
Prepaid (accrued) benefit cost before balance sheet adjustments	$	(20.7)

(*) Service cost is $31,000 and interest cost is $46,000 for a total of approximately $0.1 million.

The Company used the following assumptions to determine the retiree medical benefit obligations:

	December 16 to December 31, 2004
Discount rate	5.75%

The following benefit payments are expected to be paid from the retiree medical benefit plan (in millions):

2005	$ —
2006	0.1
2007	0.1
2008	0.2
2009	0.2
2010 through 2014	8.8

(5) Employee Benefit Plans (Continued)

The Company expects to contribute $25,000 to its retiree medical benefit plan in 2005. Under an agreement between CenterPoint and us, CenterPoint has retained the obligation to pay retiree medical benefits for all Genco II employees who subsequently retire and had attained either age 55 with five years of service or 50 to 54 years of age with 20 years of service as of December 15, 2004. The Company's benefit payments under this plan are expected to be $25,000 in 2005, $0.1 million in 2006, $0.1 million in 2007, $0.2 million in 2008, $0.2 million in 2009 and $8.8 million in the aggregate for 2010 through 2014.

(d) Other Employee Matters

  As of December 31, 2004, the Company employed 1,572 people. Of these employees, 1,001 were covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 66 that expires in September 2006. The Agreement contains a reopen clause for the purpose of negotiating wages and benefits only, scheduled to begin in June 2005, to be effective September 18, 2005.

(6) Income Taxes

Texas Genco LLC is a limited liability company that is treated as a partnership for federal income tax purposes and is therefore not subject to federal income taxation at the partnership level. Profits or losses are subject to taxation at the member interest level.

(7) Commitments and Contingencies

(a) Fuel and Fuel Transport 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 classified as non-trading derivative assets and liabilities in the Company's consolidated balance sheet as of December 31, 2004, 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, a natural gas storage contract and lignite supply agreements that extend through 2012 are approximately $330.0 million in 2005, $281.1 million in 2006, $273.8 million in 2007, $173.2 million in 2008, $178.1 million in 2009 and $165.2 million thereafter. With the exception of the Back to Back Power Purchase Agreement described above, purchase commitments related to purchased power are not material to the Company's operations. As of December 31, 2004, the pricing provisions in some of these contracts were above market.

(7) Commitments and Contingencies (Continued)

(b) Lease Commitments

Operating Leases. The following table sets forth information concerning the Company's obligation under a non-cancelable long-term operating lease at December 31, 2004, which consists of a rental agreement for rail cars (in millions):

2005	$2.0
2006	1.1
2007	1.1
2008	1.1
2009	0.6
2010 and beyond	—
Total	$5.9

Total lease expense was $0.1 million for the period ended December 31, 2004.

Capital Lease Obligations. Current and long term capital lease obligations at December 31, 2004 were $1.7 million and $3.4 million, respectively. The aggregate liability, both current and non-current, recorded for capital lease obligations as of December 31, 2004 was $5.1 million. This amount reflects a reduction for imputed interest on the lease payments of $0.5 million. The following table sets forth information concerning the Company's obligations under rail car capital leases at December 31, 2004 (in millions):

2005	$1.7
2006	1.8
2007	1.6
2008	—
2009	—
2010 and beyond	—
Total	$5.1

The Company's three capital leases include 1,020 rail cars. Capital lease assets of $3.7 million and capital lease liabilities of $5.1 million are included in property, plant and equipment and in other liabilities, respectively, on the consolidated balance sheet at December 31, 2004. Depreciation expense for the capital lease assets was approximately $57,000 for the period ended December 31, 2004.

(c) Environmental and Legal

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 ("NO_x") from electric generating units. The Company is currently installing cost-effective controls at its generating plants to comply with these requirements. From January 1, 2000 through December 31, 2004, the Company invested approximately $700 million for NO_x emission control, and the Company plans to

(7) Commitments and Contingencies (Continued)

make additional expenditures of up to approximately $17.5 million through 2006. Further NO_x requirements may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards.

