Control Number: 29526

Item Number: 2055

Addendum StartPage: 0

PUC DOCKET NO. 29526

RECEIVED

2004 JUL 26 PM 2:59

PUBLIC UTILITY COMMISSION FILING CLERK

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, RELIANT ENERGY RETAIL SERVICES, LLC AND TEXAS GENCO, LP TO DETERMINE STRANDED COSTS AND OTHER TRUE-UP BALANCES PURSUANT TO PURA § 39.262	§ § § § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS

Contact: Paul Gastineau
Office: (713) 207-7347
Fax: (713) 207-9819

July 26, 2004

TABLE OF CONTENTS

2055

PUC DOCKET NO. 29526

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, RELIANT ENERGY RETAIL SERVICES, LLC AND TEXAS GENCO, LP TO DETERMINE STRANDED COSTS AND OTHER TRUE-UP BALANCES PURSUANT TO PURA §39.262	§ § § § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS

BRIEF ON CONTROL PREMIUM ISSUES

I. Introduction

On July 21, 2004, CenterPoint announced the sale of its 81% interest in Texas Genco.[1] That sale rendered the control premium question in this case largely moot. It demonstrates conclusively that TGN's stock traded on the basis of business fundamentals and was "fairly representative" of TGN's total equity. The sales price provides unequivocal market evidence that a control premium did not exist as of July 2004. And the absence of a control premium in July 2004 compels the conclusion that there was also no control premium during the valuation period in February/March 2004. No control premium should be applied by this Panel.

II. The Issues

A. The existence of control is not a sufficient basis for imposing a control premium.

There is no dispute that CenterPoint has a controlling 81% interest in TGN. It cannot be assumed, however, that a control premium should be applied to the TGN stock price simply because of that controlling interest.[2] If that were the case, the partial stock valuation method would have assumed the existence of a control premium and the only task left for this Panel would be to determine the level of the premium.[3] The Legislature did not make that assumption.

[1] Press Release, CenterPoint Energy, Inc. and Texas Genco Holdings, Inc., CenterPoint Energy announces sale of Texas Genco for $3.65 billion (Jul. 21, 2004) (attached hereto as Attachment A).

[2] Indeed, a study cited by HCHE's witness found that 15% of acquisitions occur without the payment of an "acquisition premium", which as discussed *infra* is a premium that includes more than just the value of control. Direct Testimony of John W. Peavy (hereinafter, Peavy Direct). HCHE Ex. 3 at 19. *See also* SHANNON P. PRATT, ROBERT F. REILLY & ROBERT P. SCHWEIHS, VALUING A BUSINESS: THE ANALYSIS AND APPRAISAL OF CLOSELY HELD COMPANIES 358 (4th ed. 2000) (summarizing acquisitions with sales at significant discounts from prior public trading prices).

[3] Moreover, in every transaction that would qualify for valuation under the partial stock valuation method, the utility would have retained between 49% and 81% of the public company; that interest would necessarily provide control. Further, as a practical matter, in many transactions under the Stock Valuation Method (which involves issuance of at

Instead, under the partial stock valuation method, the "average daily closing price of the common stock over 30 consecutive trading days chosen by the commission out of the last 120 consecutive trading days before the filing . . . is *presumed* to establish the market value of the common stock equity of [TGN]."[4] The Commission can then either accept that valuation as "*conclusively* establishing the value of the common stock equity" or convene a valuation panel comprised of financial experts to determine whether the market-determined value of the traded shares is "fairly representative" of the value of the total common stock equity or, alternatively, "whether a control premium exists for the retained interest."[5] The Commission chose to convene this Panel.

If the opening statements are a guide, Intervenors will use significant portions of their briefs to argue that CenterPoint exercised control over TGN and to assert that various decisions or actions affected the market value of TGN.[6] While CenterPoint disagrees with their characterizations of the potential impact of various decisions that were made, those disagreements are irrelevant to this stage of the proceeding. If the elements they point to affected the value of the company, it affected the value of CenterPoint's interest as much as the value of the minority interest. The Panel's role is not to determine whether the value of the company could have been different under different scenarios, but to determine whether the actual stock price included a discount that was attributable to the value of control.

B. The sales price for CenterPoint's interest in TGN provides conclusive market evidence that a control premium did not exist in July 2004.

