

TEXAS GENCO HOLDINGS INC
Form PRER14C
October 14, 2004
Table of Contents

SCHEDULE 14C INFORMATION

Information Statement Pursuant To Section 14(c)

of the Securities Exchange Act of 1934

(Amendment No. 1)

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

TEXAS GENCO HOLDINGS, INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies: Common stock, par value \$.001 per share

(2) Aggregate number of securities to which transaction applies: 15,235,760

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): \$47.00, which represents the purchase price per share of the Registrant's common stock to be paid in connection with the public company merger described in this information statement. In accordance with

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by applying a fee of \$126.70 per \$1,000,000 of the aggregate value of the public company merger.

(4) Proposed maximum aggregate value of transaction: \$716,080,720

(5) Total fee paid: \$90,727.43

x Fee paid previously with preliminary materials: \$90,727.43

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

Texas Genco Holdings, Inc.

1111 Louisiana Street

Houston, Texas 77002

(713) 207-1111

INFORMATION STATEMENT

Dear Shareholder:

We are mailing you this information statement to advise you that Texas Genco has entered into a transaction agreement, dated as of July 21, 2004, pursuant to which we have agreed to be acquired in a multistep transaction by GC Power Acquisition LLC, a newly formed entity owned in equal parts by investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group. The steps, which are described in more detail in this information statement, consist of the following:

Genco LP Division. We currently conduct substantially all of our business operations through Texas Genco, LP, one of our indirect wholly owned subsidiaries which we refer to as Genco LP. Prior to the public company merger, Genco LP and a newly formed wholly owned subsidiary of ours will merge in a multiple survivor merger under Texas law. As a result of the merger, both subsidiaries will survive and all of our nuclear assets and liabilities, which relate primarily to our interest in the South Texas Project, and our available cash will remain with Genco LP, and all of our non-nuclear assets and liabilities, which relate primarily to our coal, lignite and gas-fired generation facilities, will be allocated to the other subsidiary. We refer to this transaction as the Genco LP division.

Public Company Merger. Following the Genco LP division, we will merge with a subsidiary of CenterPoint Energy, Inc. and all of our publicly held shares of common stock, representing approximately 19% of our outstanding shares, (other than shares held by shareholders who validly perfect their dissenters rights under Texas law) will be converted into the right to receive \$47.00 per share in cash without interest and less any applicable withholding taxes. We refer to this transaction as the public company merger. Immediately following the public company merger, we will be wholly owned by CenterPoint Energy. We will pay each regular quarterly dividend the record date for which occurs prior to the effective time of the public company merger. We currently expect this effective time will be on or about .

Non-Nuclear Asset Acquisition. Shortly after the public company merger, GC Power Acquisition will acquire our subsidiaries that then own our non-nuclear assets and liabilities for aggregate consideration to us of \$2,813 million in cash. Approximately \$717 million of these cash proceeds will be used to fund, or repay borrowings used to fund, the public company merger. In addition, \$2,231 million in cash, consisting of the balance of the cash proceeds and other available cash, will be distributed up to CenterPoint Energy.

Nuclear Asset Acquisition. Following approval by the Nuclear Regulatory Commission of any transfer of the license for the South Texas Project Electric Generating Station deemed to be created by the acquisition of our nuclear assets by GC Power Acquisition, GC Power Acquisition will acquire our company, which will then own only our nuclear assets and liabilities, through the merger of a subsidiary of GC Power Acquisition into us in exchange for aggregate consideration to CenterPoint Energy of \$700 million in cash. Immediately following the nuclear asset acquisition, we will be wholly owned by GC Power Acquisition.

Table of Contents

The aggregate of \$2,931 million to be received by CenterPoint Energy in these transactions represents a per share purchase price to CenterPoint Energy of approximately \$45.25 for each of the 64,764,240 shares of our common stock it currently indirectly owns, which is less than the \$47.00 per share in cash to be paid to our other shareholders. We have attached a copy of the transaction agreement as Appendix A to this information statement and encourage you to read it in its entirety.

A special committee of our board of directors, consisting of three independent directors, considered and evaluated the transaction agreement and the transactions it contemplates, including the public company merger. The special committee unanimously determined that the transaction agreement and the public company merger are fair to, advisable and in the best interests of our company and our shareholders, other than CenterPoint Energy, and unanimously recommended on behalf of our shareholders other than CenterPoint Energy that our board of directors approve the transaction agreement and the public company merger. Based on that recommendation, our board of directors unanimously determined that the transaction agreement and the transactions it contemplates, including the public company merger, are in the best interests of our company and our shareholders. Accordingly, our board of directors has approved the transaction agreement and the transactions it contemplates, including the public company merger.

Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy and the record holder of 64,764,240 shares of our common stock representing approximately 81% of our outstanding shares, acting in its capacity as a shareholder of our company, has irrevocably approved the transaction agreement and the transactions it contemplates by written consent. No further vote of our shareholders is required for the approval of the transactions. No meeting of shareholders will be held to consider approval of the transactions or the transaction agreement, and no vote or consent of shareholders is being solicited.

Upon completion of the public company merger, we will be wholly owned by CenterPoint Energy. Our common stock will cease to be listed or traded on the New York Stock Exchange, and we will cease to file periodic reports with the Securities and Exchange Commission.

We encourage you to read the entire accompanying information statement carefully because it sets forth the details of the public company merger and the other transactions contemplated by the transaction agreement as well as other important information related to your rights as one of our shareholders.

Sincerely,

David G. Tees

President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the transactions described in this information statement, passed upon the merits or fairness of the transactions or passed upon the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offense.

We are not asking you for a proxy, and you are not requested to send us a proxy.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

The date of this information statement is _____, 2004, and it is being mailed on or about _____, 2004 to our shareholders of record as of the close of business on _____, 2004.

Table of Contents

Table of Contents

	Page
<u>Letter to Shareholders</u>	i
<u>Summary Term Sheet</u>	1
<u>Parties to the Transaction Agreement</u>	1
<u>Purpose and Structure</u>	2
<u>Position of Our Special Committee and Board of Directors as to the Fairness of the Public Company Merger</u>	5
<u>Fairness Opinion of RBC Capital Markets Corporation</u>	5
<u>Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger</u>	6
<u>Financing of the Public Company Merger</u>	6
<u>Interests of CenterPoint Energy, Directors and Executive Officers</u>	6
<u>Material Transactions Between CenterPoint Energy and Us</u>	7
<u>Material U.S. Federal Income Tax Consequences of the Public Company Merger</u>	7
<u>Regulatory Approvals</u>	7
<u>Conditions to the Closings</u>	7
<u>Termination of the Transaction Agreement</u>	9
<u>Fees and Expenses</u>	9
<u>Role of Our Special Committee</u>	9
<u>Dissenters' Appraisal Rights</u>	9
<u>Litigation Concerning the Transactions</u>	9
<u>Parties to the Transaction Agreement</u>	10
<u>Special Factors</u>	13
<u>Purpose and Structure</u>	13
<u>Background of the Transactions</u>	14
<u>Position of Our Special Committee and Board of Directors as to the Fairness of the Public Company Merger</u>	28
<u>Fairness Opinion of RBC Capital Markets Corporation</u>	34
<u>Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger</u>	41
<u>Opinion Received by the Board of Directors of CenterPoint Energy</u>	46
<u>Our Financial Projections</u>	52
<u>Report of Valuation Panel in CenterPoint Houston's 2004 True-Up Proceeding</u>	54
<u>Effects of the Transactions: Plans or Proposals After the Transactions</u>	55
<u>The Transaction Agreement</u>	57
<u>Other Agreements</u>	74
<u>Regulatory Approvals</u>	75
<u>Financing of the Transactions</u>	76
<u>Fees and Expenses</u>	81
<u>Material Transactions Between CenterPoint Energy and Us</u>	82
<u>Our Directors and Executive Officers</u>	83
<u>CenterPoint Energy's Directors and Executive Officers</u>	85
<u>Interests of CenterPoint Energy, Directors and Executive Officers</u>	86
<u>Litigation Concerning the Transactions</u>	90

Table of Contents

	Page
<u>Material U.S. Federal Income Tax Consequences of the Public Company Merger</u>	90
<u>Texas Genco, CenterPoint Energy, Utility Holding and NN Houston Sub</u>	90
<u>Texas Genco Shareholders</u>	91
<u>Dissenters Appraisal Rights</u>	92
<u>Market for Common Stock and Related Shareholder Matters</u>	94
<u>Historical Consolidated Financial Data</u>	95
<u>Historical Financial Data</u>	95
<u>Summarized Financial Information</u>	95
<u>Net Income Per Common Share</u>	95
<u>Ratio of Earnings to Fixed Charges</u>	96
<u>Book Value Per Share</u>	96
<u>Where You Can Find More Information</u>	96
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	98
<u>Appendix A Transaction Agreement</u>	
<u>Appendix B Articles 5.11, 5.12 and 5.13 of the Texas Business Corporation Act</u>	
<u>Appendix C Opinion of RBC Capital Markets Corporation</u>	
<u>Appendix D Opinion of Citigroup Global Markets Inc.</u>	
Appendix E Annual Report on Form 10-K for the year ended December 31, 2003	
Appendix F Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004	
Appendix G Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004	

Table of Contents

TEXAS GENCO HOLDINGS, INC.

1111 Louisiana

Houston, Texas 77002

(713) 207-1111

INFORMATION STATEMENT

Summary Term Sheet

*This summary term sheet summarizes the material terms of the public company merger and the other transactions contemplated by the transaction agreement described in this information statement but does not contain all of the information that may be important to you. You should carefully read this entire information statement and the other documents to which we refer you for a more complete understanding of the matters being described in this summary term sheet. In addition, we have attached reports containing important business and financial information as appendices to this information statement. Please also refer to the section entitled *Where You Can Find More Information*.*

Parties to the Transaction Agreement (see page 10)

Texas Genco Holdings, Inc.

We are a Texas corporation with our principal place of business in Houston, Texas. We are a wholesale electric power generating company that owns 60 generating units at 11 electric power generation facilities located in Texas. We also own a 30.8% undivided interest in the South Texas Project Electric Generating Station, which we refer to as the South Texas Project, a nuclear generating station with two 1,250 megawatt, or MW, nuclear generating units.

As of June 30, 2004, the aggregate net generating capacity of our portfolio of assets was 14,153 MW, of which 2,585 MW of gas-fired capacity was temporarily removed from service, or mothballed, as of that date. We sell electric generation capacity, energy and ancillary services within the Electric Reliability Council of Texas, Inc., or ERCOT, market. The ERCOT market consists of the majority of the population centers in the State of Texas and facilitates reliable grid operations for approximately 85% of the demand for power in the state.

On September 3, 2004, we signed an agreement to purchase a portion of AEP Texas Central Company's 25.2% interest in the South Texas Project for approximately \$174 million. Once the sale is complete, we will own an additional 13.2% interest in the South Texas Project for a total of 44%, or approximately 1,100 MW. This purchase agreement was entered into pursuant to our right of first refusal to purchase this interest triggered by AEP Texas Central Company's previously announced agreement to sell this interest to a third party. In addition to AEP Texas Central Company's ownership interest and our current 30.8% ownership, the 2,500 MW nuclear plant is currently 28%-owned by City Public Service of San Antonio and 16%-owned by Austin Energy. City Public Service of San Antonio is purchasing AEP Texas Central Company's remaining 12% ownership interest under its right of first refusal. The sale is subject to certain regulatory approvals, including filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and action by the Nuclear Regulatory Commission, the Federal Energy Regulatory Commission, and the Securities and Exchange Commission. We anticipate that the transaction will close in early 2005. Our

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

anticipated acquisition of an additional interest in the South Texas Project is a separate transaction independent from the transactions contemplated by the transaction agreement described in this information statement. Neither the public company merger, nor the other transactions contemplated by the transaction agreement, are conditioned on the completion of our anticipated acquisition of an additional interest in the South Texas Project.

Table of Contents

CenterPoint Energy, Inc.

CenterPoint Energy is a Texas corporation and a public utility holding company registered under the Public Utility Holding Company Act of 1935, which we refer to as the 1935 Act, whose indirect, wholly owned subsidiaries include:

CenterPoint Energy Houston Electric, LLC, which we refer to as CenterPoint Houston, which provides electric transmission and distribution services to approximately 1.8 million metered customers in a 5,000-square-mile area of the Texas Gulf Coast that has a population of approximately 4.7 million people and includes Houston; and

CenterPoint Energy Resources Corp., which we refer to as CERC, which owns gas distribution systems serving approximately three million customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. Through wholly owned subsidiaries, CERC also owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services.

CenterPoint Energy also owns approximately 81% of our outstanding common stock through its subsidiary, Utility Holding, LLC.

Utility Holding, LLC

Utility Holding is a Delaware limited liability company, a direct, wholly owned subsidiary of CenterPoint Energy and an intermediate holding company registered under the 1935 Act. Utility Holding owns approximately 81% of our outstanding common stock.

NN Houston Sub, Inc.

NN Houston Sub is a Texas corporation and a direct, wholly owned subsidiary of Utility Holding. NN Houston Sub was organized solely for the purpose of entering into the transaction agreement and completing the transactions it contemplates.

GC Power Acquisition LLC

GC Power Acquisition is a Delaware limited liability company owned in equal parts by investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group. GC Power Acquisition was formed for the purpose of entering into the transaction agreement and completing the transactions it contemplates.