Lignite Mine Reclamation. The Company obtains lignite for its Limestone facility under an amended long-term contract with the owner/operator of the mine, Texas Westmoreland Coal Co. ("TWCC") which contract was entered into in April 1999. Pursuant to the contract, TWCC is responsible for performing ongoing reclamation activities at the mine until all lignite reserves have been produced. When production is completed at the mine, the Company is responsible for final mine reclamation obligations. The Railroad Commission of Texas has imposed a bond obligation of approximately $70 million on TWCC for the reclamation of the lignite mine. Final reclamation activity is expected to commence in 2015. Pursuant to the contract with TWCC, an affiliate of CenterPoint Energy, Inc. has guaranteed $50 million of this obligation until 2010. The remaining sum of approximately $20 million has been bonded by TWCC. Under the terms of its contract with TWCC the Company is required to post a corporate guarantee of TWCC's reclamation bond when CenterPoint's obligation lapses. As of December 31, 2004 the Company had accrued $6.2 million related to the mine reclamation obligation. 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.

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, renovation or repair of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. As of December 31, 2004, there were 4,926 claims pending against the Company. For the period from December 15, 2004 to December 31, 2004, there were 446 claims filed against the Company, 1 claim settled, 400 claims dismissed or otherwise resolved with no payment and the average settlement amount for each claim was approximately $7,500. As a result of comprehensive asbestos and silica reform legislation which was recently enacted in Texas, the Company anticipates that approximately 75% or more of the current lawsuits against it will be placed on the inactive docket until such time as plaintiffs are able to substantiate medical impairment, if at all. Of the remaining claims, the Company does not have sufficient information for the vast majority regarding whether the plaintiffs worked on Texas Genco premises or have become impaired. For the small number of cases for which it has sufficient information, management believes that the Company's possible aggregate exposure is immaterial to the Company's consolidated results of operations and financial condition. 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.

(7) Commitments and Contingencies (Continued)

Litigation. Although Genco or Holdings are the named defendants in the matters described below, the Company is responsible for paying any damage awards inasmuch as the lawsuits relate to Genco II's facilities.

In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against, as the lawsuit was subsequently amended, Genco, CenterPoint Energy, Inc. ("CenterPoint"), Reliant, Reliant Electric Solutions, LLC, several other CenterPoint and Reliant subsidiaries and a number of other participants in the 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 $500.0 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The plaintiff's principal allegations had previously been investigated by 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. Genco is contesting the appeal. The parties have filed their appellate briefs and the court of appeals will hear oral argument on this matter in May 2005.

In February 2005, Utility Choice Electric filed in federal court in Houston, Texas a lawsuit against CenterPoint, CenterPoint Energy Houston Electric, LLC, CenterPoint Energy Gas Services, Inc., CenterPoint Energy Alternative Fuels, Inc., Genco and a number of other participants in the ERCOT power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws, intentionally interfered with prospective business relationships and contracts, and committed fraud and negligent misrepresentation. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. Genco intends to vigorously defend the case. The ultimate outcome of this matter cannot be predicted at this time.

On February 20, 2004, Genco filed an injunction and declaratory judgment lawsuit in a Freestone County, Texas state district court seeking to enjoin Valence Operating Company ("Valence") from drilling or engaging in work to prepare for drilling a natural gas well in Genco II's Class II Industrial Solid Waste Facility (the "Landfill") adjacent to the Limestone plant. The Landfill is used to dispose of ash byproducts from the combustion of coal and lignite at the Limestone Plant. Following a hearing in April 2004, the court granted Genco's request and enjoined Valence from drilling the well in the Landfill. In connection with that injunction, the court ordered, and Genco posted, a bond in the amount of $1.0 million to secure payment of any damages suffered by Valence should it be found to have been wrongfully enjoined. Valence filed a counter-claim against Genco for wrongful injunction and sought to recover the full amount of the verdict on September 15, 2004. The jury found that Genco had an existing use that would be precluded or substantially impaired if Valence drilled Well 8. Finally, the jury also found damages in the

(7) Commitments and Contingencies (Continued)

amount of $400,000 as compensation to Valence for the issuance of the temporary restraining order and temporary injunction. Both Genco and Valence moved to disregard certain of the jury's findings and for judgment in their respective favors. On October 24, 2004, the court accepted the jury's findings and entered judgment that Genco take nothing on its claim for permanent injunction, that Valence recover $400,000 in damages, together with pre- and post-judgment interest and costs. Genco has appealed the final judgment. The trial court has reinstated the temporary injunction pending the resolution of Genco's appeal. The ultimate outcome of this matter cannot be predicted at this time. In addition, a separate lawsuit was filed by Genco in the same court, to enjoin Valence from drilling another well in the Landfill. In that lawsuit, Genco obtained a temporary restraining order against drilling this other well. On October 26, 2004, the court signed an order granting Genco's requested injunctive relief and enjoining Valence from drilling Well 9 in the Landfill. The court ordered, and Genco posted, a bond in the amount of approximately $2.0 million to secure payment of any damages suffered by Valence should it be found to have been wrongfully enjoined. The court has set this case for trial on the merits on July 5, 2005.