The recently-announced sales price of CenterPoint's 81% stake in TGN provides unequivocal market evidence that a control premium did not exist in July 2004. The sales price was based upon months of comprehensive analysis by a range of sophisticated investors willing to bet billions of dollars on their evaluations. The lack of a control premium is confirmed by three comparisons to that sales price ($45.25/share for CNP's 81% interest):

(1) the sales price is 1.5% higher than the average closing price of TGN's stock during the 30 trading days prior to July 21, 2004 ($44.57/share);

(2) the sales price is 2.6% lower than the closing price of TGN's stock on the day prior to July 21, 2004 ($46.48/share); and

least 51% of the common stock), the utility's retained interest may provide effective control, but the statute does not provide for a control premium under that method.

[4] PURA §39.262(h)(3) (emphasis added).

[5] *Id*

[6] For example, Intervenors are likely to claim, as they did in the hearing on other issues in this case, that such things as the RRI Option Agreement, debt and dividend policies, earnings guidance levels and other actions depressed the price of TGN's stock.

(3) the sales price is 3.7% lower than the agreed-upon buyout price for the 19% of shares that are publicly traded ($47/share).

While the first comparison might suggest the potential for a small control premium, the others suggest a negative control premium, or a control discount.[7] In each of the three cases, however, the difference is so small that one can only conclude that the price at which TGN's stock traded was "fairly representative" of the value of the total equity. Together, these three comparisons provide definitive market evidence that a control premium did not exist in July 2004.

C. The recently-announced sale also provides very strong evidence that a control premium did not exist in March 2004.

The absence of a control premium in July 2004 compels the conclusion that there was also no control premium in March 2004. First, although market conditions—in particular natural gas prices—changed between March and July and increased the value of TGN, there were no material changes in TGN's structure or management that reasonably would lead to a conclusion that a control premium existed during the February/March valuation period but had disappeared by July. Second, as CenterPoint witness Peter Kind testified at the July 19 hearing and as detailed below, TGN had been "in play", and its stock price therefore had reflected a premium, for about a year; that therefore also did not change between March and July.[8]

Mr. Kind applied a variety of valuation metrics to compare TGN's performance to other potentially comparable companies and determine whether the March stock price reflected the fair value of TGN. He concluded that the stock market valuation reflected the full fair market value of TGN's business.[9] Phrased differently, Kind's analysis indicates that the prices of the public float of TGN was fairly representative of TGN's total equity.

In addition, in connection with its assignment to advise the CenterPoint Board of Directors regarding efforts to monetize CenterPoint's 81% interest in TGN, CitiGroup provided CenterPoint an analysis of TGN's value as of April 16, 2004 using discounted cash flow (DCF) analysis (with a range of assumed discount factors), plant-by-plant valuations and comparable

---

[7] The fact that the agreement provides a $1.75 higher price for the publicly traded 19% of TGN's shares than for the 81% block cannot be construed as evidence of a "control premium" because the higher price is being paid for minority shares which are not needed for control.

[8] Tr. at 4083 (Kind) (Jul. 19, 2004). Kind is a managing director in CitiGroup Global Markets Inc.'s investment banking division. Direct Testimony of Peter H. Kind (hereinafter, Kind Direct), CNP Ex. 19 at 125.

[9] Kind Direct, CNP Ex. 19 at 147-48, 161-62 (Figure PHK-9).

company analysis.[10] The result was a range of values that was, in Mr. Kind's, words, "spot on" with the values determined under the partial stock valuation method.[11] Indeed, both the $36.26 price determined under the partial stock valuation method and the actual stock price at April 16, 2004 were well within the range of values determined using DCF, plant-by-plant and comparable company analyses.[12]

D. If implemented properly, the Panel's proposed methodology will confirm that the price of TGN's stock was "fairly representative" of TGN's total equity and that a control premium therefore did not exist in March 2004.

The Panel's first task is to determine whether the stock price of the publicly traded shares during the 30-trading day period ending March 25, 2004 was "fairly representative" of the value of the total common stock equity at that time. The Panel advised the parties that it intends to make its own estimate of TGN's market value as of March 31, 2004, and then determine whether a control premium exists by comparing the Panel's estimate of market value to the $36.26 average stock price determined through the partial stock valuation method.[13] If the Panel appropriately reflects the uncertainties associated with its estimate, its approach can reasonably be used to determine whether the $36.26 price was "fairly representative."