HPC Merger Sub, Inc.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

HPC Merger Sub is a Texas corporation and a wholly owned subsidiary of GC Power Acquisition. HPC Merger Sub was organized solely for the purpose of entering into the transaction agreement and completing the transactions it contemplates.

In this information statement, we sometimes refer to CenterPoint Energy, Utility Holding and NN Houston Sub collectively as the CenterPoint Energy Entities or each individually as a CenterPoint Energy Entity.

Purpose and Structure (see page 13)

CenterPoint Energy has publicly disclosed its intention to exit the generation sector of the electric power industry and to monetize its interest in us and use the proceeds to repay outstanding indebtedness. In January 2004, following an assessment of available strategic alternatives, CenterPoint Energy decided to pursue a

Table of Contents

transaction involving the sale of all of its 81% interest in us through an auction process, as described under Special Factors Background of the Transactions. This process eventually resulted in the execution of the transaction agreement described in this information statement.

The purposes of the transaction agreement and the transactions contemplated thereby are to achieve CenterPoint Energy's goal of monetizing its interest in us, to provide our unaffiliated shareholders with cash consideration for their shares at a price that we and CenterPoint Energy believe to be fair, and to enable GC Power Acquisition ultimately to acquire a 100% interest in our business.

GC Power Acquisition has agreed to acquire us in a multistep transaction in accordance with the terms and conditions of the transaction agreement. The steps, which are described in more detail below, consist of the following:

Genco LP Division. We currently conduct substantially all of our business operations through Texas Genco, LP, one of our indirect wholly owned subsidiaries which we refer to as Genco LP. Prior to the public company merger, Genco LP and a newly formed wholly owned subsidiary of ours, Texas Genco II, LP, which we refer to as Genco II LP, will merge in a multiple survivor merger under Texas law. As a result of the merger, both subsidiaries will survive and all of our nuclear assets and liabilities, which relate primarily to our interest in the South Texas Project, and our available cash will remain with Genco LP, and all of our non-nuclear assets and liabilities, which relate primarily to our coal, lignite and gas-fired generation facilities, will be allocated to Genco II LP. We refer to this transaction as the Genco LP division.

Public Company Merger. Following the Genco LP division, we will merge with NN Houston Sub and all of our publicly held shares of common stock, representing approximately 19% of our outstanding shares, (other than shares held by shareholders who validly perfect their dissenter's rights under Texas law) will be converted into the right to receive \$47.00 per share in cash without interest and less any applicable withholding taxes. We refer to this transaction as the public company merger. Immediately following the public company merger, we will be indirectly wholly owned by CenterPoint Energy.

Non-Nuclear Asset Acquisition. Shortly after the public company merger, GC Power Acquisition will acquire our subsidiaries that then own our non-nuclear assets and liabilities for aggregate consideration to us of \$2,813 million in cash. Approximately \$717 million of these cash proceeds will be used to fund, or repay borrowings used to fund, the public company merger. In addition, \$2,231 million in cash, consisting of the balance of the cash proceeds and other available cash, will be distributed up to CenterPoint Energy.

Nuclear Asset Acquisition. Following approval by the Nuclear Regulatory Commission, or NRC, of any transfer of the license for the South Texas Project deemed to be created by the acquisition of our nuclear assets by GC Power Acquisition, GC Power Acquisition will acquire our company, which will then own only our nuclear assets and liabilities, through the merger of a subsidiary of GC Power Acquisition into us in exchange for aggregate consideration to CenterPoint Energy of \$700 million in cash. Immediately following the nuclear asset acquisition, we will be wholly owned by GC Power Acquisition.

Table of Contents

The aggregate of \$2,931 million in cash to be received by CenterPoint Energy as a result of the non-nuclear asset acquisition and the nuclear asset acquisition represents a per share purchase price to CenterPoint Energy of approximately \$45.25 for each of the 64,764,240 shares of our common stock it currently indirectly owns, which is less than the \$47.00 per share to be paid to our other shareholders, all of which our other shareholders will be entitled to receive shortly prior to the closing of the non-nuclear asset acquisition.

The following diagram outlines the Genco LP division, the public company merger, the non-nuclear asset acquisition and the nuclear asset acquisition described above:

Utility Holding, acting in its capacity as the holder of approximately 81% of our outstanding shares of common stock, has executed a written consent irrevocably approving the transaction agreement and the transactions it contemplates, including the public company merger. Because Utility Holding owns shares of our common stock representing greater than two-thirds of the votes required for approval of the transactions under Texas law, no further vote of our shareholders is required or contemplated. Neither the public company merger nor any of the other transactions contemplated by the transaction agreement are conditioned upon the approval of our unaffiliated shareholders. No meeting of shareholders will be held to consider approval of these transactions or the transaction agreement, and no vote or consent of our shareholders is being solicited.

Table of Contents

Position of Our Special Committee and Board of Directors as to the Fairness of the Public Company Merger (see page 28)

Our board of directors created a special committee consisting of three independent directors to evaluate the transaction agreement, the public company merger and the other transactions contemplated by the transaction agreement on behalf of our shareholders other than CenterPoint Energy. The special committee evaluated the relevant factors related to GC Power Acquisition's proposal, including the opinion delivered by RBC Capital Markets Corporation as to the fairness, from a financial point of view, of the cash consideration to be received by our shareholders other than CenterPoint Energy. In this information statement, we use the term unaffiliated shareholders to mean our shareholders other than CenterPoint Energy. The term unaffiliated shareholder includes our shareholders who are also directors or officers of either CenterPoint Energy or our company even though those persons may be deemed to be our affiliates. In evaluating the fairness of the transaction agreement, the public company merger and the other transactions contemplated by the transaction agreement to our unaffiliated shareholders, neither the special committee nor our board of directors separately considered the interests of our shareholders who are also directors or officers of either CenterPoint Energy or our company from the interests of our other unaffiliated shareholders. We note, however, that officers or directors of either CenterPoint Energy or our company do not have an interest in GC Power Acquisition.

As a result of its evaluation, the special committee determined by unanimous vote that the transaction agreement with GC Power Acquisition and the transactions contemplated thereby, including the public company merger, are fair to, advisable and in the best interests of Texas Genco and our unaffiliated shareholders, and resolved to recommend to our board of directors that the transaction agreement and the transactions contemplated thereby, including the public company merger, be approved by our board of directors, subject to the satisfactory completion of the transaction agreement and the special committee's receipt of the executed fairness opinion from RBC, each of which occurred on July 21, 2004.

At a meeting of our board of directors on July 20, 2004 and based on the special committee's unanimous recommendation, our board of directors unanimously:

determined that the transaction agreement and the transactions contemplated by the transaction agreement, including the public company merger, are in the best interests of our company and our shareholders; and

approved the transaction agreement and the transactions contemplated by the transaction agreement, including the public company merger.

Our board of directors believes that the public company merger is fair to our unaffiliated shareholders. In making this determination, our board of directors considered the determination and recommendation of the special committee and the opinion delivered to the special committee and our board of directors by RBC. In addition, each of Messrs. McClanahan, Whitlock and Rozzell considered the factors described under "Special Factors - Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger" in their capacity as officers and/or directors of CenterPoint Energy in connection with the CenterPoint Energy Entities' consideration of the fairness of the public company merger to our unaffiliated shareholders.

Fairness Opinion of RBC Capital Markets Corporation (see page 34)

On July 20, 2004, RBC Capital Markets Corporation delivered its oral opinion, which was subsequently confirmed in writing on July 21, 2004, to the special committee and our board of directors that, as of that date, and subject to the various assumptions, qualifications and limitations set forth therein, the cash consideration to be received by the holders of our common stock (other than CenterPoint Energy) in connection with the public company merger was fair, from a financial point of view, to such holders. As of the date of this information statement, the special

committee and the board of directors do not intend to request an updated fairness opinion from RBC Capital Markets Corporation.

Table of Contents

Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger (see page 41)

The CenterPoint Energy Entities believe that the public company merger is fair to our unaffiliated shareholders based on the material factors considered by the CenterPoint Energy Entities and described under **Special Factors Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger**. The CenterPoint Energy Entities have not, however, engaged a financial advisor to perform any valuation analysis for the purposes of assessing the fairness of the public company merger to our unaffiliated shareholders. Instead, the CenterPoint Energy Entities have independently considered the factors discussed under **Special Factors Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger** in making their determination.

Financing of the Public Company Merger (see page 76)

In connection with the public company merger, all of the 15,235,760 outstanding shares of our common stock held by our unaffiliated shareholders (other than those who validly perfect their dissenters' rights under Texas law) will be converted into the right to receive \$47.00 per share in cash without interest and less any applicable withholding taxes, resulting in an aggregate payment of up to approximately \$717 million. Pursuant to GC Power Acquisition's debt financing letter, we have received a commitment from Goldman Sachs Credit Partners, L.P. to provide us with an overnight bridge loan of up to \$717 million to finance the public company merger. The overnight bridge loan will mature within 72 hours of its funding. The non-nuclear asset acquisition is expected to close on the business day following the public company merger. We will use approximately \$717 million of the \$2,813 million of aggregate cash consideration we receive in the non-nuclear asset acquisition to fund or repay borrowings used to fund the public company merger. We would seek to obtain alternate financing if the overnight bridge loan facility is not available to us, but we do not currently have any alternative financing plans or arrangements. The approximately \$717 million of aggregate cash consideration to be paid to our unaffiliated shareholders (other than those who validly perfect their dissenters' rights under Texas law) represents approximately 19.6% of the total consideration to be paid to our shareholders, including CenterPoint Energy, in connection with the public company merger, the non-nuclear asset acquisition and the nuclear asset acquisition.

Interests of CenterPoint Energy, Directors and Executive Officers (see page 86)

In considering the recommendation of our board of directors and the special committee, you should be aware that some of our directors and certain of our officers may have interests in the transactions, including the public company merger, that may be different from, or in addition to, your interests as a shareholder generally and may create potential conflicts of interests. These include:

GC Power Acquisition's agreement that the surviving corporation of the public company merger will indemnify each of our directors and officers with respect to claims arising from facts or events that occurred prior to the effective time of the public company merger, and that the surviving corporation will cause to be obtained tail insurance policies with respect to directors' and officers' liability for claims arising from facts or events that occurred prior to such time;

the fact that some of our directors and officers are also directors and/or officers of CenterPoint Energy; and

the retention agreement our President and Chief Executive Officer, David G. Tees has with CenterPoint Energy and the fact that we expect to enter into a severance agreement with Mr. Tees, which agreements provide or will provide for benefits upon the occurrence of certain events following the transactions, including the failure of GC Power Acquisition to continue Mr. Tees' employment. It is currently expected that Mr. Tees will not be employed by GC Power Acquisition following the nuclear asset acquisition.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

The special committee, none of whose members are directors or officers of CenterPoint Energy, was aware of these differing interests and considered them, among other matters, in evaluating the transaction agreement and the public company merger and in recommending to our board of directors that the transaction agreement

Table of Contents

and the public company merger be approved by our board of directors. In addition, each of the members of our board of directors was aware of these interests and considered them, among other matters, in approving the transaction agreement and the transactions contemplated by the transaction agreement, including the public company merger. No member of the special committee will continue to serve as a member of our board of directors or in any other capacity at our company following the public company merger. None of our current directors is expected to be a director of Texas Genco or GC Power Acquisition following the nuclear asset acquisition.

Material Transactions Between CenterPoint Energy and Us (see page 82)

We are party to a variety of agreements with CenterPoint Energy and its affiliates. In connection with the transaction agreement, CenterPoint Energy has agreed to enter into, amend or in some cases extend certain commercial arrangements with us.

Material U.S. Federal Income Tax Consequences of the Public Company Merger (see page 90)

For U.S. federal income tax purposes, the public company merger will be treated as a taxable sale by our shareholders of their shares of our common stock in which they will recognize gain or loss equal to the difference between the amount of the cash consideration received in the public company merger and their adjusted tax basis in the shares of common stock surrendered in the public company merger.

Regulatory Approvals (see page 75)

On September 17, 2004, the Federal Trade Commission granted early termination of the waiting period applicable to the consummation of the transactions contemplated by the transaction agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act. On September 24, 2004, the Federal Energy Regulatory Commission, or FERC, granted exempt wholesale generator status to Genco II LP. There are no other material regulatory approvals to be obtained prior to completion of the public company merger.

In addition, in order to complete the nuclear asset acquisition, we must receive all approvals of the NRC required in connection with any transfer of the license for the South Texas Project deemed to be created by the nuclear asset acquisition.