Valence currently has four active applications with the Railroad Commission of Texas for drilling permits for additional wells that would be drilled in the Landfill, one of which would be drilled through the closed cells in Genco's Landfill. Genco has filed a protest with the Railroad Commission of Texas over these applications, and a hearing is scheduled at the Railroad Commission in April 2005. Genco is vigorously contesting these attempts to drill into the Landfill in part because such drilling activity impairs Genco's use of its property for the Landfill.

The Company is, from time to time, a party to other litigation arising in the normal course of its business, most of which involves contract disputes or claims for personal injury and property damage incurred in connection with its operations. The Company does not believe that any such existing litigation will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

(d) Joint Operating Agreement

Joint Operating Agreement with City of San Antonio. The Company has a joint operating agreement with the City Public Service Board of San Antonio ("CPS") 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.

(e) Plant Decommissioning Application

On January 10, 2005, we filed notice with ERCOT to suspend operations at fifteen natural gas fired generation units located at the Company's Cedar Bayou, Webster, P. H. Robinson, Clarke and Deepwater Stations, representing a total of 3,839 MW in capacity.

(7) Commitments and Contingencies (Continued)

ERCOT notified the Company that it will only need P. H. Robinson Unit 2 and has negotiated with the Company to maintain the unit in operation for one year on a “Reliability Must Run” basis (“Must-Run Contract”). Under a Must-Run Contract the Company would recover from ERCOT the costs of operating the unit and it would be available to ERCOT for reliability needs.

ERCOT has formally informed the Company that P. H. Robinson Units 1, 3 and 4, T. H. Wharton Unit 2, Cedar Bayou Unit 3, H. O. Clarke Units 1 through 6, Deepwater Unit 7 and Webster Units 3 and 21 are not required for system reliability. Whether the units are sold, retired or mothballed for more than 180 days, the Company’s available capacity for 2005 will be reduced by up to 3,378 MW. The Company’s initial purchase price allocation did not attribute any fair value to these units.

(f) State Auction Application

The Company has applied to the PUC for a declaration that it is no longer required to participate in PUC-mandated auctions under which generation “affiliates” of electric utilities are required to auction 15% of their generation capacity to market participants (excluding affiliates of the electric utility).

Because the PUC has not yet ruled on this application, the Company was required to sell capacity in auction held on March 10, 2005 covering capacity entitlements for May through August 2005. Upon a Stipulation and Order from PUC the Company offered for sale in the auction 15% of its capacity after adjustment for the units to be retired and changed the auction opening bid prices and opening bid price methodology. Prior to the Initial Acquisition, Genco had been auctioning capacity entitlements at opening prices well below its operating cost.

(8) Subsequent Events

On February 1, 2005, and in conjunction with the Initial Acquisition discussed in Note 1 to the consolidated financial statements included herein under Item 8, the Company announced a workforce optimization plan (the “Plan”) for its non-bargaining unit employees. The program consists of a voluntary retirement incentive and an involuntary severance.

Voluntary Retirement Incentive. On February 14, 2005, the Company announced the Voluntary Retirement Incentive Program (“VRI”) for its eligible 232 non-bargaining unit employees, and on March 15, 2005, an identical program was rolled out for its eligible 309 bargaining unit employees. To be eligible for the VRI, employees must be (1) employed on February 1, 2005 (on March 1, 2005 for bargaining unit employees), (2) at least age 50 with at least 15 years of service on April 1, 2005, and (3) a participant in the Genco II retirement plan (“Retirement Plan”). In summary, the VRI offers the eligible employee (i) an annuity payment from the Retirement Plan based on the greater of (a) the

(8) Subsequent Events (Continued)

cash balance account in the Retirement Plan, or from the predecessor plan benefit formula, (b) the accrued lump sum benefit paid as a monthly annuity, or (c) the present value of the immediate life annuity; (ii) the present value of two years of base salary in the form of a twenty-four month annuity payment from the Retirement Plan (or, if the employee elects, in the form of a life annuity); (iii) a lump-sum healthcare bridge payment if the employee is under age 55; and (iv) payment of earned vacation and a pro-rated 2005 discretionary bonus. As of March 25, 2005, 161 non-bargaining unit employees had elected to retire and did not revoke their election, one has revoked the offer, five have declined the offer, and 65 have not yet made an irrevocable election. With respect to the bargaining unit employees, as of March 25, 2005, 40 bargaining unit employees have elected to retire and did not revoke the election, one has declined the offer and 268 employees have yet to make an irrevocable election to participate in the VRI. This group has until April 27, 2005 to make an election to participate in the program.