Questions by the Panel at the July 19 hearing and its third set of requests for information suggest that the Panel is considering using a DCF analysis to determine TGN's market value. Use of a DCF analysis to estimate TGN's value is certainly possible, though like any estimate, it will necessarily be imprecise because it will require numerous assumptions and projections. Both Mr. Kind and Mr. Graves discussed advantages and disadvantages of the DCF approach at the July 19 hearing. Both acknowledged that DCF analysis probably offers the greatest potential for providing an accurate range of values, but noted a sensitivity to assumptions. Mr. Graves noted that because of the sensitivity of TGN's market value to even modest changes in assumptions about very volatile natural gas prices, "it is pretty hard to be precise to within more than probably plus or minus 20 percent of what you think is a plausible value."[14]

The Legislature, undoubtedly recognizing that even the best subjective estimates of market value are uncertain, does not require that the stock price of the traded shares be exactly

[10] Intervenor Ex. 128 at 49-53.
[11] Tr. at 4088, 4098 (Kind) (Jul. 19, 2004).
[12] Tr. at 4088-89 (Kind) (Jul. 19, 2004); Intervenor Ex. 128 at 12.
[13] Supplement to Proposed Work Plan and Specified Procedures for J.P. Morgan Securities Inc. Valuation Panel at 2 (Jul. 2, 2004).

equal to the estimated value of the entire common equity. Instead, PURA requires only that the publicly traded stock be "fairly representative of the total common stock equity."[15] To properly apply this test, the Panel should develop a range of market values for TGN, based on a reasonable range of key assumptions. If the $36.26 average stock price of the publicly traded shares is within that range, the Panel should determine that the price of the publicly traded shares is "fairly representative" and thus that no control premium exists.

Even if the $36.26 stock price were below the Panel's range of estimated values, such a finding would not be a sufficient basis to conclude that a control premium existed. Further analysis would be required to determine how much, if any, of that difference was attributable to differences in valuation approaches and assumptions, as distinct from the value of control.

Moreover, the premise of a control premium is that stock investors will pay less than they otherwise think the stock is worth if they perceive that ownership of a minority interest in a company is less valuable than ownership of a controlling interest. Since it is only the value of control that is to be measured, it is necessary to estimate at what price the stock would have traded if there were no controlling block. To the extent that the company's total value can be used as a proxy, that value must reflect the value as perceived by investors during the valuation period. Consequently, any estimate of value that is to be compared to the stock price must use only information that was generally available to public investors at that time.

E. Intervenors have not produced credible evidence that a control premium exists for CenterPoint's retained interest in TGN.

Intervenors have presented two categories of control premium evidence. None of their evidence, however, successfully establishes that there is a control premium associated with CenterPoint's retained interest in TGN. The first category relates to whether CenterPoint had control of TGN. For that, the Intervenors rely on broad assertions that the Reliant Resources, Inc. (RRI) Option Agreement provided CenterPoint—and some claim RRI—a significant degree of control over TGN's financial policies, including policies related to capital structure, dividends, and acquisition and disposition of generating assets.

RRI had an option to purchase TGN at a price that tracked the partial stock valuation method (the RRI Option). There is considerable dispute over whether, and if so how, the

[14] Tr. at 4062-65 (Graves) (Jul. 19, 2004); Tr. at 4076 (Kind) (Jul. 19, 2004).
[15] PURA §39.262(h)(3).

restrictions in the RRI Option affected TGN's stock price.[16] Ultimately, however, the issue is moot. The RRI Option expired without being exercised on January 24, 2004.[17] Moreover, it had been known at least since RRI's public announcement on December 5, 2003 that RRI was unlikely to exercise the option.[18] And the 30-trading day period used to determine the value of TGN's common equity did not begin until February 12, 2004, long enough after expiration of the option for any stock price effects to have disappeared.[19]

Intervenor witnesses also speculate about a second category: whether the agreements under which CenterPoint and RRI provided administrative and technical services to TGN could have been unfavorable to TGN.[20] None of those witnesses, however, did any analysis of the costs under those agreements. Indeed, the most detailed discussion simply speculated that *if* Texas Genco could acquire the services for half the price, its stock value would be higher.[21] But CenterPoint witness Frank Graves did evaluate the contracts and concluded that they allowed TGN to acquire needed services in a cost effective manner.[22]

Most of the evidence submitted by the Intervenors regarding the value of control use Mergerstat data or other evidence of premiums paid in mergers and acquisitions.[23] Both Mergerstat, and the witnesses who purport to do their own studies, compute the premiums as the difference between the price at which the company is acquired and the price at which it was trading prior to announcement of the transaction.[24] While the average premiums would include