Conditions to the Closings (see page 68)

The obligations of Texas Genco and NN Houston Sub to consummate the public company merger are subject to satisfaction or waiver of the following conditions:

the absence of any law or order that prohibits or makes illegal consummation of the public company merger, the non-nuclear asset acquisition or any of the other transactions related thereto;

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

the expiration or termination of any waiting period applicable to the public company merger or the non-nuclear asset acquisition under applicable U.S. antitrust or trade regulation laws and regulations, including the HSR Act;

we shall have sent to our shareholders an information statement that complies with the requirements under Rule 14c-2 of the Securities Exchange Act of 1934, or the Exchange Act, and any other requirements under such rule must be satisfied;

the requirements related to the financing of the transactions must be satisfied, including:

our access to immediately available funds under the overnight bridge loan facility on terms and conditions described under Special Factors Financing of the Transactions or on terms and

Table of Contents

conditions which are, in the judgment of GC Power Acquisition, comparable or more favorable (to GC Power Acquisition) in the aggregate thereto;

the receipt of proceeds by GC Power Acquisition from its financings in an amount equal to the consideration to be paid in the non-nuclear asset acquisition (or the funding of such amount into escrow) on terms and conditions described under Special Factors Financing of the Transactions or on terms and conditions which are, in the judgment of GC Power Acquisition, comparable or more favorable (to GC Power Acquisition) in the aggregate thereto; and

the closing of documentation related to (but not funding of) a \$475 million delayed draw term facility among GC Power Acquisition and the financial institutions party thereto, which facility will be in full force and effect and will be on terms and conditions described under Special Factors Financing of the Transactions or on terms and conditions which are, in the judgment of GC Power Acquisition, comparable or more favorable (to GC Power Acquisition) in the aggregate thereto;

the receipt by CenterPoint Energy and Utility Holding of a certificate from GC Power Acquisition stating that, based on GC Power Acquisition's receipt of a certificate from us and CenterPoint Energy regarding certain of GC Power Acquisition's conditions to the closing of the non-nuclear asset acquisition, among other things, GC Power Acquisition is prepared to consummate the non-nuclear asset acquisition on the following business day (subject to the satisfaction of certain conditions);

the representations and warranties of GC Power Acquisition set forth in the transaction agreement must be true and correct as of the date of the transaction agreement and as of the closing date of the public company merger (except for representations and warranties made as of a specified date, which need be true and correct only as of the specified date), which representations and warranties shall be deemed to be true and correct unless the failure or failures of all such representations and warranties to be true and correct (without giving effect to any qualification as to materiality or material adverse effect) would reasonably be expected, in the aggregate, to materially adversely affect the ability of GC Power Acquisition to consummate the transactions contemplated by the transaction agreement or directly or indirectly prevent or materially impair or delay the ability of GC Power Acquisition to perform its obligations thereunder;

GC Power Acquisition must have performed in all material respects all of its obligations required to be performed by it under the transaction agreement at or prior to the closing of the public company merger;

the receipt by Genco LP and CenterPoint Energy of a certificate signed on behalf of GC Power Acquisition certifying as to the satisfaction of the matters set forth in the two preceding bullet points; and

the certification of Genco II LP as an exempt wholesale generator by the FERC.

Neither we nor NN Houston Sub may waive any of the conditions described in the first three bullet points above without the consent of GC Power Acquisition. We do not currently intend to distribute a revised information statement to our shareholders in the event any of the foregoing conditions are waived unless the waiver is material to our shareholders in the context of the transactions.

The closing of the non-nuclear asset acquisition depends on the closing of the public company merger and the satisfaction or waiver of a number of other specified conditions.

The closing of the nuclear asset acquisition depends on the closing of the non-nuclear asset acquisition and the satisfaction or waiver of a number of other specified conditions. These conditions include the approval by the NRC of any transfer of the license for the South Texas Project deemed to be created by the nuclear asset acquisition.

Table of Contents

Termination of the Transaction Agreement (see page 72)

The transaction agreement may be terminated at any time prior to the closing of the nuclear asset acquisition with respect to the transactions that have not yet then been closed by mutual written consent of CenterPoint Energy, GC Power Acquisition and us, or by CenterPoint Energy, GC Power Acquisition or us if (1) the closing of the nuclear asset acquisition has not occurred on or before April 30, 2005 (subject to extension for up to two consecutive 90-day periods under certain circumstances), or (2) under certain other circumstances involving action by a governmental authority or material breach of covenants or representations and warranties under the transaction agreement, in each case as more fully described under Special Factors The Transaction Agreement Termination of the Transaction Agreement. Any action by us to terminate the transaction agreement is subject to the limitations set forth under Role of Our Special Committee below.

Fees and Expenses (see page 81)

For information on each party's obligation to pay fees and expenses related to the transactions, please read Special Factors Fees and Expenses on page 81.

Role of Our Special Committee (see page 73)

Before the effective time of the public company merger, the special committee of our board of directors must either concur in or direct any action by us to terminate or amend the transaction agreement or waive any condition to our obligation to close the public company merger or the non-nuclear asset acquisition.

Dissenters' Appraisal Rights (see page 92)

If you are a holder of shares of our common stock outstanding as of the effective date of the public company merger, and you follow the procedures set forth in Articles 5.11, 5.12 and 5.13 of the Texas Business Corporation Act, you will be entitled to demand the purchase of your shares of our common stock for a purchase price equal to the fair value of your shares, as determined by a court. Under Texas law, fair value of shares for purposes of the exercise of dissenter's rights is defined as the value of the shares as of the date Utility Holding's written consent authorizing the public company merger was delivered to us, excluding any appreciation or depreciation in value of the shares in anticipation of the public company merger.

Failure to follow the procedures required by Articles 5.11, 5.12 and 5.13 of the Texas Business Corporation Act for perfecting dissenters' rights may result in the loss of dissenters' rights, in which event you will be entitled to receive the public company merger consideration in accordance with the transaction agreement. In view of the complexity of Articles 5.11, 5.12 and 5.13 of the Texas Business Corporation Act, if you are considering dissenting from the public company merger, we urge you to consult your own legal counsel. The relevant sections of the Texas Business Corporation Act are reproduced and attached as Appendix B to this information statement.

Litigation Concerning the Transactions

On July 23, 2004, two plaintiffs filed substantially identical lawsuits in Harris County, Texas state district courts. The suits, purportedly brought on behalf of holders of our common stock, name us and each of our directors as defendants. Both plaintiffs allege, among other things, self-dealing and breach of fiduciary duty by the defendants in entering into the transaction agreement. Among other relief, the plaintiffs seek to enjoin the transaction or, alternatively, to rescind the transaction to the extent already implemented. In August 2004, the cases were consolidated in state district court in Harris County, Texas. We intend to vigorously defend against the consolidated suits.

Table of Contents

Parties to the Transaction Agreement

Texas Genco Holdings, Inc.

1111 Louisiana

Houston, Texas 77002

(713) 207-1111

We are a Texas corporation with our principal place of business in Houston, Texas. We are a wholesale electric power generating company that owns 60 generating units at 11 electric power generation facilities located in Texas. We also own a 30.8% undivided interest in the South Texas Project, a nuclear generating station with two 1,250 MW nuclear generating units.

As of June 30, 2004, the aggregate net generating capacity of our portfolio of assets was 14,153 MW, of which 2,585 MW of gas-fired capacity was then mothballed. We sell electric generation capacity, energy and ancillary services within the ERCOT market. The ERCOT market consists of the majority of the population centers in the State of Texas and facilitates reliable grid operations for approximately 85% of the demand for power in the state.

On September 3, 2004, we signed an agreement to purchase a portion of AEP Texas Central Company's 25.2% interest in the South Texas Project for approximately \$174 million, plus certain adjustments for capital expenditures and inventory and nuclear fuel balances at closing. AEP Texas Central is a subsidiary of American Electric Power Company, Inc. Once the sale is complete, we will own an additional 13.2% of the nuclear plant for a total of 44%, or approximately 1,100 MW. This purchase agreement was entered into pursuant to our right of first refusal to purchase this interest triggered by AEP Texas Central Company's previously announced agreement to sell this interest to a third party. In addition to AEP Texas Central Company's ownership interest and our current 30.8% ownership, the 2,500 MW nuclear plant is currently 28%-owned by City Public Service of San Antonio and 16%-owned by Austin Energy. City Public Service of San Antonio is purchasing AEP Texas Central Company's remaining 12% ownership interest under its right of first refusal. The sale is subject to certain regulatory approvals, including filing under the HSR Act, and action by the NRC, the FERC and the SEC. We anticipate that the transaction will close in early 2005. Our anticipated acquisition of an additional interest in the South Texas Project is a separate transaction independent from the transactions contemplated by the transaction agreement described in this information statement. Neither the public company merger, nor the other transactions contemplated by the transaction agreement, are conditioned on the completion of our anticipated acquisition of an additional interest in the South Texas Project.

In June 1999, the Texas legislature enacted legislation, which we refer to as the Texas electric restructuring law, which substantially changed the regulatory structure governing electric utilities in Texas in order to encourage retail electric competition. Under the Texas electric restructuring law, we ceased to be subject to traditional cost-based regulation. Since January 1, 2002, we have been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. Accordingly, our historical financial information and operating data, such as demand and fuel data, covering periods prior to 2002 do not reflect what our financial position, results of operations and cash flows would have been had our generation facilities been operated during those periods under the current deregulated ERCOT market.

We are an indirect majority-owned subsidiary of CenterPoint Energy. Our portfolio of generation facilities was formerly owned by the unincorporated electric utility division of Reliant Energy, Incorporated, the predecessor of CenterPoint Houston. CenterPoint Houston is an indirect wholly owned subsidiary of CenterPoint Energy. Reliant Energy conveyed these facilities to us on August 31, 2002 in accordance with a business separation plan adopted in response to the Texas electric restructuring law. For convenience, we describe our business as if we had owned and operated our generation facilities prior to the date they were conveyed to us. On January 6, 2003, CenterPoint Energy distributed

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

15,235,760 of the 80 million outstanding shares of our common stock, or approximately 19.04% of our outstanding shares, to CenterPoint Energy's common shareholders. CenterPoint Energy now indirectly owns 80.96% of the outstanding shares of our common stock.

Table of Contents

CenterPoint Energy is a registered public utility holding company under the 1935 Act. The 1935 Act directs the SEC to regulate, among other things, transactions among affiliates, sales or acquisitions of assets, issuances of securities, distributions and permitted lines of business by registered holding companies and their subsidiaries. In October 2003, the FERC granted exempt wholesale generator status to Genco LP, our wholly owned subsidiary that owns and operates our electric generating plants. As a result, we are exempt, and we will continue to be exempt, from substantially all provisions of the 1935 Act as long as our subsidiaries with generating assets remain exempt wholesale generators.

CenterPoint Energy, Inc.

1111 Louisiana

Houston, Texas 77002

(713) 207-1111

CenterPoint Energy is a Texas corporation whose indirect wholly owned subsidiaries include:

CenterPoint Houston, which provides electric transmission and distribution services to approximately 1.8 million metered customers in a 5,000-square-mile area of the Texas Gulf Coast that has a population of approximately 4.7 million people and includes Houston; and

CERC, which owns gas distribution systems serving approximately three million customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. Through wholly owned subsidiaries, CERC also owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services.

CenterPoint Energy also owns an approximately 81% ownership interest in us through its subsidiary, Utility Holding, LLC.

Utility Holding, LLC

1011 Centre Road, Suite 324

Wilmington, Delaware 19805

(302) 573-3813

Utility Holding is a Delaware limited liability company, a direct, wholly owned subsidiary of CenterPoint Energy and an intermediate holding company registered under the 1935 Act. Utility Holding is the record holder of 64,764,240 shares of our common stock, which represents approximately 81% of our outstanding shares of common stock.

NN Houston Sub, Inc.

1111 Louisiana

Houston, Texas 77002

(713) 207-1111

NN Houston Sub is a Texas corporation and a direct, wholly owned subsidiary of Utility Holding. NN Houston Sub was organized solely for the purpose of entering into the transaction agreement and completing the transactions it contemplates. It has not conducted, and will not conduct, any activities other than activities incidental to its formation and in connection with the transactions contemplated by the transaction agreement. Under the terms of the transaction agreement, NN Houston Sub will merge with and into us in the public company merger. We will survive the public company merger, and NN Houston Sub will cease to exist.

Table of Contents

GC Power Acquisition LLC

12301 Kurland Drive, 4th floor

Houston, Texas 77034

(713) 207-6546

GC Power Acquisition is a Delaware limited liability company owned in equal parts by investment funds affiliated with The Blackstone Group, Hellman & Friedman LLC, Kohlberg Kravis Roberts & Co. L.P. and Texas Pacific Group. GC Power Acquisition was formed solely for the purpose of entering into the transaction agreement and completing the transactions it contemplates. It has not conducted any activities other than activities incidental to its formation and in connection with the transactions contemplated by the transaction agreement.

HPC Merger Sub, Inc.

12301 Kurland Drive, 4th floor

Houston, Texas 77034

(713) 207-6546

HPC Merger Sub is a Texas corporation and a wholly owned subsidiary of GC Power Acquisition. HPC Merger Sub was organized solely for the purpose of entering into the transaction agreement and completing the transactions it contemplates. It has not conducted, and will not conduct, any activities other than activities incidental to its formation and in connection with the transactions contemplated by the transaction agreement. Under the terms of the transaction agreement, HPC Merger Sub will merge with and into us in the nuclear asset acquisition. We will survive the nuclear asset acquisition, and HPC Merger Sub will cease to exist.

Table of Contents

Special Factors

Purpose and Structure

CenterPoint Energy has publicly disclosed since 2002 prior to our existence as a separate publicly held company its intention to exit the generation sector of the electric power industry and to monetize its 81% equity interest in our company. CenterPoint Energy has sought to monetize its interest in us in order to generate cash proceeds to be used to reduce its aggregate outstanding indebtedness. Prior to January 2004, CenterPoint Energy was prevented from pursuing a transaction because its equity interest in our company was subject to a purchase option held by Reliant Resources, Inc., a former affiliate of CenterPoint Energy that recently changed its name to Reliant Energy, Inc. and which we refer to as RRI. In January 2004, following RRI's decision not to exercise its option to purchase CenterPoint Energy's interest in us and an assessment of available strategic alternatives, CenterPoint Energy decided to pursue a transaction involving the sale of all of its 81% interest in us through an auction process. During the course of the auction process, potential bidders for CenterPoint Energy's interest in us, including the investors in GC Power Acquisition, submitted proposals to acquire a 100% interest in our business. Our board of directors created a special committee to represent our unaffiliated shareholders in connection with the consideration of any proposal by a potential purchaser of CenterPoint Energy's interest to acquire the additional 19% ownership interest held by our unaffiliated shareholders. The auction process eventually resulted in the execution of the transaction agreement described in this information statement. For additional information regarding the auction process, RRI's option and the creation of the special committee of our board of directors, please read Background of the Transactions.

