

structure will be improved significantly with the sale of Texas Genco, LP and the securitization of any stranded investment in 2004 and 2005, as contemplated by Texas law. Pending the issuance of the securitization bonds, the CenterPoint system's financing transactions will be largely limited to refinancing, replacing or extending the term of existing obligations.

## II. Financing Parameters

Financing by each Applicant will be subject to the following limitations ("Financing Parameters").

### A. Interest Rates

The effective cost of money on any long-term debt financings will not exceed the greater of (i) 700 basis points over the yield to maturity of a U.S. Treasury security having a remaining term approximately equal to the term of the subject debt, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other companies, of reasonably comparable credit quality, as determined by competitive capital markets.

The effective cost of money on any short-term debt financings will not exceed the greater of (i) 700 basis points over the comparable-term London Interbank Offered Rate ("LIBOR") rates, or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other companies of reasonably comparable credit quality as determined by the competitive capital markets.

The dividend rate on any series of preferred stock or preferred securities will not exceed the greater of (i) 700 basis points over the yield to maturity of a U.S. Treasury security having a remaining term approximately equal to the term of the series of preferred stock or preferred or equity-linked securities or (ii) a rate that is consistent with similar securities of comparable credit quality and maturities issued by other companies, of reasonably comparable credit quality, as determined by competitive capital markets.

### B. Maturity

The maturity of long-term debt will not exceed 50 years. All series of preferred stock, preferred securities and equity-linked securities (other than preferred stock, which may be perpetual) will be required to be redeemed no later than 50 years after the issuance thereof.

### C. Issuance Expenses

The underwriting fees, commissions or other similar remuneration paid in

connection with the non-competitive issue, sale or distribution of a security will not exceed 7% of the principal or total amount of the securities being issued;<sup>4</sup>

### D. Use of Proceeds

The proceeds from the sale of securities in external financing transactions will be used for general corporate purposes, including: (i) the financing, in part, of the capital expenditures of the CenterPoint system; (ii) the financing of working capital requirements of the CenterPoint system; (iii) the refinancing or acquisition, retirement or redemption under rule 42 of securities previously issued by CenterPoint or its Subsidiaries or as otherwise authorized by the Commission; (iv) direct or indirect investment in companies authorized under the Act; (v) to meet unexpected contingencies, payment and timing differences, and cash requirements, and (vi) other lawful purposes.

### E. Common Equity Ratio

At all times during the Authorization Period, each Utility Subsidiary will maintain common equity of at least 30% of its consolidated capitalization (common equity, preferred stock, long-term and short-term debt) as reflected in the most recent 10-K or 10-Q filed with the Commission adjusted to reflect changes in capitalization since the balance sheet date therein.<sup>5</sup>

### F. Investment Grade Ratings

Apart from securities issued for the purpose of funding money pool operations, no guarantees or other securities (other than common stock) may be issued in reliance on the authority requested herein unless: (i) the security to be issued, if rated, is rated investment grade by at least one nationally recognized statistical rating organization as that term is used in paragraphs (c)(2)(vi)(E), (F) and (H) of Rule 15c3-1 under the 1934 Act ("NRSRO"); (ii) all outstanding rated securities of the issuer are rated investment grade by at least one NRSRO; and (iii) all outstanding rated securities of the top-level registered holding company are rated investment grade by at least one NRSRO. The Applicants ask the Commission to

<sup>4</sup> Issuance Expenses will not count toward the effective cost of money discussed above.

<sup>5</sup> Upon the issuance of the securitization bonds described below, the T&D Utility may have common equity capitalization of less than 20% if the securitization debt is included. The Applicants request the Commission take into account the unique nature of securitization debt when it passes upon the request to form and capitalize special-purpose subsidiaries to issue securitization debt.

reserve jurisdiction over the issuance of securities subject to the Investment Grade Ratings criteria where one or more of the Investment Grade Ratings criteria are not met.

## III. Proposed Financing Program

### A. CenterPoint External Financing

CenterPoint requests authority to issue and sell securities, including common stock, preferred stock and preferred and equity-linked securities (either directly or through a subsidiary), long-term and short-term debt securities and convertible securities and derivative instruments with respect to any of these securities.<sup>6</sup> CenterPoint also requests authorization to enter into obligations with respect to tax-exempt debt issued on behalf of CenterPoint by governmental authorities. These obligations may relate to the refunding of outstanding tax-exempt debt or to the remarketing of tax-exempt debt. CenterPoint seeks authorization to enter into lease arrangements, and certain hedging transactions in connection with issuances of taxable or tax-exempt securities.

CenterPoint requests authority to sell securities covered by this Application in any one of the following ways: (i) through underwriters; (ii) to initial purchasers in transactions in reliance on Rule 144A under the Securities Act of 1933 or dealers; (iii) through agents; (iv) directly to a limited number of purchasers or a single purchaser; (v) in exchange for already outstanding securities; or (vi) directly to employees (or to trusts established for their benefit), shareholders and others. If underwriters are used in the sale of the securities, such securities may be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be offered to the public either through underwriting syndicates (which may be represented by a managing underwriter or underwriters designated by CenterPoint) or directly by one or more underwriters acting alone. The securities may be sold directly by CenterPoint or through agents designated by CenterPoint from time to time. If common stock is being sold in an underwritten offering, CenterPoint may grant the underwriters a "green shoe" option permitting the

<sup>6</sup> Any convertible or equity-linked securities would be convertible into or linked to only securities that CenterPoint and its Subsidiaries are otherwise authorized to issue pursuant to rule or Commission order.