---

[16] CenterPoint's witnesses concluded that the effect was neutral or positive, while Intervenor witnesses generally claimed that the restriction reduced the price of TGN stock. *Compare* Kind Direct, CNP Ex. 19 at 145; Rebuttal Testimony of Peter H. Kind (hereinafter, Kind Rebuttal), CNP Ex. 31 at 24-25; and Rebuttal Testimony of James L. Dobson, CNP Ex. 39 at 19-20 *with* Direct Testimony of Andrew Mittag (hereinafter, Mittag Direct), TIEC Ex. 3 at 7, 16; Direct Testimony of Michael Gorman (hereinafter, Gorman Direct), TIEC Ex. 2 at 2, 48; and Direct Testimony of William H. Purcell (hereinafter, Purcell Direct), COH/COC Ex. 2 at 16-18.

[17] Kind Direct, CNP Ex. 19 at 144; Rebuttal Testimony of Joseph B. McGoldrick (hereinafter, McGoldrick Rebuttal), CNP Ex. 30 at 27.

[18] Kind Direct, CNP Ex. 19 at 145.

[19] Kind Direct, CNP Ex. 19 at 145; Tr. at 3426 (Magee) (Jul. 6, 2004) (stating that 90% of information is incorporated into stock prices within four days).

[20] Purcell Direct, COH/COC Ex. 2 at 19-20; Direct Testimony of Neil H. Talbot (hereinafter, Talbot Direct), GCCC Ex. 3 at 9; Gorman Direct, TIEC Ex. 2 at 46-47.

[21] Purcell Direct, COH/COC Ex. 2 at 20.

[22] Direct Testimony of Frank C. Graves (hereinafter, Graves Direct), CNP Ex. 20 at 175-184; Tr. at 4060-61 (Graves) (Jul. 19, 2004). Graves is a principal in the Brattle Group and has more than 20 years of experience consulting with companies in the electric power and natural gas industries. Graves Direct, CNP Ex. 20 at 169.

[23] *See, e.g.*, Direct Testimony of John W. Peavy (hereinafter, Peavy Direct), HCHE Ex. 3 at 48; Talbot Direct, GCCC Ex. 3 at 14-15; Purcell Direct, COH/COC Ex. 2 at 11; Gorman Direct, TIEC Ex. 2 at 44 and Exhibit MPG-3; Mittag Direct, TIEC Ex. 3 at 35, 47 (Exhibit AKM-6).

[24] Talbot Direct, GCCC Ex. 3 at 14-15; Gorman Direct, TIEC Ex. 2 at 44 and Exhibit MPG-3; Mittag Direct, TIEC Ex. 3 at 35, 47 (Exhibit AKM-6). Mergerstat excludes acquisitions with no or negative premiums, thereby

elements associated with the value, if any, of control. they also reflect myriad other factors that cause a company to pay more than the pre-existing stock price to acquire a company. Each merger includes factors which are unique to the particular transaction and may have little, if anything, to do with the value of control. For example, the acquisition premium for a transaction is directly affected by the potential synergies between the companies, as well as general market conditions and whether the target company is undervalued by the market.[25] Because acquisition premiums include other values, academic studies characterize acquisition premiums as representing the outer bound of the value of control.[26]

One of the most important factors affecting whether a control premium exists is whether the company is already "in play". This factor was cited by HCHE witness Peavy to explain the absence of premiums in some acquisition transactions. As he points out, there may be no acquisition premium at all, and thus no control premium, if the target is already in play.[27]

TGN was in play throughout the valuation period. From the time of its creation, it was known that TGN was likely to be sold and the minority interest owners were likely to be bought out. Although for much of TGN's existence the RRI Option was in place, as early as the summer of 2003 CenterPoint made clear that it intended to monetize its interest in TGN if RRI did not exercise that option; a premium has therefore been in the TGN stock price since that time.[28] CenterPoint reiterated its intent to monetize TGN in January 2004 when the RRI Option lapsed.[29] While Intervenors may quibble about whether TGN was in play before the RRI Option expired, there can be no dispute that the company was in play throughout the valuation period and that the March prices reflected a premium associated with the expected sale.

However, what is more important is that even if generic acquisition premium studies do provide some evidence that control premiums exist in some cases, they provide no relevant

---

understating the variability of results and exaggerating Mergerstat's means and medians. Z. Christopher Mercer, *A Brief Review of Control Premiums and Minority Interest Discounts*, JOURNAL OF BUSINESS VALUATION, (1997) at 370-71.