Involuntary Severance. The second component of the Plan is being achieved by targeted workforce reductions. Terminated employees receive a lump-sum cash severance benefit payment based on a calculation which provides three weeks of base pay for each full year of service realized with us (and qualified predecessor employers) along with a prorated short-term incentive bonus payment based on eligible earnings, with a minimum of 12 weeks and a maximum of 52 weeks of severance benefits paid to an affected individual. In addition, the terminated employee would receive an additional lump sum equal to the employee's target award under the Company's annual short-term incentive plan based on eligible earnings for the period commencing on January 1 of the termination year through the employee's date of termination. Affected individuals will also have the ability to continue medical, dental and vision benefits at the active employee contribution rates for coverage for the number of weeks used to calculate the individual's severance benefit. So far, the Company has terminated 19 employees pursuant to this component of the workforce optimization plan.

Nuclear Acquisition. The Company acquired in a merger transaction Texas Genco Holdings, Inc. ("Holdings") on April 13, 2005, whose primary assets consisted of an undivided 30.8% ownership interest in the assets of STP and restricted cash. The purchase price was $700.0 million plus assumed liabilities. The Nuclear Acquisition was funded with $475.0 million of borrowings under the delayed draw term loan portion of the Credit Agreement, an additional cash equity investment of $117.5 million by our members, $99.5 million from revolver borrowings with the balance from cash on hand. Since Holdings had approximately $75.0 million of bank debt outstanding, which became due on the date of the Nuclear Acquisition, the Company also paid $75.0 million (less excess cash on hand at Holdings) from its cash on hand in order to discharge such debt.

On May 19, 2005, pursuant to the exercise of a right of first refusal subsequent to the third party offer to AEP in early 2004, the Company acquired from AEP an additional 13.2% undivided interest, equivalent to approximately 330 MW in STP for approximately $174.2 million less adjustments for working capital and other purchase price adjustments.

(8) Subsequent Events (Continued)

The Company does not expect to make any additional payments in connection with the potential acquisition of the ROFR. Texas Genco LP, a subsidiary of Holdings, has deposited cash collateral in the amount of $192.0 million to secure stand-by letters of credit posted in favor of AEP in the amount of $183.0 million to secure the obligation to pay AEP for the ROFR. Upon consummation of the ROFR acquisition, the excess cash securing the letters of credit will be released.

Exhibit 99.04

Pro Forma presentation of the Statements of Operation for Predecessor NRG Energy, Inc. for the year ended December 31, 2002, for the period January 1 through December 5, 2005 and for the period December 6, 2003 through December 31, 2003 to reflect the reclassification for discontinued operations of Audrain

On December 8, 2005 NRG entered into an Asset Purchase and Sale Agreement to sell all the assets of NRG Audrain Generating LLC, or Audrain, to AmerenUE, a subsidiary of Ameren Corporation. The purchase price is $115 million, subject to customary purchase price adjustments. The transaction is expected to close during the first half of 2006. The sale is subject to customary approvals, including Federal Energy Regulatory Commission, Missouri Public Utilities Commission, Illinois Commerce Commission, and Hart-Scott-Rodino review. We expect to record a gain of approximately $15 million at closing.

Due to the fact that the SEC prohibits the filing of an amended Form 10-K for discontinued operations that occur after the date of the latest Form 10-Q, it is necessary to reflect the discontinued operations activity for the relevant periods within this current report on Form 8-K. As such, we have filed this exhibit 99.04.