The purposes of the transaction agreement and the transactions contemplated thereby are to achieve CenterPoint Energy's goal of monetizing its 81% interest in us, to provide our unaffiliated shareholders with cash consideration for their shares at a price that we and CenterPoint Energy believe to be fair, and to enable GC Power Acquisition ultimately to acquire a 100% interest in our business.

GC Power Acquisition has agreed to acquire us in a multistep transaction in accordance with the terms and conditions of the transaction agreement. The steps, which are described in more detail below, consist of the following:

The allocation of our non-nuclear assets and liabilities to a separate wholly owned subsidiary. We refer to this allocation as the Genco LP division.

The conversion of all of our publicly held shares (other than shares held by shareholders who validly perfect their dissenter's rights under Texas law) into the right to receive \$47.00 per share in cash, without interest and less any applicable withholding taxes, in connection with our merger with NN Houston Sub. We refer to this transaction as the public company merger.

The acquisition of two of our subsidiaries that will own our non-nuclear assets and liabilities by two newly formed subsidiaries of GC Power Acquisition in exchange for aggregate consideration of \$2,813 million in cash. We refer to this transaction as the non-nuclear asset acquisition. Approximately \$717 million of these cash proceeds will be used to fund or repay indebtedness used to fund the public company merger. In addition, CenterPoint Energy has the right to have us distribute to it up to \$2,231 million in cash, consisting of the balance of the cash proceeds and other available cash; we expect the full \$2,231 million to be distributed up to CenterPoint Energy.

The merger of HPC Merger Sub into us resulting in GC Power Acquisition's purchase of us in exchange for a payment of \$700 million in cash to Utility Holding. We refer to this transaction as the nuclear asset acquisition.

Genco LP Division

We currently conduct substantially all of our business operations through Genco LP, one of our indirect wholly owned subsidiaries. Prior to the public company merger, Genco LP will merge with a newly formed wholly owned

Table of Contents

subsidiary of ours, Texas Genco II, LP which we refer to as Genco II LP, in a merger under Texas law in which both Genco LP and Genco II LP will survive. As a result of the merger and in accordance with the transaction agreement and the definitive plan of merger related to this separation, all of our nuclear assets and liabilities, which relate primarily to our interest in the South Texas Project, and our available cash will remain with Genco LP, and all of our non-nuclear assets and liabilities, which relate primarily to our coal, lignite and gas-fired generation facilities, will be allocated to Genco II LP. We refer to this multisurvivor merger as the Genco LP division. The Genco LP division will be consummated and become effective prior to the public company merger.

Public Company Merger

Following the Genco LP division, the receipt of all required regulatory approvals and the satisfaction of the other conditions to the public company merger, we will merge with NN Houston Sub and all of our publicly held shares of common stock, representing approximately 19% of our outstanding shares, (other than shares held by shareholders who perfect their dissenter's rights under Texas law) will be converted into the right to receive \$47.00 per share in cash without interest and less any applicable withholding taxes. Immediately following the public company merger, we will be indirectly wholly owned by CenterPoint Energy. We will pay each regular quarterly dividend the record date for which occurs prior to the effective time of the public company merger. We currently expect this effective time will be on or about .

Non-Nuclear Asset Acquisition

On the first business day after the closing of the public company merger or as soon as possible thereafter, and subject to the satisfaction of other conditions to the non-nuclear asset acquisition, GC Power Acquisition will acquire all of our non-nuclear assets and liabilities through a merger of a wholly owned subsidiary of GC Power Acquisition with and into Genco II LP. Simultaneously with that merger, GC Power Acquisition will acquire Texas Genco Services, LP, one of our current operating subsidiaries that owns certain assets unrelated to our wholesale generation business and which we refer to as Genco Services, through a merger of another wholly owned subsidiary of GC Power Acquisition with and into Genco Services. As a result of these mergers, which we refer to collectively as the non-nuclear asset acquisition, Genco II LP and Genco Services will become indirect wholly owned subsidiaries of GC Power Acquisition. In the non-nuclear asset acquisition, we will receive cash consideration of \$2,813 million, of which up to \$2,231 million is to be distributed up to CenterPoint Energy.

Nuclear Asset Acquisition

Following receipt of approval by the NRC and the satisfaction of other conditions to the nuclear asset acquisition, GC Power Acquisition will acquire indirect ownership of our nuclear assets and liabilities through the merger of another wholly owned subsidiary of GC Power Acquisition with and into us. As a result of this merger, we will be a wholly owned subsidiary of GC Power Acquisition. In the nuclear asset acquisition, Utility Holding will receive \$700 million in cash, without interest, in consideration for its 100% ownership interest in us.

Background of the Transactions

The Restructuring of Reliant Energy in Response to the Texas Electric Restructuring Law

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

In June 1999, the Texas legislature enacted legislation, which we refer to as the Texas electric restructuring law, which substantially changed the regulatory structure governing electric utilities in Texas in order to encourage retail electric competition. The Texas electric restructuring law required the restructuring of electric utilities in Texas in order to separate their power generation, transmission and distribution, and retail electric provider businesses into separate units.

CenterPoint Energy is a public utility holding company that became the parent of Reliant Energy, Incorporated, which we refer to as Reliant Energy, and its subsidiaries on August 31, 2002 as part of a corporate

Table of Contents

restructuring of Reliant Energy implemented in response to the Texas electric restructuring law. In March 2001, the Public Utility Commission of Texas, which we refer to as the PUC, approved a business separation plan for Reliant Energy involving the separation of Reliant Energy's generation, transmission and distribution, and retail businesses into three separate companies. Effective August 31, 2002, Reliant Energy consummated a restructuring transaction in accordance with this business separation plan in which it:

conveyed all of its electric generating facilities to us;

became a subsidiary of CenterPoint Energy; and

converted into a limited liability company named CenterPoint Energy Houston Electric, LLC, which we refer to as CenterPoint Houston.

Under the Texas electric restructuring law, transmission and distribution utilities whose generation assets were unbundled pursuant to the law, including CenterPoint Houston, are entitled to recover their stranded costs associated with those assets. The Texas electric restructuring law defines stranded costs as the positive excess of the regulatory net book value of the utility's unbundled generation assets over the market value of those assets, after taking specified factors into account. The law allows alternate methods for establishing a market value for generation assets, including outright sale, full or partial stock market valuation and asset exchanges. Under Reliant Energy's business separation plan, Reliant Energy agreed that the fair market value of our generating assets would be determined using the partial stock market valuation method.

During 2002, CenterPoint Energy considered conducting an initial public offering of our common stock. However, based on the advice of investment bankers, our poor financial results in 2002 and generally unfavorable capital market conditions in the power generation sector during 2002, an initial public offering was determined not to be feasible prior to the deadline for establishing a trading market for our shares of common stock under the Texas electric restructuring law and Reliant Energy's business separation plan. In January 2003, CenterPoint Energy distributed 15,235,760 of the 80 million outstanding shares of our common stock, or approximately 19.04% of our outstanding shares, to its shareholders. CenterPoint Energy made the distribution to establish a public market value for shares of our common stock to be used in calculating how much CenterPoint Houston would be able to recover as stranded costs as contemplated by Reliant Energy's business separation plan and the Texas electric restructuring law, and to comply with its contractual obligations to Reliant Resources, Inc., a former subsidiary of Reliant Energy that recently changed its name to Reliant Energy, Inc. and which we refer to as RRI. The closing market price of our common stock on January 7, 2003, the first trading day after CenterPoint Energy's distribution of our shares, was \$10.50 per share.

Among the objectives of Reliant Energy's business separation plan was the separation of Reliant Energy's operations into two unaffiliated publicly traded companies with one company, CenterPoint Energy, holding Reliant Energy's regulated energy delivery businesses and the other company, RRI, holding its competitive merchant power and energy services operations. In May 2001, RRI conducted an underwritten initial public offering of 59.8 million shares of common stock, representing approximately 20% of its outstanding shares, at an initial public offering price of \$30.00 per share, resulting in aggregate net proceeds of approximately \$1.7 billion. In furtherance of Reliant Energy's business separation plan, the remaining common stock of RRI was distributed to CenterPoint Energy's shareholders on September 30, 2002.

As part of the business separation plan, RRI was granted an option exercisable in January 2004 to purchase all of the shares of our common stock owned by CenterPoint Energy following the 19% distribution. The per share exercise price under this option was based on the average daily closing price of our common stock on The New York Stock Exchange over the 30 consecutive trading days out of the 120 trading days ending January 9, 2004 which result in the highest average closing price, which equaled \$31.67 per share. In addition, a control premium, up to a maximum of 10%, would have been added to the exercise price to the extent a control premium is included in the valuation determination made by the PUC relating to the market value of our common stock equity in CenterPoint Houston's true-up proceeding. On January 23, 2004, RRI notified CenterPoint Energy that RRI would not exercise its option to purchase CenterPoint Energy's 81% interest in us.

Table of Contents

CenterPoint Energy Pursues a Sale of its 81% Interest

Following the corporate restructuring of Reliant Energy, CenterPoint Energy publicly disclosed its intention to exit the generation sector of the electric power industry and to monetize its interest in us and use the proceeds to repay outstanding indebtedness. Consistent with this goal, CenterPoint Energy had previously stated that if RRI did not exercise its option to purchase CenterPoint Energy's interest in us, CenterPoint Energy would consider strategic alternatives for its interest, including a possible sale. In the summer of 2003, CenterPoint Energy began to consider various strategic alternatives for its interest in us in the event RRI declined to exercise its option, and retained Citigroup Global Markets Inc., which we refer to as Citigroup, as its financial advisor. CenterPoint Energy considered a number of potential alternative transactions, including a sale of a portion of its interest in us to one or more third parties, one or more secondary offerings to the public of our shares held by CenterPoint Energy, sales of some or all of our generating assets to one or more third parties with a pro rata distribution of the proceeds to our shareholders, including CenterPoint Energy, and a significant leveraging of our balance sheet with new borrowings the proceeds of which would be distributed pro rata to our shareholders, including CenterPoint Energy. In January 2004, following the decision by RRI not to exercise its option at the exercise price described above, CenterPoint Energy made an assessment of available strategic alternatives regarding its interest in Texas Genco. Following this assessment, CenterPoint Energy decided to pursue a transaction involving the sale of all of its 81% interest based on its view that a sale of its entire interest in a single transaction presented the best opportunity for maximizing the amount of cash proceeds it would receive as a result of its monetization efforts.

Commencing in February 2004, at the request of CenterPoint Energy, Citigroup contacted a number of potential financial and strategic purchasers for CenterPoint Energy's 81% interest in us. A total of 107 potential buyers, comprised of 58 financial entities and 49 strategic entities, were contacted. During February and March 2004, copies of a confidential information memorandum describing our business, operations and financial condition were provided to all of the 38 potential buyers that expressed interest and agreed to enter into a confidentiality agreement, including 24 financial entities and 14 strategic entities. Copies of the information memorandum were also subsequently provided to five other potential buyers during the course of the auction process, each of whom entered into a confidentiality agreement.

During the first week of April 2004, Citigroup, on behalf of CenterPoint Energy, invited potential buyers to submit written, non-binding indications of interest by April 15, 2004 for the potential acquisition for cash of CenterPoint Energy's 81% interest in us. Citigroup, on behalf of CenterPoint Energy, also indicated that any proposal must identify any expected material or non-customary conditions or contingencies to closing, further corporate approvals and additional due diligence requirements, as CenterPoint Energy wanted to avoid any unnecessary regulatory delays or other factors that could jeopardize the ability of the parties to close the transaction on a timely basis.

On or about April 15, 2004, ten preliminary indications of interest were received, including:

six bids for CenterPoint Energy's 81% interest with prices ranging from \$33.00 to \$41.00 per share;

three non-conforming bids for our interest in the South Texas Project; and

one non-conforming bid for our base-load coal-fired and/or lignite-fired generation facilities.

Two of the conforming bids were submitted by strategic bidders and four of the conforming bids were submitted by groups primarily comprised of financial bidders. A number of bidders indicated the need to finance a substantial portion of the purchase price with debt incurred by us and expressed an interest in acquiring the outstanding common stock owned by our unaffiliated shareholders as part of the transaction.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

On April 27, 2004 at a regular meeting, CenterPoint Energy's board of directors discussed the results of the preliminary indications of interest and other available alternatives for monetizing CenterPoint Energy's interest in us. At the meeting, presentations were made by CenterPoint Energy management and representatives of Citigroup. Following the discussions, the CenterPoint Energy board directed management to invite all

Table of Contents

conforming bidders and one of the bidders for our interest in the South Texas Project, who we refer to as Bidder Orange, to participate in the next phase of the potential sale process. CenterPoint Energy's board of directors also determined that our board of directors should be informed of the possibility that future bids may seek to have us borrow funds and make a special dividend to all of our shareholders, or may seek to acquire 100% of our outstanding shares of common stock.