[25] *See, e.g.*, Direct Testimony of David C. Rode, OPC Ex. 3 at 32 (citing authority acknowledging that the Mergerstat data reflects an "acquisition premium" that includes the value of potential synergies, as opposed to a "going-private premium"); Paul Hanouna, Atulya Sarin & Alan C. Shapiro, *Value of Corporate Control: Some International Evidence*, USC Marshall School of Business, Department of Finance and Business Economics, Working Paper Series, Working Paper No. 01-4 (2001), OAG 415-448 at 424 (stating that an acquisition premium includes an amount attributable to the undervalued status of the target).

[26] *See, e.g.*, Hanouna et al., *supra* note 25.

[27] Peavy Direct, HCHE Ex. 3 at 49 (citing a Mercer Capital study).

[28] Tr. at 4082-83 (Kind) (Jul. 19, 2004).

[29] Kind Direct, CNP Ex. 19 at 145-46.

evidence about whether a control premium exists for CenterPoint's retained interest. The studies show an extremely wide range of acquisition premiums from positive to negative.[30] Where CenterPoint's holdings of TGN would fit in that range depends on facts unique to its situation. It simply cannot be assumed that any average acquisition premium for transactions involving different companies at different times and, in many cases, in different industries provides any meaningful guidance to the existence or level of a control premium associated with CenterPoint's retained interest in TGN in March 2004.

F. **The announced sales price for TGN cannot be directly compared to the $36.26/share true-up price to determine whether a control premium existed in March 2004 for CenterPoint's retained interest.**

Under the recently-announced agreement for the sale of TGN, the publicly traded 19% of TGN's shares will be acquired for $47/share and CenterPoint will receive $45.25/share for its 81% interest. Thus, the sales price for CenterPoint's 81% interest in July 2004 was approximately $9/share higher than the $36.26 average stock price during the February/March valuation period. This $9/share difference is not indicative of a control premium. To the contrary, it is fully explained by fundamental changes in the value of TGN.

One point on which there should be no dispute is that the market value of companies and assets can change dramatically. The issue for the Panel is whether the $36.26 average stock price during the period from February 12 to March 25, 2004 was "fairly representative" of the total common stock equity at that time. That issue can be resolved only by looking at the value of the common stock equity during or near that trading period. The final sales price was negotiated in mid-July 2004. While that sales price does represent the full market value of TGN in mid-July 2004, it does not represent actual market value during February or March.

There are at least two reasons for the increase in TGN's value since March 2004: a $0.45 increase in natural gas futures prices and TGN's decision to exercise its right of first refusal to acquire all or part of AEP's 25.2% share of the South Texas Project.

Changes in natural gas futures prices alone are sufficient to explain most of the increase in TGN's stock price. TGN's earnings are directly and materially affected by changes in the

[30] PRATT ET AL., *supra* note 2 (showing discounts in 4th quarter 1999 of up to 58.6% from prior trading prices and premiums of up to 428%).

price of natural gas.[31] The reason is that TGN's baseload nuclear, coal and lignite units that generate most of its profit have relatively fixed costs while electricity prices in the ERCOT market are almost always set by units operating on natural gas. This relationship is demonstrated graphically in Figure JBM-3R to Mr. McGoldrick's rebuttal testimony.[32] Stated simply: increased natural gas prices result in higher electricity prices in ERCOT; higher electricity prices in ERCOT mean higher revenues for TGN's baseload units; higher revenues for TGN's baseload units translate directly into increased earnings because the higher natural gas prices do not affect TGN's cost of producing energy from those units.

Changes in gas prices have a multiplier effect on TGN's earnings. The rule of thumb is that a $1 increase in natural gas futures prices increases TGN's gross revenues and pre-tax earnings by approximately $250 million and thus increases expected after-tax earnings by approximately $2 per share.[33] This rule of thumb has been communicated to the investment community.[34] Not surprisingly, TGN's stock price correlates well with natural gas prices.[35]

Natural gas forward prices in 2005 and 2006 have increased approximately $0.45 since the end of March.[36] A $0.45 increase in forward gas prices increases TGN's gross revenues by approximately $112.5 million, which yields approximately $0.91 in after-tax EPS. Using an EPS multiplier of 10, TGN's share price in July should be, and was in fact, approximately $9 higher than the share price at the end of March.[37] The fact that TGN had already sold most of its 2004 capacity is immaterial because the market is forward-looking and by July 2004 was already focused on 2005 and beyond.