	Predecessor					
	Year Ended December 31, 2002			Period from January 1 through December 5, 2003		
	Historical	Pro Forma Adjustments	Pro forma	Historical	Pro Forma Adjustments	Pro forma
(in thousands)	NRG Energy, Inc.	Audrain	NRG Energy, Inc.	NRG Energy, Inc.	Audrain	NRG Energy, Inc.
Operating Revenues						
Revenues from majority-owned operations	$ 1,938,293	(12,141)	1,926,152	$ 1,798,387	(1)	1,798,386
Operating Costs and Expenses						
Cost of majority-owned operations	1,332,446	(13,630)	1,318,816	1,355,909	(1,708)	1,354,201
Depreciation and amortization	207,027	(10,640)	196,387	218,843	(8,393)	210,450
General, administrative and development	218,852	(360)	218,492	170,330	(494)	169,836
Other charges (credits)						
Reorganization charges	—	—	—	197,825	—	197,825
Restructuring and impairment charges	2,563,060	(66,067)	2,496,993	237,575	—	237,575
Fresh start reporting adjustments	—	—	—	(4,118,636)	(100,541)	(4,219,177)
Legal settlement	—	—	—	462,631	—	462,631
Total operating costs and expenses	4,321,385	(90,697)	4,230,688	(1,475,523)	(111,136)	(1,586,659)
Operating Income	**(2,383,092)**	**78,556**	**(2,304,536)**	**3,273,910**	**111,135**	**3,385,045**
Other Income (Expense)						
Equity in earnings of unconsolidated affiliates	68,996	—	68,996	170,901	—	170,901
Write downs and losses on sales of equity method investments	(200,472)	—	(200,472)	(147,124)	—	(147,124)
Other income, net	11,431	—	11,431	19,209	1	19,210
Interest expense	(452,182)	16,729	(435,453)	(329,889)	22,293	(307,596)
Total other expense	(572,227)	16,729	(555,498)	(286,903)	22,294	(264,609)
Income From Continuing Operations Before Income Taxes	(2,955,319)	95,285	(2,860,034)	2,987,007	133,429	3,120,436
Income Tax Expense	(166,867)	—	(166,867)	37,929	—	37,929
Income From Continuing Operations	**(2,788,452)**	**95,285**	**(2,693,167)**	**2,949,078**	**133,429**	3,082,507
Loss on Discontinued Operations, net of income taxes	(675,830)	(95,285)	(771,115)	(182,633)	(133,429)	(316,062)
Net Income/(Loss)	**$ (3,464,282)**	**$ —**	**$ (3,464,282)**	**$ 2,766,445**	**$ —**	**$ 2,766,445**

Earnings per share information is not available for these periods as NRG Energy, Inc.'s stock was not publicly traded during these periods.

Exhibit 99.05

Pro Forma presentation of the Statement of Operation for Reorganized NRG Energy, Inc.'s for the period December 6, 2003 through December 31, 2003 to reflect the reclassification for discontinued operations of Audrain

On December 8, 2005 NRG entered into an Asset Purchase and Sale Agreement to sell all the assets of NRG Audrain Generating LLC, or Audrain, to AmerenUE, a subsidiary of Ameren Corporation. The purchase price is $115 million, subject to customary purchase price adjustments. The transaction is expected to close during the first half of 2006. The sale is subject to customary approvals, including Federal Energy Regulatory Commission, Missouri Public Utilities Commission, Illinois Commerce Commission, and Hart-Scott-Rodino review. We expect to record a gain of approximately $15 million at closing.

Due to the fact that the SEC prohibits the filing of an amended Form 10-K for discontinued operations that occur after the date of the latest Form 10-Q, it is necessary to reflect the discontinued operations activity for the relevant periods within this current report on Form 8-K. As such, we have filed this exhibit 99.05.

	Reorganized		
	Period from December 6 through December 31, 2003		
	Historical	Pro Forma Adjustments	Pro forma
	NRG Energy, Inc.	Audrain	NRG Energy, Inc.
Operating Revenues			
Revenues from majority-owned operations	$ 138,490	—	$ 138,490
Operating Costs and Expenses			
Cost of majority-owned operations	95,541	(56)	95,485
Depreciation and amortization	11,808	—	11,808
General, administrative and development	12,518	(15)	12,503
Other charges (credits)			
Restructuring and impairment charges	2,461	—	2,461
Total operating costs and expenses	122,328	(71)	122,257
Operating Income	**16,162**	**71**	**16,233**
Other Income (Expense)			
Minority interest in earnings of consolidated subsidiaries	(134)	—	(134)
Equity in earnings of unconsolidated affiliates	13,521	—	13,521
Other income, net	97	47	144
Interest expense	(18,902)	—	(18,902)
Total other expense	(5,418)	47	(5,371)
Income From Continuing Operations Before Income Taxes	10,744	118	10,862
Income Tax Expense	(661)	—	(661)
Income From Continuing Operations	11,405	**118**	11,523
Loss on Discontinued Operations, net of income taxes	(380)	(118)	(498)
Net Income/(Loss)	**$ 11,025**	**$ —**	**$ 11,025**
Weighted average number of common shares outstanding			
Basic	100,000		100,000
Income From Continuing Operations per weighted average common share — Basic	$ 0.11		$ 0.11
Income From Discontinued Operations per weighted average common share — Basic	—		—
Net income per weighted average common share — Basic	$ 0.11		$ 0.11
Weighted average number of common shares outstanding			
Diluted	100,060		100,060
Income From Continuing Operations per weighted average common share — Diluted	$ 0.11		$ 0.11
Income From Discontinued Operations per weighted average common share — Diluted	—		—
Net income per weighted average common shares — Diluted	$ 0.11		$ 0.11