The Creation of a Special Committee of Our Board of Directors and the Negotiation of a Sale Transaction

Our board of directors met on May 5, 2004 and reviewed the status of the process described above. At this meeting, our board of directors created a special committee to represent our shareholders, other than CenterPoint Energy, in connection with any proposal by a potential purchaser of CenterPoint Energy's 81% interest in us to acquire the additional 19% ownership interest held by our unaffiliated shareholders, any determination of whether we should incur additional debt in connection with a purchase of all or a portion of our common stock, and related matters. Our board of directors also empowered and authorized the special committee to engage its own legal counsel and financial advisors to assist with its representation of our unaffiliated shareholders. The members of the special committee initially consisted of J. Evans Attwell, Donald R. Campbell, Robert J. Cruikshank and Patricia A. Hemingway Hall, none of whom are directors or officers of CenterPoint Energy. Each member of the special committee was paid \$1,000 per special committee meeting, which is the same fee we pay to our directors for participating in meetings of any other committee of our board.

The special committee met on May 5, 2004, immediately following the meeting of our board of directors. This was the first of a total of 14 meetings that the special committee held over the course of the following two and a half months until the transaction agreement with GC Power Acquisition was executed. At this first meeting, the special committee elected Mr. Attwell to serve as chairman of the special committee. The special committee discussed law firms who might serve as legal counsel to the special committee, including Haynes and Boone, LLP. The special committee asked Mr. Campbell to prepare a list of financial advisors that could be hired to assist the special committee in its evaluation of a proposed transaction.

On May 19, 2004, the special committee met with representatives of Haynes and Boone and decided to retain Haynes and Boone as independent legal counsel to the special committee. At this meeting, the special committee also discussed the status of the auction process being conducted by Citigroup on behalf of CenterPoint Energy. The representatives of Haynes and Boone reviewed with the special committee the resolutions of our board of directors creating the special committee. Based on those resolutions, the special committee determined that it possessed all power necessary for it to review and evaluate a proposed transaction, consult with its own financial and legal advisors, and determine whether or not to recommend the approval of a transaction proposal to our full board of directors, and that it had sufficient authority to exercise independent judgment in representing the interests of our unaffiliated shareholders.

On May 26, 2004, representatives of Haynes and Boone had a telephonic meeting with Mr. Scott E. Rozzell, Executive Vice President, General Counsel and Corporate Secretary of CenterPoint Energy and Texas Genco, to discuss the events leading up to the auction process, including RRI's decision not to exercise its option to purchase CenterPoint Energy's 81% ownership interest in us. Mr. Rozzell also provided an overview of the auction process and other related issues.

During May and June 2004, the six bidders with conforming bids and Bidder Orange were offered the opportunity to conduct a due diligence review of our business. One of the six bidders declined the opportunity. Representatives of the five remaining bidders attended management presentations and were provided with access to information regarding our business, operations, financial condition and other related matters. Representatives of four bidder groups and Bidder Orange also participated in site visits at some of our generation facilities.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

In the last week of May 2004, Citigroup, at the direction of CenterPoint Energy, sent an invitation letter, a form of stock purchase agreement and a financing proposal offered by affiliates of Citigroup to four of the

Table of Contents

remaining bidders and Bidder Orange. The letter invited potential bidders to submit written, definitive proposals by June 18, 2004 for the potential acquisition for cash of CenterPoint Energy's 81% interest in us. The letter also instructed each potential bidder to identify its available financing sources, to provide comments regarding the form of stock purchase agreement and to identify a proposed timeline for all external approvals required before closing. The form of stock purchase agreement contemplated a one-step transaction consisting of a sale of CenterPoint Energy's 81% interest in us to the purchaser for an all-cash purchase price. The instruction letter also advised buyers who had previously expressed an interest in acquiring 100% of our outstanding shares of common stock that any such proposal would require involvement of the special committee and that CenterPoint Energy would continue discussions with the special committee with respect to any such proposal. An invitation letter, form of stock purchase agreement and financing proposal were not sent to the fifth remaining bidder, referred to in the discussion below as Bidder Purple, because its transaction proposal contemplated a private placement of CenterPoint Energy's holdings of our common stock to investors in the bidder group and, accordingly, would involve a more limited due diligence review and a form of purchase agreement different from the form circulated to the other bidders. Citigroup subsequently contacted representatives of Bidder Purple and extended an oral invitation to submit a written, definitive proposal by June 18, 2004.

On June 1, 2004, the special committee met with Haynes and Boone to discuss each committee member's independence from CenterPoint Energy, following conversations between Mr. Attwell and representatives of Haynes and Boone regarding the applicable standards for independence. Ms. Hemingway Hall discussed the fact that she is an executive officer of a company that is a division of Health Care Service Corporation and that Mr. Milton Carroll, the chairman of CenterPoint Energy, serves as Chairman of the Board of Directors of Health Care Service Corporation. Based upon discussions with the special committee members, Ms. Hemingway Hall decided to resign from the special committee. The members of the special committee determined that there were no relationships that the remaining members had which would affect their independence in serving as a member of the special committee.

On June 3, 2004, Bidder Orange submitted a definitive bid for our interest in the South Texas Project.

On June 8, 2004 and June 9, 2004, the special committee met with two investment banking firms identified following a search for potential candidates which were not conflicted from serving as the special committee's financial advisor, to discuss their credentials and suitability to act as financial advisor to the special committee.

On June 10, 2004, representatives of Haynes and Boone had a telephonic meeting with representatives of CenterPoint Energy's legal counsel, Baker Botts L.L.P., to discuss the status of the auction process, the due diligence process and the current draft of the proposed stock purchase agreement.

On June 15, 2004, the special committee met to discuss the qualifications and independence of the investment banking firms and the financial terms of the engagement proposals from the investment banking firms.

On June 18, 2004, two second round bids were submitted. The investors in GC Power Acquisition LLC, which we refer to as GC Power Group, submitted a bid for CenterPoint Energy's 81% interest in us or 100% of our outstanding common stock for a purchase price in either case of \$41.00 per share. The GC Power Group bid also included an alternative proposal to acquire 100% of our outstanding common stock for a purchase price of \$42.00 per share consisting of \$38.00 in cash and \$4.00 in subordinated debt. In its bid, GC Power Group also indicated an interest in discussing the implementation of certain forward power sales arrangements and a potential alternative transaction structure that would accelerate receipt of consideration to be paid to all of our shareholders. The GC Power Group bid contemplated that we would incur approximately \$2.25 billion of indebtedness in connection with either an 81% or a 100% transaction and that, in the case of an 81% transaction, the proceeds from such indebtedness would be distributed to all of our shareholders by means of a special dividend. The GC Power Group bid also included a detailed markup of the form of stock purchase agreement previously provided for their proposed bid.

Table of Contents

The other second round bid was submitted by an investor group, which we refer to collectively as Bidder White, consisting of three financial buyers and an independent power producer. The Bidder White proposal included bids for CenterPoint Energy's 81% interest in us or 100% of our outstanding common stock, in each case with or without an election contemplated by section 338(h)(10) of the Internal Revenue Code of 1986, as amended. In its bid, Bidder White proposed to buy CenterPoint Energy's 81% interest for a purchase price of \$39.00 per share without a 338(h)(10) election or \$45.50 per share with a 338(h)(10) election. Bidder White also proposed to buy 100% of our outstanding common stock for a purchase price of \$40.00 per share without a 338(h)(10) election or \$46.50 per share with a 338(h)(10) election. The effect of a 338(h)(10) election, which would require CenterPoint Energy's consent, would be a substantial reduction in after-tax proceeds to CenterPoint Energy because CenterPoint Energy would be treated for tax purposes as if it had sold 100% of our assets, and would incur an asset level tax based on the gain from the deemed sale of 100% of our assets. A 338(h)(10) election would effectively require CenterPoint Energy to pay such tax with respect to 100% of our assets, even though CenterPoint Energy would receive only proceeds from the sale of its 81% stock interest, and accordingly CenterPoint Energy would pay the portion of such tax attributable to the 19% of our stock owned by our unaffiliated shareholders. Bidder White also indicated that it might be willing to increase its purchase price by up to \$0.50 per share if certain hedging arrangements were entered into and expressed a preference for a simultaneous sale of our interest in the South Texas Project to a third party buyer. The Bidder White bid contemplated that we would incur up to \$3.15 billion of indebtedness in connection with either an 81% or a 100% transaction, a portion of the proceeds of which would be distributed to all of our shareholders by means of a special dividend in an 81% transaction. The Bidder White bid did not include a markup of the form of stock purchase agreement previously provided to Bidder White, but did include a memorandum providing a general summary of their comments regarding the form of stock purchase agreement.

On June 21, 2004, the special committee met to consider the engagement of RBC Capital Markets Corporation as its financial advisor. During that meeting, the special committee discussed the independence of RBC, the terms of the engagement letter with RBC, and the qualifications of RBC to serve as financial advisor to the special committee. After confirming the qualifications of RBC and determining that there were no material relationships that would affect RBC's independence and ability to be objective in the evaluation of the various transactions being contemplated by CenterPoint Energy, the special committee by unanimous vote agreed to retain RBC as independent financial advisor to the special committee. The special committee selected RBC over the other potential financial advisor after considering, among other factors, RBC's expertise in energy and utility transactions and the RBC representatives who would work on the matter, which included individuals in RBC's Houston office.

On June 22, 2004, a third second round bid was submitted by Bidder Purple, an investor group consisting of hedge funds represented by two investment banks. In its bid, Bidder Purple proposed to purchase CenterPoint Energy's 81% interest in us for a purchase price of \$39.50 per share, consisting of a special distribution by us to all of our shareholders of at least \$15.00 per share to be financed by at least \$1.2 billion of new indebtedness to be incurred by us and cash in an amount of \$24.50 per share to be paid by Bidder Purple. Bidder Purple also indicated a willingness to pursue two alternative transaction structures.

Under the first alternative transaction proposed by Bidder Purple, which we refer to as the debt exchange and partial spin-off alternative :

we would make a special distribution to all of our shareholders of \$15.00 per share to be financed by \$1.2 billion of new indebtedness to be incurred by us;

the Bidder Purple investors would expend approximately \$980 million of cash to purchase outstanding long-term debt securities of CenterPoint Energy;

CenterPoint Energy would exchange approximately 39.9 million shares of our common stock owned by CenterPoint Energy for the purchased debt securities; and

Table of Contents

CenterPoint Energy would distribute the remaining 24.8 million shares of our common stock it owns to CenterPoint Energy's shareholders in a transaction intended to qualify as a tax free distribution.

As a result, the Bidder Purple investors would own approximately 49.9% of our outstanding common stock and CenterPoint Energy would no longer have an equity interest in us. Our unaffiliated shareholders would not participate in or receive any consideration under this transaction other than the special cash distribution. Instead, our unaffiliated shareholders would retain their minority interest in us, and we would be subject to significant new indebtedness.

Under the second alternative transaction proposed by Bidder Purple, which we refer to as the cash rich split-off alternative :

we would issue approximately 30.6 million shares of our common stock to the Bidder Purple investors for a purchase price of \$39.50 per share, or approximately \$1.2 billion in cash;

we would borrow approximately \$1.2 billion;

we would then contribute approximately \$2.4 billion of cash and certain gas pipeline, gas storage and oil storage assets with an estimated value of \$150 million to a newly formed subsidiary; and

CenterPoint Energy would exchange all of its 81% interest in us for 100% of the outstanding stock in the new subsidiary in a transaction intended to qualify as a tax free exchange.

As a result, the Bidder Purple investors would own approximately 67% of our outstanding common stock and CenterPoint Energy would no longer have an equity interest in us. Our unaffiliated shareholders would not participate in or receive any consideration under this transaction. Instead, our unaffiliated shareholders would retain their minority interest in us, and we would be subject to significant new indebtedness.

On June 22, 2004, CenterPoint Energy management and representatives of Citigroup and Baker Botts met to discuss the second round bids. Based on those discussions, CenterPoint Energy management directed Citigroup to contact each bidder group and request best and final bids to be submitted by June 28, 2004 and to engage in various follow-up discussions to clarify certain elements of the bid proposals.

On June 24, 2004, representatives of Haynes and Boone and RBC had a telephonic meeting with representatives of Baker Botts and Citigroup to discuss the auction process and CenterPoint Energy's interest in a sale of its 81% ownership interest in us. The representatives of CenterPoint agreed to send, and did send, to the special committee and its advisors the first and second round bids that were received by Citigroup and subsequent bid proposals as they were submitted.

On June 28, 2004, GC Power Group and Bidder White each submitted revised bids in response to Citigroup's request for best and final bids. In its revised bid, GC Power Group proposed to buy CenterPoint Energy's 81% interest in us for a purchase price of \$43.50 per share without a 338(h)(10) election or \$44.50 per share with a 338(h)(10) election. Both the 81% and 100% alternatives included the incurrence by us of indebtedness, the proceeds of which would be distributed to all of our shareholders by means of a special dividend in an 81% transaction. GC Power Group also proposed an alternative structure for the acquisition of 100% of our outstanding common stock at a purchase price of \$45.25 per share. That alternative structure, which is substantially similar to the structure of the transactions contemplated by the transaction agreement, was designed to substantially accelerate the speed and certainty of payment of 100% of the cash consideration to be payable to our unaffiliated

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

shareholders and a substantial portion of the cash consideration to be payable to CenterPoint Energy. The structure would provide 100% of the cash consideration payable to our unaffiliated shareholders as a first step in a series of transactions, with that first step not conditioned on the receipt of NRC approval. GC Power Group's alternate structure also contemplated the forward sale of a substantial portion of our base-load capacity through 2008 simultaneously with the execution of a definitive agreement.