The other major factor affecting TGN's value was its May 28, 2004 announcement that it would exercise its right of first refusal to acquire all or part of AEP's interest in the South Texas

---

[31] McGoldrick Rebuttal, CNP Ex. 30 at 35; Tr. at 4069, 4073 (Graves) (Jul. 19, 2004); Tr. at 4082-83 (Kind) (Jul. 19, 2004). The effect of natural gas prices on Texas Genco's earnings is undisputed by Intervenors. *See, e.g.*, Tr. at 1609 (Purcell) (Jun. 25, 2004).
[32] McGoldrick Rebuttal, CNP Ex. 30 at 56 (Fig. JBM-R3).
[33] Tr. at 3844 (McGoldrick) (Jul. 7, 2004); Tr. at 3412-13 (Magee) (Jul. 6, 2004).
[34] McGoldrick Rebuttal, CNP Ex. 30 at 37-38; Tr. at 725 (McGoldrick) (Jun. 22, 2004).
[35] McGoldrick Rebuttal, CNP Ex. 30 at 15-16 and 56 (Fig. JBM-R3); Tr. at 1052-53 (Graves) (Jun. 23, 2004). Even Intervenors acknowledge this correlation. *See, e.g.*, Tr. at 2236 (Peavy) (Jun. 29, 2004).
[36] Tr. at 725 (McGoldrick) (Jun. 22, 2004); Tr. at 3413, 3457 (Magee) (Jul. 6, 2004).
[37] The calculation performed to yield $9.14 per share is as follows: ($250 million x .45 [increase in gas prices] = $112.5; $112.5 million x.65 [to reflect 35% tax rate] = $73.125 million, which when divided by 80 million shares equals an after-tax EPS of $0.91406. Multiplying this per share figure by 10 yields the share price increase of $9.14

Project. That acquisition, which has nothing to do with the TGN assets being valued in this proceeding, provides TGN at least 330 megawatts of additional nuclear baseload capacity.[38]

Again, it is important to keep in mind that acquisitions often involve premiums or apparent premiums that have nothing to do with control. Consequently, even if one were to conclude that the final sales price reflected a premium over a prior stock price, much more information would be required before a conclusion that the premium was for "control".

G. If a control premium exists, it would apply only to the retained interest and could be used to increase only the $36.26 stock price, not some alternative valuation.

Some Intervenors apply a control premium of 10% to the total equity of the company.[39] They are wrong. The statute requires a determination of whether a control premium exists "for the retained interest."[40] The Austin Court of Appeals, finding this language "unmistakable", held that the control premium may only be applied to increase the value of the portion of the equity that is represented by the retained block of shares.[41] Moreover, the premium could be applied only to increase the actual $36.26 price, not some alternative theoretical value.[42]

III. Conclusion

Intervenors and Staff failed to present credible evidence that a control premium exists for CenterPoint's 81% retained interest in TGN. Moreover, the July 21, 2004 sale of CenterPoint's interest in TGN conclusively established that no control premium existed in either July 2004 or during the valuation period in February/March 2004. This Panel should therefore determine that no control premium should be applied to the $36.26 value of TGN common equity as determined during the valuation period pursuant to the partial stock valuation method.

---

[38] Tr. at 3400-01 (Magee) (Jul. 6, 2004); Tr. at 3582 (Kind) (Jul. 7, 2004). Even Intervenors admit this. *See, e.g.*, Tr at 1609-10, 1641 (Purcell) (Jun. 25, 2004).

[39] OPC and GCCC correctly applied their assumed premium only to CenterPoint's 81% retained interest. The other witnesses attempt to apply a premium to TGN's total equity.

[40] PURA §39.262(h)(3).

[41] *Reliant Energy, Incorporated v Public Utility Commission*, 101 S.W.3rd 129, 144-45 (Tex. App.—Austin, 2003), *rev'd on other grounds sub nom. CenterPoint Energy, Incorporated v. Public Utility Commission*, 47 Tex. Sup. Ct. J. 672 (Tex., June 18, 2004) (pet. filed).

[42] In a classic effort to double dip, HCHF witness Peavy and TIEC witness Gorman improperly propose to apply their premium to their own estimate of TGN's value.