Exhibit 99.10

Combined Pro Forma Presentation for Texas Genco LLC's Statement of Operations for the Nine Months Ended September 30, 2005

	Nine Months Ended September 30, 2005 (unaudited)						
	Historical						
(in thousands)	Texas Genco Holdings (A)	Texas Genco LLC	Pro Forma Adjustments		Reclassifications		Pro Forma Combined Texas Genco LLC
Operating Revenues							
Revenues from majority-owned operations	$ 61,593	$ 1,999,827	$ (61,593)	(B)	$ —		$ 1,999,827
Operating Costs and Expenses							
Cost of majority-owned operations	—	—	—		1,306,275	(F)	1,306,275
Fuel and purchased power expense	5,687	912,907	(61,593)	(C)	(857,001)	(F)	—
Operations and maintenance	35,026	329,432	—		(364,458)	(F)	—
Depreciation and amortization	5,165	253,398	4,757	(D)	(116,592)	(G)	146,728
Taxes other than income taxes	3,467	34,789	—		(38,256)	(F)	—
General, administrative and development	—	—	—		70,032	(H)	70,032
Other charges (credits)							
Net gain on sale of assets	—	(28,356)	—		—		(28,356)
Total operating costs and expenses	49,345	1,502,170	(56,836)		—		1,494,679
Operating Income	**12,248**	**497,657**	**(4,757)**		**—**		**505,148**
Other Income (Expense)							
Other income, net	1,145	3,129	—		—		4,274
Interest expense	(763)	(134,306)	(6,654)	(E)	—		(141,723)
Total other expense	382	(131,177)	(6,654)		—		(137,449)
Income From Continuing Operations Before Income Taxes	12,630	366,480	(11,411)		—		367,699
Income Tax Expense	3,514	20,552	—		—		24,066
Income From Continuing Operations	**$ 9,116**	**$ 345,928**	**$ (11,411)**		$ **—**		**$ 343,633**

Footnotes to Pro Forma Combined Texas Genco LLC's Statement of Operations for the nine months ended September 30, 2005

On December 15, 2004, pursuant to a Transaction Agreement dated July 21, 2004, Texas Genco LLC acquired from Texas Genco Holdings, Inc., an indirect subsidiary of CenterPoint Energy, Inc., in a merger transaction Texas Genco II, LP and Texas Genco Services, LP. These entities contained assets and liabilities which related primarily to coal, lignite, oil and natural gas fired generation and certain immaterial assets unrelated to the generation business ("Initial Acquisition").

On April 13, 2005, a wholly owned subsidiary of Texas Genco LLC merged with and into Texas Genco Holdings, Inc. As a result of this merger, which we refer to as the "Nuclear Acquisition," Texas Genco Holdings, Inc. became a wholly owned subsidiary of Texas Genco LLC and Texas Genco LLC thereby indirectly acquired Texas Genco Holdings, Inc.'s assets and liabilities, including its 30.8% undivided interest in STP.

For further descriptions of explanations of the transactions please see Note (1)(c) of Texas Genco LLC financial statements as of December 31, 2004 filed as Exhibit 99.03 to this current report on Form 8-K and Note 3 of Texas Genco LLC financial statements as of September 30, 2005 filed as Exhibit 99.01 to this current report on Form 8-K.

(A) Reflects the results of operations for Texas Genco Holdings, Inc. for the period from January 1 through April 13, 2005.