In Bidder White's revised bid, it proposed to buy CenterPoint Energy's 81% interest for a purchase price of \$40.00 per share without a 338(h)(10) election or \$46.50 per share with a 338(h)(10) election. Bidder White also proposed to buy 100% of our outstanding common stock for a purchase price of \$41.25 per share without a

Table of Contents

338(h)(10) election or \$47.75 per share with a 338(h)(10) election. Both the 81% and 100% alternatives included the incurrence by us of indebtedness, a portion of the proceeds of which would be distributed to all of our shareholders by means of a special dividend in an 81% transaction. Each purchase price included a \$0.75 per share component that would be dependent upon our entering into certain hedging arrangements involving forward power sales acceptable to Bidder White. Bidder White again expressed a preference for a simultaneous sale of our interest in the South Texas Project to a third party buyer.

On June 29, 2004, Bidder Purple submitted a revised bid in which it proposed to purchase CenterPoint Energy's 81% interest in us for a purchase price of \$40.75 per share, consisting of a special distribution by us to all of our shareholders (including our unaffiliated shareholders) of at least \$18.75 per share to be financed by at least \$1.5 billion of new indebtedness to be incurred by us and cash in an amount of \$22.00 per share to be paid by Bidder Purple to CenterPoint Energy. Bidder Purple again indicated an interest in discussing the debt exchange and partial spin-off alternative and the cash rich split-off alternative, the proposed terms of which were modified to reflect the higher proposed value for our shares, the increase in amount of indebtedness we would incur, and, with respect to the debt exchange and partial spin-off alternative, the increase in the amount of the special distribution by us to our shareholders.

On June 29, 2004, the special committee held a telephonic meeting to discuss the status of the auction process. At that meeting, RBC provided an overview of the auction process and reviewed with the special committee a summary of the first and second round bids that had been received by Citigroup and reported on its discussions with Citigroup. RBC also indicated that they were reviewing the third and final round bids that had been received by Citigroup on June 28th and June 29th. The special committee directed RBC to continue their review of the third and final round bids and to provide additional information to the special committee on our valuation as compared to the current trading price. At the June 29th meeting, representatives of Haynes and Boone also summarized their conversations with CenterPoint Energy representatives regarding the auction process and reiterated that the special committee was not obligated to accept any proposal and could reject any and all proposals in the fulfillment of its fiduciary duties to our unaffiliated shareholders.

On June 30, 2004, CenterPoint Energy's board of directors held a telephonic special meeting to, among other things, update the board regarding developments in the auction process and discuss the current proposals. At the meeting, presentations were made by CenterPoint Energy management and representatives of Citigroup and Baker Botts regarding the terms of each bid and related matters. Following the discussions, the CenterPoint Energy board authorized management to continue to engage in negotiations with each of the remaining bidders.

During July 2004, CenterPoint Energy management and representatives of Citigroup and Baker Botts engaged in numerous discussions with the respective representatives of, and legal counsel for, GC Power Group, Bidder White and Bidder Purple regarding structural, financing, tax and regulatory issues, hedging arrangements and other matters relating to each bidder's proposal, some of which conversations representatives of Haynes and Boone participated in. Representatives of RBC had multiple calls with representatives of Citigroup to discuss the status of the three bids, the due diligence process, GC Power Group's and Bidder White's proposed transaction agreements and Bidder Purple's proposed transaction structures. During this time period, additional due diligence information was provided in response to further requests by GC Power Group, Bidder White and Bidder Purple.

On July 2, 2004, the special committee held a telephonic meeting to discuss the third and final round bids received by Citigroup from the three final bidders. The special committee discussed the fact that the Bidder White proposal had a higher stated per share price of \$47.75, including a \$0.75 per share component that would be dependent upon our entering into certain hedging arrangements acceptable to Bidder White, for a 100% transaction with a 338(h)(10) election as compared to GC Power Group's proposal of \$45.25 per share for a 100% transaction with no 338(h)(10) election. The special committee also discussed the GC Power Group transaction structure, including the fact that the unaffiliated shareholders could expect to receive payment of the consideration for their shares sooner than under Bidder White's proposal. The special committee also discussed the tax detriment to CenterPoint Energy of any structure that included a 338(h)(10) election. The special

Table of Contents

committee directed RBC to request of the bidders certain clarifications regarding their bids for only CenterPoint Energy's 81% ownership interest in us. Representatives of Haynes and Boone also discussed with the special committee the transaction documents and related issues associated with the various bidder proposals. The special committee also discussed the Bidder Purple bid, which offered, depending upon which of the three structures was considered, either no consideration to our unaffiliated shareholders or lower consideration to our unaffiliated shareholders than either the GC Power Group bid or the Bidder White bid.

On July 2, 2004, Baker Botts delivered a draft merger agreement to Bidder White's legal counsel. The draft agreement was based on the form of stock purchase agreement previously provided to Bidder White and incorporated provisions requested by the special committee and Haynes and Boone and other comments, including a right of Texas Genco to terminate the agreement to accept a superior proposal and required approval by a majority of our shareholders not affiliated with CenterPoint Energy, which we refer to as a majority of the minority voting requirement, and also addressed certain matters discussed between representatives of Baker Botts and Bidder White's legal counsel.

On July 3, 2004, GC Power Group's legal counsel delivered a revised transaction agreement to CenterPoint Energy's management and representatives of Citigroup and Baker Botts that was based on GC Power Group's markup of the form of stock purchase agreement it provided as part of its June 18, 2004 bid and that reflected discussions between representatives of Baker Botts and GC Power Group's legal counsel.

On July 6, 2004, Bidder White provided a revised bid proposal to representatives of Citigroup that included a revised draft of the merger agreement previously provided by Baker Botts. Under the terms of Bidder White's revised bid, it proposed to purchase 100% of our outstanding common stock for a purchase price of \$47.75 per share with a 338(h)(10) election. The purchase price again included a \$0.75 per share component that would be dependent upon our entering into certain hedging arrangements acceptable to Bidder White. The revised proposal was structured to condition the closing of the entire transaction on the concurrent sale of our interest in the South Texas Project to a third party buyer who had already been selected by Bidder White. Accordingly, the entire transaction would be conditioned on NRC approval and compliance with the right of first refusal procedures relating to the sale of our interest in the South Texas Project, with attendant delay and risk of non-satisfaction of conditions to closing. The revised draft merger agreement from Bidder White included a limited thirty-day termination right to accept a superior proposal but did not include a majority of the minority voting requirement.

From July 7 through July 9, 2004, CenterPoint Energy management, and representatives of Citigroup and Baker Botts engaged in a series of meetings with representatives of, and legal counsel for, GC Power Group in CenterPoint Energy's offices in Houston to discuss various aspects of the GC Power Group proposal.

On July 8, 2004, representatives of Haynes and Boone participated in conference calls with Baker Botts and legal counsel to Bidder White regarding the proposed Bidder White merger agreement. On July 8, 2004, representatives of Haynes and Boone and RBC also participated in a conference call with our management and representatives of CenterPoint Energy and Citigroup to discuss the hedging arrangements proposed by GC Power Group and Bidder White. Representatives of Haynes and Boone again discussed with Baker Botts the special committee's desire to include a right of Texas Genco to terminate the agreement to accept a superior proposal and a majority of the minority vote requirement in the transaction agreement with GC Power Group and the merger agreement with Bidder White.

On July 13, 2004, Mr. Attwell met with David McClanahan, President and Chief Executive Officer of CenterPoint Energy, to discuss the status of the three final bid proposals. Mr. McClanahan indicated that although Bidder White's proposal had the higher stated price, its requirement of a 338(h)(10) tax election would require CenterPoint Energy to pay additional taxes, including amounts attributable to our unaffiliated shareholders, and therefore GC Power Group's proposal, which did not include a 338(h)(10) election, would yield higher after-tax proceeds to CenterPoint Energy. Mr. McClanahan also expressed concern about the lesser degree of certainty of the Bidder White proposal, the scope of its remaining due diligence, that its proposed

Table of Contents

structure contained more conditions to closing than GC Power Group's structure and would likely require a longer period to close due to the fact that the entire transaction would be conditioned on obtaining NRC approval and require compliance with the right of first refusal procedures relating to the sale of our interest in the South Texas Project, whereas the GC Power Group structure was expected to permit our unaffiliated shareholders to receive their consideration sooner and without NRC approval. Mr. McClanahan also expressed concern regarding the need for NRC approval related to Bidder Purple's straight stock sale proposal and the potential tax risks associated with each of Bidder Purple's proposed alternative transactions. Mr. McClanahan indicated that CenterPoint Energy was still considering all three bids and that CenterPoint Energy's board of directors was scheduled to meet on July 16, 2004, and would consider the bids and determine whether to proceed with a sale of its 81% ownership interest in us.

During the third week of July 2004, GC Power Group and Bidder White continued their due diligence efforts, with both parties making a number of requests to CenterPoint Energy and its representatives for information with respect to our company, and CenterPoint Energy, its representatives or our company responding to requests CenterPoint Energy deemed appropriate (in a number of cases following discussion with the relevant bidder). During these efforts, representatives of Bidder White contacted the special committee and its advisors on several occasions to express concerns about CenterPoint Energy's responsiveness to its due diligence requests. At the special committee's direction, the special committee's representatives discussed with CenterPoint Energy's representatives the concerns expressed and the special committee's desire that CenterPoint Energy and its advisors take appropriate steps to respond to any remaining requests from Bidder White. In connection with these discussions, Baker Botts provided Haynes and Boone with documents prepared by CenterPoint Energy cataloging the due diligence information that had been provided to Bidder White since its due diligence review began in June 2004. Representatives of CenterPoint Energy also informed representatives of the special committee that Bidder White had only recently retained an additional third party consultant to assist Bidder White with its due diligence efforts, that a number of the most recent diligence requests solicited information that had been provided previously during the process, and that they believed CenterPoint Energy had been responsive to all of the Bidder White diligence requests that could reasonably be accommodated. Representatives of CenterPoint Energy further explained that Bidder White's outstanding requests were for information that had not been provided to other bidders. On July 19, 2004, a representative of Bidder White reported to Mr. Attwell that Bidder White had essentially completed its due diligence process, and during that night GC Power Group advised CenterPoint Energy that it had essentially completed its due diligence process.

On July 14, 2004, management of CenterPoint Energy met with representatives of GC Power Group and agreed to continue to negotiate the remaining open items relating to the proposed transaction. CenterPoint Energy management stated that it would request the special committee to consider the GC Power Group's proposal and, depending on the special committee's response to the terms of GC Power Group's bid, would recommend the proposal to the CenterPoint Energy board of directors at the July 16, 2004 meeting.

On July 14, 2004, Bidder White delivered a letter to representatives of Citigroup providing additional information regarding its proposed hedging arrangements and proposing that our minority shareholders (but not CenterPoint Energy) would receive the entire \$0.75 per share component of the proposed purchase price relating to the proposed hedging arrangements whether or not the hedging arrangements were successfully implemented.

On July 14, 2004, the special committee held a meeting with representatives of Haynes and Boone and RBC. Mr. Attwell reported to the other members of the special committee his conversations with Mr. McClanahan, including Mr. McClanahan's expressed desire that the special committee communicate to CenterPoint Energy the special committee's preference as between the available bids and structures and whether to pursue any transaction at all before the July 16, 2004 meeting of CenterPoint Energy's board of directors. Representatives of Haynes and Boone reported to the special committee its discussions with Baker Botts regarding the status of the auction process. Haynes and Boone also indicated that Baker Botts had advised it that both GC Power Group and Bidder White had indicated they were not willing to proceed with a transaction conditioned on a majority of the minority voting requirement.

Table of Contents

At the July 14, 2004 meeting, RBC reviewed with the special committee its presentation regarding different valuation analyses of Texas Genco and the third and final round bids. RBC discussed with the special committee stock market valuations of comparable companies, as well as valuations that had been applied to comparable companies in asset acquisition transactions. RBC noted that it was difficult to identify comparable companies that were substantially similar to us and that none of the comparable companies or transactions was sufficiently similar to us or to the proposed transactions to provide a high degree of correlation. RBC further explained that comparing the selected companies and transactions to us and the proposed transactions involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors that may have affected the values in the comparable companies and transactions. RBC discussed its analysis of the fairness, from a financial point of view, to our unaffiliated shareholders of a possible transaction with GC Power Group or Bidder White. The members of the special committee questioned RBC about its analysis of the financial projections, valuation methodologies, comparable companies and transactions, conclusions and similar matters. The special committee discussed the Bidder Purple bid and the fact that the \$40.75 per share value to CenterPoint Energy in the straight stock sale proposal was less than the per share value of the other two bids, and was aware of the fact that the alternate proposals by Bidder Purple offered no consideration to our unaffiliated shareholders.

At the July 14, 2004 meeting, the special committee also discussed the hedging and financing arrangements proposed by GC Power Group and Bidder White. The special committee discussed the regulatory approvals required to consummate the proposed transactions, and the fact that the GC Power Group proposal did not require NRC approval to complete the public company merger and the distribution of the cash proceeds to our unaffiliated shareholders. The special committee also discussed the recent increases in the trading price of our common stock. Representatives of Haynes and Boone reviewed with the special committee key provisions of the current drafts of the legal documents for the GC Power Group and Bidder White transactions.