Respectfully submitted,

Jay Golub by permission J. Ryan

Scott E. Rozzell
Executive Vice President and General Counsel
State Bar No. 17359800
Harris S. Leven, Senior Counsel
State Bar No. 12246480
CenterPoint Energy, Inc.
P.O. Box 61867
Houston, Texas 77208
713.207.7789
713.207.0141 (fax)

Thomas B. Hudson, Jr.
State Bar No. 10168500
Graves, Dougherty, Hearon & Moody,
A Professional Corporation
P.O. Box 98
Austin, Texas 78767-0098
512.480.5600
512.472.8389 (fax)

I. Jay Golub
State Bar No. 08115000
Jason Ryan
State Bar No. 24033150
Baker Botts L.L.P.
910 Louisiana Street
Houston, Texas 77002
713.229.1234
713.229.1522 (FAX)

ATTORNEYS FOR CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND TEXAS GENCO, LP

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served on all parties of record in this proceeding by facsimile transmission, hand delivery, overnight delivery, or United States first class mail on this 26th day of July, 2004.

Bunny Browning

Attachment A

CenterPoint® Energy

TexasGenco

For more information contact
Media:
Leticia Lowe
Phone 713.207.7702
Investors:
Marianne Paulsen
Phone 713.207.6500

FOR IMMEDIATE RELEASE

CenterPoint Energy announces sale of Texas Genco for $3.65 billion

Sale also includes buy-out of public shareholders

Houston - July 21, 2004 - CenterPoint Energy, Inc. (NYSE: CNP) and Texas Genco Holdings, Inc. (NYSE: TGN) today announced a definitive agreement for GC Power Acquisition LLC, a newly formed entity owned in equal parts by affiliates of The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group, to acquire Texas Genco, a wholesale electric power generation company, for approximately $3.65 billion in cash. The agreement includes a buy-out of Texas Genco's public shareholders.

The transaction, subject to customary regulatory approvals, will be accomplished in two steps. The first step, expected to be completed in the fourth quarter of 2004, involves Texas Genco's purchase of the 19 percent of its shares owned by the public for $47 per share, followed by GC Power Acquisition's purchase of a Texas Genco unit that will be formed to own its coal, lignite and gas-fired generation plants. In the second step of the transaction, expected to take place in the first quarter of 2005 following receipt of approval by the Nuclear Regulatory Commission, GC Power Acquisition will complete the acquisition of Texas Genco, the principal remaining asset of which will then be Texas Genco's interest in the South Texas Project nuclear facility. Total cash proceeds to CenterPoint Energy from both steps of the transaction will be approximately $2.9 billion, or $45.25 per share for its 81 percent interest in Texas Genco.

The transaction has been approved by the board of directors of CenterPoint Energy and by the board of directors of Texas Genco acting upon the unanimous recommendation of a special committee composed of independent members of the Texas Genco Board.

"We believe that the sale of Texas Genco is beneficial for both companies," said David M. McClanahan, president and chief executive officer of CenterPoint Energy. "The sale enables CenterPoint Energy to reduce its debt and concentrate on its energy delivery businesses.

"I am also pleased that Texas Genco's new owner is backed by some of today's strongest private equity investment firms, which should allow it to build on the firm foundation that the management and employees of Texas Genco have established over the years. Of course it's hard for us at CenterPoint Energy to let go of a business that has been a part of our company for so many years. But under the plan we developed in response to the 1999 Texas electric restructuring law, it is time for CenterPoint Energy to take this step," said McClanahan.

-more-

CenterPoint Energy

TexasGenco

For more information contact
Media:
Leticia Lowe
Phone 713.207.7702
Investors:
Marianne Paulsen
Phone 713.207.6500

FOR IMMEDIATE RELEASE

The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group said in a statement: "We have focused extensively on the energy sector and we are excited to purchase Texas Genco, one of the nation's largest independent electric generating companies. Through Texas Genco, we are acquiring high quality coal, nuclear and gas power plants in the rapidly growing Houston market. We look forward to joining with the dedicated employees of a newly-independent Texas Genco to continue to provide outstanding service to Texas Genco's customers while developing the nation's premier independent power generation business."

CenterPoint Energy was advised on the transaction by Citigroup Global Markets Inc. and Baker Botts L.L.P., and the special committee of independent directors of Texas Genco was advised by RBC Capital Markets Corporation and Haynes and Boone, LLP. GC Power Acquisition LLC was advised by Goldman Sachs, Deutsche Bank and Morgan Stanley and the law firms Simpson Thacher & Bartlett LLP, Stroock & Stroock & Lavan LLP and Vinson & Elkins LLP.

CenterPoint Energy, Inc., headquartered in Houston, Texas, is a domestic energy delivery company that includes electric transmission & distribution, natural gas distribution and sales, interstate pipeline and gathering operations, and currently owns 81 percent of Texas Genco Holdings, Inc. The company serves nearly five million metered customers primarily in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma, and Texas. Assets total over $21 billion. With more than 11,000 employees, CenterPoint Energy and its predecessor companies have been in business for more than 130 years. For more information, visit the Web site at www.CenterPointEnergy.com.