(B) Elimination of Texas Genco Holdings, Inc. revenues of 2005 sales to Texas Genco

(C) Elimination of Texas Genco Holdings, Inc. costs of 2005 sales to Texas Genco

(D) Reflects additional depreciation expense for stepped-up basis of all depreciable assets acquired from Texas Genco Holdings, Inc of $7.8 million less Texas Genco Holding, Inc.'s actual depreciation of $5.2 million.

Additional depreciation expense from Texas Genco Holdings, Inc. acquisition	$ 7,800
Amortization of STP 's forward sales contracts	2,200
Texas Genco Holding, Inc.'s actual recorded depreciation	(5,243)
Total	$ 4,757

(E) Adjustments to reflect interest expense of $6.7 million on long term financing arrangements for the first 103 days before the Nuclear Acquisition on April 13, 2005.

(F) These amounts represent the reclassification of Texas Genco presentation to coincide with NRG's presentation of its Statement of Operations. NRG includes the following expenses within its Cost of Majority Owned Operations — Fuel and purchased power expense, Operations and maintenance, Taxes other than income taxes and amortization of emission credits and contracts. Also, NRG separates its General & Administrative expense from other operating expenses.

(G) Reclassification of Texas Genco Amortization expense to coincide with NRG presentation of its Statement of Operations.

(H) Reclassification of Texas Genco General & Administrative expenses to coincide with NRG presentation of its Statement of Operations.

Exhibit 99.11

Combined Pro Forma Presentation of Texas Genco LLC's Statement of Operations for the Year Ended December 31, 2004

	Year Ended December 31, 2004 (unaudited)						
	Historical						
(in thousands)	Texas Genco Holdings (A)	Texas Genco LLC	Pro Forma Adjustments		Reclassifications		Pro Forma Combined Texas Genco LLC
Operating Revenues							
Revenues from majority-owned operations	$ 2,053,955	$ 95,847	$ 184,081	(B)	$ —		$ 2,333,883
Operating Costs and Expenses							
Cost of majority-owned operations	—	—	—		1,394,016	(I)	1,394,016
Fuel and purchased power expense	1,021,515	45,307	(75,610)	(C)	(991,212)	(I)	—
Operations and maintenance	414,878	24,355	10,000	(D)	(449,233)	(I)	—
Depreciation and amortization	88,928	12,607	231,020	(E)	(6,343)	(J)	326,212
Taxes other than income tax	40,494	(164)	—		(40,330)	(I)	—
General, administrative and development	—	—	—		93,102	(K)	93,102
Other charges (credits)							
Restructuring and impairment charges	763,000	—	(763,000)	(F)	—		—
Total operating costs and expenses	2,328,815	82,105	(597,590)		—		1,813,330
Operating Income	**(274,860)**	**13,742**	**781,671**				**520,553**
Other Income (Expense)							
Other income, net	5,389	265	—		—		5,654
Interest expense	(126)	(34,140)	(151,648)	(G)	—		(185,914)
Total other (expense) income	5,263	(33,875)	(151,648)		—		(180,260)
Income/(loss) From Continuing Operations Before Income Taxes	(269,597)	(20,133)	630,023		—		340,293
Income Tax Expense (Benefit)	(170,479)	—	204,155	(H)	—		33,676
Income/(loss) From Continuing Operations	**$ (99,118)**	**$ (20,133)**	**$ 425,868**		**$ —**		**$ 306,617**

Footnotes to Pro Forma Combined Texas Genco LLC's Statement of Operations for the twelve months ended December 31, 2004

On December 15, 2004, pursuant to a Transaction Agreement dated July 21, 2004, Texas Genco LLC acquired from Texas Genco Holdings, Inc., an indirect subsidiary of CenterPoint Energy, Inc., in a merger transaction Texas Genco II, LP and Texas Genco Services, LP. These entities contained assets and liabilities which related primarily to coal, lignite, oil and natural gas fired generation and certain immaterial assets unrelated to the generation business ("Initial Acquisition").

On April 13, 2005, a wholly owned subsidiary of Texas Genco LLC merged with and into Texas Genco Holdings, Inc. As a result of this merger, which we refer to as the "Nuclear Acquisition," Texas Genco Holdings, Inc. became a wholly owned subsidiary of Texas Genco LLC and Texas Genco LLC thereby indirectly acquired Texas Genco Holdings, Inc.'s assets and liabilities, including its 30.8% undivided interest in STP.