On the morning of July 15, 2004, Mr. Attwell had a conversation with Mr. McClanahan and informed Mr. McClanahan that the special committee would like Citigroup and CenterPoint Energy to present their views of the final bids. Mr. Attwell also requested on behalf of the special committee that the management of Texas Genco inform the special committee as to their views of a sale of Texas Genco and its benefits to the shareholders other than CenterPoint Energy.

On July 15, 2004, the special committee held a telephonic meeting with representatives of Haynes and Boone and RBC to discuss the bids and to determine what, if any, guidance it would provide to CenterPoint Energy's board of directors before the meeting on July 16, 2004. After considerable discussion of the various bids, the special committee directed Mr. Attwell to contact Mr. McClanahan to discuss a number of issues including the price differential between Bidder White and GC Power Group, timing for payment of consideration to the unaffiliated shareholders and the status of Bidder Purple.

After the special committee meeting on July 15, 2004, Mr. Attwell met with Mr. McClanahan to discuss the issues raised by the special committee at the earlier meeting. Mr. McClanahan confirmed to Mr. Attwell that CenterPoint Energy's management was continuing to communicate with all three remaining bidders. Mr. McClanahan indicated that CenterPoint Energy's management preferred the GC Power Group proposal because of the higher after-tax proceeds to CenterPoint Energy, the expected greater certainty of closing and the expected expedited receipt of consideration to all shareholders. Mr. McClanahan reiterated CenterPoint Energy's concerns regarding the regulatory uncertainties related to Bidder Purple's straight stock sale proposal and the potential tax risks associated with each of Bidder Purple's proposed alternative transactions. Mr. Attwell expressed the special committee's concern about the price differential between GC Power Group's proposal and Bidder White's proposal. Mr. Attwell indicated that the stated price in the Bidder White proposal was attractive and inquired as to the possibility that GC Power Group would increase its price to our unaffiliated shareholders. Mr. Attwell also informed Mr. McClanahan of the special committee's discussions regarding a termination right for a superior proposal, a majority of the minority voting requirement on any proposed transaction and a clawback provision allowing the unaffiliated shareholders to participate in any additional consideration received by CenterPoint

Table of Contents

Energy in connection with a sale of our assets by CenterPoint Energy after the public company merger at a higher price if the non-nuclear asset transaction or the nuclear asset transaction did not close under GC Power Group's structure (Baker Botts and Haynes and Boone had previously discussed practical and business difficulties raised by such a term). Finally, Mr. Attwell requested a presentation from Citigroup and CenterPoint Energy's and Texas Genco's management regarding the auction process and CenterPoint Energy's preference for the GC Power Group proposal.

On July 16, 2004, a special meeting of CenterPoint Energy's board of directors was held by telephone conference call to update the board regarding developments in the bidding process since June 30, 2004. At the meeting, presentations were made by CenterPoint Energy management, and representatives of Citigroup and Baker Botts regarding the terms of each bid, strategic alternatives for monetizing CenterPoint Energy's 81% interest in us, and related matters. Representatives of Citigroup reviewed certain of the financial terms of the proposals including financial analyses relating to the \$45.25 per share purchase price implied by the aggregate consideration to CenterPoint Energy under the GC Power Group proposal. CenterPoint Energy's board of directors reviewed and discussed the terms of the proposed GC Power Group transaction and management's determination that the bid presented the most compelling proposal.

On the morning of July 16, 2004, the special committee held a telephonic meeting and discussed with its legal and financial advisors the status of Bidder White's outstanding diligence requests based on correspondence from Bidder White to Citigroup. The special committee decided to reconvene later that afternoon to receive a report from Citigroup and CenterPoint Energy's and Texas Genco's management regarding the auction process, CenterPoint Energy's preference for the GC Power Group proposal and whether CenterPoint Energy's board of directors had made a decision at the board of directors meeting scheduled for the morning of July 16, 2004.

On the afternoon of July 16, 2004, the special committee reconvened with their legal and financial advisors for the presentation by Citigroup and CenterPoint Energy. Representatives from Citigroup delivered a presentation to the special committee regarding the three final proposals. In response to the special committee's concerns communicated to Mr. McClanahan, GC Power Group had increased its bid by \$25 million and CenterPoint Energy had agreed that this amount would be allocated disproportionately to our unaffiliated shareholders so that the per share price to our unaffiliated shareholders would increase by \$1.22 per share, from \$45.25 to \$46.47, and the per share price to CenterPoint Energy would increase by \$.10 per share, from \$45.25 to \$45.35. Representatives from Citigroup also noted certain advantages of GC Power Group's proposal as compared to Bidder White's proposal, including the advantage that the public company merger was not conditioned on NRC approval and the related expectation that receipt of consideration would be accelerated by several months under the GC Power Group structure, and the fact that GC Power Group's proposal should not require compliance with the right of first refusal procedures relating to the sale of our interest in the South Texas Project.

At the meeting with the special committee on July 16, 2004, CenterPoint Energy representatives indicated that CenterPoint Energy's board of directors had endorsed the GC Power Group proposal at its earlier meeting but had not formally approved it. The special committee discussed with the representatives of Citigroup and CenterPoint Energy how GC Power Group's timing advantage and more favorable closing conditions compared to Bidder White's advantage in stated price and the potential value impact of the accelerated receipt of consideration expected from GC Power Group's proposal. In discussing the potential timing advantage and related impact on net present value of Bidder White's stated price, the CenterPoint Energy representatives noted that the Bidder White transaction was expected to take between three and six months longer to close than the GC Power Group transaction. The special committee noted to Citigroup and CenterPoint Energy that despite GC Power Group's price increase and the GC Power Group contractual advantages, the special committee remained concerned about the difference in stated price between GC Power Group's revised proposal and Bidder White's proposal. The special committee discussed with Citigroup and CenterPoint Energy the scope of the auction process, the due diligence process, and that GC Power Group had rejected requests to include a termination right to accept a superior proposal or a majority of the minority vote requirement in its proposed transaction agreement.

Table of Contents

After the representatives of Citigroup and CenterPoint Energy departed the meeting, the special committee discussed whether the additional \$25 million proposed by GC Power Group could be allocated 100% to our unaffiliated shareholders. The special committee also discussed the advantages and disadvantages of the GC Power Group proposal and the Bidder White proposal and the closing conditions to each proposal and likely timing of closing. The special committee also discussed that based on several factors, including the tax consequences and the lack of assurance on the contingent \$.75 per share consideration to CenterPoint Energy under Bidder White's proposal, and the expected timing advantages for closing and receipt of most of the consideration under GC Power Group's structure, it believed that CenterPoint Energy would support GC Power Group's proposal in preference to Bidder White's proposal even if the language of the material adverse change closing condition and related terms of Bidder White's proposal were improved to match the corresponding terms in GC Power Group's proposal. Based on these considerations, the special committee determined to seek to increase the price GC Power Group would pay to the shareholders other than CenterPoint Energy, rather than to continue pursuing the Bidder White proposal or any revised bid or counteroffer from Bidder White or Bidder Purple.

The special committee then directed representatives of RBC to contact Citigroup to advise Citigroup that the special committee would be willing to support GC Power Group's proposal if GC Power Group increased the price to the unaffiliated shareholders to \$48.00 per share. The representatives of RBC contacted representatives of Citigroup and CenterPoint Energy and informed them of the special committee's position. Citigroup and CenterPoint Energy indicated that, based on their discussions with GC Power Group, they believed GC Power Group would not pay \$48.00 per share to the unaffiliated shareholders.

The special committee reconvened immediately following RBC's telephone call with Citigroup and CenterPoint Energy to discuss the response, and the special committee directed Mr. Attwell to contact Mr. McClanahan to discuss the special committee's \$48.00 per share proposal.

Mr. Attwell had a telephone call with Mr. McClanahan, during which Mr. McClanahan indicated that CenterPoint Energy would agree to allocate 100% of the additional \$25 million proposed by GC Power Group to the unaffiliated shareholders, which would increase the price to the shareholders other than CenterPoint Energy to \$46.90 per share. Mr. Attwell communicated this counter-proposal to the special committee, and the special committee directed Mr. Attwell to contact Mr. McClanahan and propose that GC Power Group pay a price of \$47.00 per share to the shareholders other than CenterPoint Energy. The special committee then recessed the meeting and Mr. Attwell informed Mr. McClanahan of the \$47.00 per share proposal.

In the early evening of July 16, 2004, Mr. McClanahan called Mr. Attwell and reported that GC Power Group had agreed to pay the unaffiliated shareholders a per share price of \$47.00 in the public company merger (with no termination right to accept a superior proposal and no majority of the minority voting requirement). Mr. McClanahan indicated that this was GC Power Group's final offer and the offer was acceptable to CenterPoint Energy.

The special committee then reconvened during the evening of July 16, 2004, and Mr. Attwell informed the special committee of GC Power Group's final offer. After extensive discussions and after considering all the relevant issues and the advice of RBC as to the fairness of the offer, from a financial point of view, to our unaffiliated shareholders, the special committee unanimously determined to proceed with the GC Power Group's final proposal.

Following the determination by the special committee, on the evening of July 16, 2004, CenterPoint Energy agreed to work in good faith on an exclusive basis with GC Power Group through July 21, 2004. From July 16 through July 20, 2004, the parties negotiated to finalize the various transaction documents. During that period, representatives of Baker Botts had discussions with representatives of Haynes and Boone to update them on the status of the negotiations and Haynes and Boone was furnished with copies of drafts of the transaction agreement.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

On July 20, 2004, the special committee held a meeting with representatives of Haynes and Boone. Mr. Attwell reported to the other members of the special committee that a representative of Bidder White had called him on July 19 to report that Bidder White has essentially completed its due diligence process and that the

Table of Contents

representative did not indicate that Bidder White was willing to raise its bid price. The special committee then discussed with representatives of Haynes and Boone the current draft of the transaction agreement. The special committee discussed with representatives of Haynes and Boone the fact that the transaction agreement did not provide us with a right to terminate the agreement to accept a superior proposal and the special committee concluded that this type of provision is not essential based on the circumstances, including the purchase price of \$47.00 per share, the fact that Citigroup, on behalf of CenterPoint Energy, had conducted an extensive auction process and that CenterPoint Energy had voting control of Texas Genco. The special committee also discussed the timing of the GC Power Group transaction and the expectation that NRC approval would not be required to consummate the public company merger.

The representatives of RBC then joined the special committee meeting and delivered their presentation regarding the fairness, from a financial point of view, of the GC Power Group transaction at a per share price of \$47.00 to our unaffiliated shareholders. RBC also discussed with the special committee our financial projections and the auction process that Citigroup had conducted on behalf of CenterPoint Energy. The special committee discussed with representatives of RBC and Haynes and Boone the forward power sale arrangements included in GC Power Group's proposal and their effect on our unaffiliated shareholders if the non-nuclear asset acquisition or the nuclear asset acquisition did not close. Under GC Power Group's proposal, we would enter into a master power purchase and sale agreement with a member of the Goldman Sachs group simultaneously with the execution of a definitive transaction agreement with GC Power Group. Under the master power purchase and sale agreement, we would sell forward a substantial portion of our base-load generating capacity through 2008 on a firm, fixed price basis. Our obligations under this agreement would continue regardless of whether the public company merger, non-nuclear asset acquisition or nuclear asset acquisition closes. For additional information regarding this agreement, please read "Other Agreements - Power Purchase and Sale Agreement."

RBC then presented to the special committee its oral opinion, which was subsequently confirmed in writing on July 21, 2004, that the per share consideration to be received in the public company merger by our shareholders, other than CenterPoint Energy, was fair, from a financial point of view, to such shareholders. The special committee considered all the issues presented to it, including the advantages and disadvantages of GC Power Group's proposal as compared to Bidder White's proposal, and determined by unanimous vote to recommend the GC Power Group transaction to our board of directors as being fair to, advisable and in the best interest of our unaffiliated shareholders, subject to satisfactory completion of final documents and the special committee's receipt of the executed fairness opinion from RBC, both of which occurred on July 21, 2004.

On July 20, 2004, a special meeting of CenterPoint Energy's board of directors was held by telephone conference call to consider the proposed transaction with GC Power Group. At the meeting, presentations were made by CenterPoint Energy management and representatives of Citigroup and Baker Botts regarding the terms of the proposed transaction and related matters. The CenterPoint Energy board reviewed and discussed the terms of the proposed transaction and management's assessment of the transaction from financial, strategic, operating and regulatory standpoints. Representatives of Citigroup indicated that Citigroup was in a position to deliver an opinion to the CenterPoint Energy board of directors to the effect that, based on and subject to the considerations and limitations to be set forth in their written opinion, the aggregate consideration to be received by CenterPoint Energy in the non-nuclear asset acquisition and the nuclear asset acquisition as contemplated by the transaction agreement was fair, from a financial point of view, to CenterPoint Energy. After further discussions and noting that the special committee had unanimously recommended that we enter into the transaction agreement and the transactions it contemplates, CenterPoint Energy's board of directors voted unanimously to approve the transaction agreement and the transactions it contemplates.