Texas Genco Holdings, Inc., based in Houston, Texas, is one of the largest wholesale electric power generating companies in the United States with over 14,000 megawatts of generation capacity. It sells electric generation capacity, energy and ancillary services in one of the nation's largest power markets, the Electric Reliability Council of Texas (ERCOT). Texas Genco has one of the most diversified generation portfolios in Texas, using natural gas, oil, coal, lignite, and uranium fuels. The company owns and operates 60 generating units at 11 electric power-generating facilities and owns a 30.8 percent interest in a nuclear generating plant. For more information, visit our web site at www.txgenco.com.

The Blackstone Group, a private investment and advisory firm with offices in New York, Atlanta, Boston, London and Hamburg, was founded in 1985. The firm has raised a total of approximately $32 billion for alternative asset investing since its formation. Over $14 billion of that has been for private equity investing, including Blackstone Capital Partners IV, the largest institutional private equity fund at $6.45

-more-

For more information contact
Media:
Leticia Lowe
Phone 713.207.7702
Investors:
Marianne Paulsen
Phone 713.207.6500

FOR IMMEDIATE RELEASE

billion. Blackstone has made private equity investments throughout the energy sector including petroleum refining, oil and gas exploration and coal mining. In addition to Private Equity Investing, The Blackstone Group's core businesses are Private Real Estate Investing, Corporate Debt Investing, Marketable Alternative Asset Management, Corporate Advisory, and Restructuring and Reorganization Advisory. For more information, visit www.blackstone.com.

Hellman & Friedman LLC is a San Francisco-based private equity investment firm with additional offices in New York City and London. Since its founding in 1984, the Firm has raised and managed approximately $5 billion of committed capital and invested in over 45 companies. Hellman & Friedman recently completed raising its fifth fund, Hellman & Friedman Capital Partners V, L.P., a $3.5 billion fund. Representative investments include Axel Springer AG (ASV GR), ProSieben Sat.1 AG (PSM GR), Formula One Holdings, Ltd, Arch Capital Group Limited (ACGL), the NASDAQ Stock Market, Inc. (NDAQ), Young & Rubicam, Inc., Western Wireless Corporation (WWCA), Franklin Resources, Inc. (BEN), and others. For more information, visit www.hf.com.

Kohlberg Kravis Roberts & Co. L.P. is one of the world's oldest and most experienced private equity firms specializing in management buyouts, with offices in New York, Menlo Park, California, and London, England. For more information, please visit www.kkr.com.

Texas Pacific Group, founded in 1993 and based in Fort Worth, TX, San Francisco, CA, and London, is a private investment partnership managing over $13 billion in assets. Over the past several years, TPG has built an industry practice focused on the energy and power sectors (Denbury Resources, Portland General Electric (pending)). Additionally, the firm seeks to invest in world-class franchises across a range of other industries, including airlines (Continental, America West), branded consumer franchises (Burger King, Del Monte, Ducati), leading retailers (Petco, J.Crew, Debenhams - UK), healthcare companies (Oxford Health Plans, Quintiles Transnational), and technology companies (ON Semiconductor, MEMC, Seagate).

-more-

For more information contact
Media:
Leticia Lowe
Phone 713.207.7702
Investors:
Marianne Paulsen
Phone 713.207.6500

FOR IMMEDIATE RELEASE

This news release includes forward-looking statements. Actual events and results may differ materially from those projected. The statements in this news release regarding future financial performance and results of operations and other statements that are not historical facts are forward-looking statements. Factors that could affect actual results include the timing and impact of future regulatory and legislative decisions, effects of competition, weather variations, changes in CenterPoint Energy's or its subsidiaries' business plans, financial market conditions, the timing and extent of changes in commodity prices, particularly natural gas, the impact of unplanned facility outages and other factors discussed in CenterPoint Energy's and its subsidiaries' filings with the Securities and Exchange Commission.

Additional contacts:

For The Blackstone Group:

John A. Ford
212-583-5559

For Hellman & Friedman LLC:
Melissa Ma
415-788-5111

Steven Bruce, Abernathy MacGregor
212-371-5999

For Kohlberg Kravis Roberts & Co. L.P.:

David Lilly
Roanne Kulakoff
212-521-4800

For Texas Pacific Group:

Owen Blicksilver
516-742-5950

###