Texas Genco LLC is a limited liability company that has been treated as a partnership for federal income tax purposes and is therefore not subject to federal taxation. As a corporation, Texas Genco Holdings, Inc. is subject to corporate federal income tax. Thus, prior to the acquisition of Texas Genco Holdings, Inc., all profit or losses of Texas Genco LLC were subject to taxation at the member interest level, whereas, after the acquisition of Texas Genco Holdings, Inc., the earnings of Texas Genco Holdings, Inc. have been subject to federal income tax and all other profit or losses continue to be subject to taxation at the member interest level.

For further descriptions of explanations of the transactions please see Note (1)(c) of Texas Genco LLC financial statements as of December 31, 2004 filed as Exhibit 99.03 to this current report on Form 8-K and Note 3 of Texas Genco LLC financial statements as of September 30, 2005 filed as Exhibit 99.01 to this current report on Form 8-K.

(A) Amounts reflect the results of operations for Texas Genco Holdings, Inc. for the full twelve month period ended December 31, 2004.

(B) The total estimated amortization of the liability related to below-market power sales contract resulting from the Initial Acquisition for the year ended December 31, 2004 was $207.6 million. Of this amount, $12.3 million was recorded in the historical financial statements of Texas Genco for the period from December 15, 2004 through December 31, 2004. The remaining amount reflects the elimination of Texas Genco Holdings, Inc. revenues for sales and fuel and purchased power expense to Texas Genco of $11.3 million.

Amortization of below-market power sales contract	$207,600
Previously recorded amount at Texas Genco	(12,251)
Elimination of intercompany sales	(11,268)
Total	$184,081

(C) Reflects the total estimated amortization of the liability related to above-market coal purchase contracts recorded in connection with the Initial Acquisition for the year ended December 31, 2004 of $56.8 million. Of this amount, $1.5 million was recorded in the historical financial statements of Texas Genco for the period from December 15, 2004, the elimination of $9.0 million of railcar depreciation which is now recognized as part of depreciation and amortization and the elimination of the intercompany cost of purchased power.

Amortization of above-market power coal purchases	$(56,800)
Previously recorded amount at Texas Genco	1,468
Elimination of intercompany cost of sales	(11,268)
Railcar depreciation now recognized in depreciation and amortization	(9,010)
Total	$(75,610)

(D) This item reflects a pro forma addition of $10 million of annual management fees payable to affiliates of the Investors.

(E) Reflects additional depreciation expense of $97.4 million for stepped-up basis of all depreciable assets acquired from Texas Genco Holdings Inc. and an adjustment of $133.6 million for amortization of intangible assets established in the acquisition from Texas Genco Holdings, Inc.

Additional depreciation expense from Texas Genco Holdings, Inc. acquisition	$ 97,400
Additional amortization expense from Texas Genco Holdings, Inc. acquisition	133,620
Total	$231,020

(F) Eliminates the asset impairment of $763.0 million ($426.0 million net of tax) recorded by Texas Genco Holdings, Inc. in connection with the Initial Acquisition. Texas Genco Holdings, Inc. ceased depreciation on its coal, lignite and natural gas-fired generation plants at the time these assets were considered "held for sale."

(G) Interest expense was adjusted by $151.6 million (pro forma interest for the year ended December 31, 2004 of $186.0 million less $34.4 million recorded for the year ended December 31, 2004) to reflect additional indebtedness related to the Initial Acquisition and the additional indebtedness related to the Nuclear Acquisition, including deferred financing costs and commitment fees, based on the applicable historical interest rates over the period presented.

(H) Reflect an adjustment to taxes of $204.2 million to eliminate income tax expense of $132.8 million related to the Non-Nuclear Assets and the tax effect of $337.0 million related to the asset write down of Texas Genco Holdings, Inc. Texas Genco is a limited liability company that is treated as a partnership for federal income tax purposes.

(I) These amounts represent the reclassification of Texas Genco presentation to coincide with NRG's presentation of its Statement of Operations. NRG includes the following expenses within its Cost of Majority Owned Operations — Fuel and purchased power expense, Operations and maintenance, Taxes other than income taxes and amortization of emission credits and contracts. Also, NRG separates its General & Administrative expense from other operating expenses.

(J) Reclassification of Texas Genco Amortization expense to coincide with NRG presentation of its Statement of Operations.

(K) Reclassification of Texas Genco General & Administrative expenses to coincide with NRG presentation of its Statement of Operations.