On July 20, 2004, a special meeting of our board of directors was held to consider the proposed transaction with GC Power Group and discuss the determinations of the special committee. Mr. Attwell provided a report on behalf of the special committee outlining the steps the special committee had taken and the proposals by Bidder White and Bidder Purple. Mr. Attwell noted that RBC was prepared to issue a fairness opinion regarding the GC Power Group transaction. He then discussed key provisions of the opinion, including its conclusion that, at a

Table of Contents

price of \$47.00 per share, the proposed public company merger was fair, from a financial point of view, to our unaffiliated shareholders. Mr. McClanahan then discussed the determination by CenterPoint Energy that the GC Power Group transaction was superior to the other bidder proposals both as to CenterPoint Energy and our unaffiliated shareholders. Haynes and Boone then discussed, at Mr. Attwell's request, whether a proposal should be made to GC Power Group that the transaction agreement be revised to provide that if the public company merger closing fell within 15 days before the record date for the payment of a regular dividend, the record date for the dividend would be accelerated and the dividend paid. Representatives of CenterPoint Energy responded that they did not expect that proposal would be agreeable to GC Power Group, noting that the agreed increase in purchase price and allocation of the entire increase to our unaffiliated shareholders had been GC Power Group's final offer and that the proposal would effectively represent a request for payment of additional purchase price. Following a separate discussion by the special committee and Haynes and Boone, during which the other members of our board of directors temporarily left the meeting (other than Ms. Hemingway Hall, who was participating in the meeting by telephone), which led the special committee to withdraw the request for the accelerated dividend, Mr. Attwell stated that the special committee had decided by unanimous vote to recommend the GC Power Group transaction as being fair to, advisable and in the best interest of our unaffiliated shareholders, subject to satisfactory completion of final documents and the special committee's receipt of the executed fairness opinion from RBC, both of which occurred on July 21, 2004. Our board of directors then voted unanimously to approve the transaction agreement and the transactions it contemplates.

On the morning of July 21, 2004, the transaction agreement and related documents were finalized, and shortly thereafter, RBC delivered its written fairness opinion to the special committee and our board of directors, and Citigroup delivered its fairness opinion to the board of directors of CenterPoint Energy. The transaction agreement, the power purchase agreement described under "Other Agreements - Power Purchase and Sale Agreement" and related documents were executed, and a press release announcing the transaction was issued later that morning.

Position of Our Special Committee and Board of Directors as to the Fairness of the Public Company Merger

Determination by the Special Committee

At a meeting of the special committee held on July 20, 2004, the special committee determined by unanimous vote that the transaction agreement with GC Power Acquisition and the transactions contemplated thereby, including the public company merger, are fair to, advisable and in the best interests of Texas Genco and our unaffiliated shareholders, and resolved to recommend to our board of directors that the transaction agreement and the transactions contemplated thereby, including the public company merger, be approved by our board of directors, subject to satisfactory completion of the transaction agreement and the special committee's receipt of the executed fairness opinion from RBC, each of which occurred on July 21, 2004.

In making its determination and recommendation, the special committee considered the following material factors, each of which it generally considered to weigh in favor of the substantive fairness of the public company merger to our unaffiliated shareholders:

The auction process described under "Background of the Transactions" was thorough and inclusive. The auction process provided an extensive market check in which a broad range of over 100 potential strategic and financial buyers were contacted, and no restrictions were placed on the parties contacted or upon the structure or type of transaction that could be considered, other than CenterPoint Energy's expressed preference for a cash transaction. In addition, during the auction process extensive due diligence information regarding our business, operations and financial condition was provided to potential buyers in an effort to elicit the most favorable bids.

The presentation of and opinion delivered by RBC that, as of July 21, 2004, the public company merger consideration to be received by our shareholders (other than CenterPoint Energy) was fair, from a financial point of view, to such holders. A summary of RBC's

presentation and material analyses is

Table of Contents

described under Fairness Opinion of RBC Capital Markets Corporation and a copy of the written opinion of RBC dated July 21, 2004 is included as Appendix C to this information statement.

The fact that our unaffiliated shareholders are entitled to receive \$47.00 per share in the public company merger while CenterPoint Energy is only entitled to receive the equivalent of approximately \$45.25 per share for its 81% interest in us (consisting of approximately \$34.44 per share to be paid upon the closing of the non-nuclear asset acquisition and approximately \$10.81 per share to be paid at a later date upon the closing of the nuclear asset acquisition).

The relationship between the \$47.00 price per share to be paid to our unaffiliated shareholders in the public company merger and the recent and historical market price of our common stock. The special committee deliberated over the \$47.00 per share public company merger consideration to our unaffiliated shareholders as compared to the recent market price of our common stock. In RBC's presentation to the special committee, RBC noted that the current price of our common stock had increased approximately 426.3% from the commencement of public trading in our common stock on December 18, 2002 through July 16, 2004, while selected comparable companies as a whole appreciated 68.3%, the S&P 500 Index appreciated 23.6% and the S&P Electric Utilities Index appreciated 25.3% during such period. RBC's presentation also provided the average closing market price for our common stock over the preceding 30-day, 60-day, 90-day and one-year periods, which were \$44.09, \$41.14, \$39.29 and \$32.31, respectively. The closing market price for our common stock on July 20, 2004, the last day prior to the public announcement of the transactions contemplated by the transaction agreement, was \$46.48 per share.

The fact that natural gas prices at the time the transaction was being considered were at historically high levels, which increased electricity prices paid to all generating companies in our markets, including companies like us that use fuels other than natural gas, and thus caused our profitability to increase during the period the transaction was being considered.

The fact that the public company merger consideration is all cash, which provides certainty of value to our shareholders.

The fact that in the final stages of the negotiations CenterPoint Energy agreed to the allocation of all of the approximately \$26.6 million aggregate increase in purchase price agreed to by GC Power Group to our unaffiliated shareholders.

The consummation of the public company merger and the payment of the public company merger consideration to our unaffiliated shareholders is not expected to require NRC or PUC approval, which means that payment to our unaffiliated shareholders would likely occur several months earlier as compared to the transaction proposed by Bidder White.

The GC Power Group proposal provided greater likelihood of payment to our unaffiliated shareholders as compared to the Bidder White proposal, because there were fewer and less stringent conditions to the closing of the public company merger. In analyzing the likelihood of closing, the special committee noted in particular the following:

The limited scope of the material adverse effect condition to closing, because GC Power Group agreed to include certain exceptions in the definition of material adverse effect in the transaction agreement (thus making it more difficult for GC Power Group to assert that a material adverse effect has occurred).

The fact that consummation of the public company merger is not expected to require NRC or PUC approval.

The fact that the transaction proposed by Bidder White was conditioned on the sale of our interest in the South Texas Project to a third party buyer, and, as a result, a potential material adverse event relating to our interest in the South Texas Project would be more likely to prevent the closing of the proposed Bidder White transaction than the closing of the public company merger, since the transaction agreement does not contemplate the sale of our interest in the South Texas Project to a third party buyer.

Table of Contents

GC Power Group's commitment in the transaction agreement to take all steps necessary to avoid or eliminate each and every impediment under the HSR Act.

The nature of the financing commitments received by GC Power Group with respect to the proposed transactions, including the identity of the institutions providing such commitments, the limited conditions to the obligations of such institutions to fund such commitments, and the duration of such commitments.

The transaction had the strong support of CenterPoint Energy, which beneficially owns approximately 81% of our outstanding voting stock.

Our shareholders who do not support the public company merger have the ability to obtain fair value for their shares if they validly perfect and exercise their dissenters' rights under Texas law. Please read Dissenters' Appraisal Rights for information on how to exercise your dissenters' rights.

Under the terms of the transaction agreement, before the effective time of the public company merger, the special committee must either concur in or direct the action by us to terminate or amend the transaction agreement or waive any condition to our obligation to close the public company merger or the non-nuclear asset acquisition.

The special committee also considered the following factors, each of which it generally viewed as weighing against the substantive fairness of the public company merger to our unaffiliated shareholders, but ultimately determined that the material factors discussed above outweighed these factors:

Our unaffiliated shareholders will not receive our anticipated quarterly December dividend if the related record date is scheduled to occur after the consummation of the public company merger.

The possible conflicts of interest of CenterPoint Energy and its affiliates. Please read Interests of CenterPoint Energy, Directors and Executive Officers, for a description of these possible conflicts of interest. The special committee considered in this regard that its composition, consisting of members of our board of directors with no financial interest in the public company merger that is different from the interests of our unaffiliated shareholders, permitted it to represent effectively the interests of our unaffiliated shareholders.

The possibility of disruption to our operations following the announcement of the public company merger, and the resulting effect on us, including the market price of our common stock, if the public company merger does not close.

The fact that we will cease to be a public company and our current shareholders will no longer participate in any of the potential growth, or be exposed to any of the potential risks, associated with our business.

In addition, the special committee acknowledged that CenterPoint Energy's direct wholly owned subsidiary, Utility Holding, as the holder of approximately 81% of our outstanding voting stock, would execute a written consent irrevocably approving the public company merger, the non-nuclear asset acquisition and the nuclear asset acquisition at the time of execution of the transaction agreement and, consequently, our board of directors may not consider any other offers for a sale of our assets or common stock, including through a merger, reorganization, tender offer, share exchange, exchange offer or similar transaction. The special committee also considered that GC Power Group had refused to condition the public company merger upon the approval of at least a majority of our unaffiliated shareholders, despite requests for such a condition by representatives of the special committee. The special committee also considered that no unaffiliated representative had been retained to act solely on behalf of our unaffiliated shareholders, but rather that the special committee had been formed to represent our unaffiliated shareholders. After considering all of the facts and circumstances, the special committee ultimately determined that the public company merger was procedurally fair to our unaffiliated shareholders for the reasons discussed above, including the thorough and inclusive auction process, and

the approval of the transactions by the special committee composed of disinterested directors, which acted to consider the interests of our unaffiliated shareholders and had the authority to reject any transaction.

The special committee also considered the fact that if the public company merger does not occur, we will still be subject to the hedging arrangements that were executed simultaneously with the transaction agreement, as described under Other Agreements Power Purchase and Sale Agreement.

Table of Contents

Determination by Our Board of Directors

At the meeting of our board of directors on July 20, 2004, following the special committee's unanimous recommendation, our board of directors unanimously:

determined that the transaction agreement and the transactions contemplated by the transaction agreement, including the public company merger, are in the best interests of our company and our shareholders; and

approved the transaction agreement and the transactions contemplated by the transaction agreement, including the public company merger.

Our board of directors believes that the public company merger is substantively fair to our unaffiliated shareholders. In making this determination, our board of directors considered the determination and recommendation of the special committee and the opinion delivered to the special committee and our board of directors by RBC that, as of July 21, 2004, the public company merger consideration to be received by our shareholders (other than CenterPoint Energy) was fair, from a financial point of view, to such holders. A copy of the written opinion of RBC dated July 21, 2004 is included as Appendix C to this information statement. In addition, each of Messrs. McClanahan, Whitlock and Rozzell, to whom we collectively refer to as the CenterPoint Energy representatives, considered the factors described under Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger in their capacity as officers and/or directors of CenterPoint Energy in connection with the CenterPoint Energy Entities' consideration of the fairness of the public company merger to our unaffiliated shareholders.

Our board of directors believes that the public company merger is procedurally fair to our unaffiliated shareholders. In making its determination, our board of directors considered the following material factors, each of which it generally considered to weigh in favor of the procedural fairness of the public company merger to our unaffiliated shareholders:

CenterPoint Energy's public statements since before the January 2003 distribution of approximately 19% of our outstanding common stock to CenterPoint Energy's shareholders that it intended to exit the generation sector of the electric power industry and to monetize its interest in us, with the result that the securities markets had been aware of CenterPoint Energy's intent since prior to the commencement of trading in our common stock.

The auction process described under Background of the Transactions was thorough and inclusive. The auction process provided an extensive market check in which a broad range of over 100 potential strategic and financial buyers were contacted, and no restrictions were placed on the parties contacted or upon the structure or type of transaction that could be considered, other than CenterPoint Energy's expressed preference for a cash transaction. In addition, during the auction process extensive due diligence information regarding our business, operations and financial condition was provided to potential buyers in an effort to elicit the most favorable bids.

The active participation of our directors, officers and senior management in the process leading up to the execution of the transaction agreement on July 21, 2004, which included preparing a confidential information memorandum that was distributed to potential bidders, participating in management and due diligence meetings with prospective bidders, and analyzing bids and transaction structures proposed by prospective bidders and related regulatory requirements.

The procedures and processes followed by our board of directors and the special committee in conducting the transaction, including the following:

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

The special committee, comprised of three independent members of our board of directors, was formed to represent our shareholders, other than CenterPoint Energy, in connection with (a) any proposal to acquire 100% of our outstanding common stock, including the 19% owned by our unaffiliated shareholders, (b) any determination of whether we should incur additional debt in connection with a purchase of all or a portion of our common stock, and (c) other related issues.

Table of Contents

The special committee was authorized to and did engage its own legal counsel and financial advisors to assist with its representation of our unaffiliated shareholders.

The special committee received advice from its own financial and legal advisors during the process.

The transaction proposed by GC Power Group was presented to the special committee for its consideration, and the special committee possessed all power necessary for it to review and evaluate the proposed transaction, consult with its own financial and legal advisors, and determine whether or not to recommend approval of the proposal or any other proposal to our full board of directors.

The fact that the special committee received the presentation of and the opinion delivered by RBC that, as of July 21, 2004, the public company merger consideration to be received by our shareholders (other than CenterPoint Energy) was fair, from a financial point of view, to such holders.

The fact that the special committee unanimously determined that the transaction agreement and the transactions contemplated thereby, including the public company merger, were fair to, advisable and in the best interests of Texas Genco and our shareholders, other than CenterPoint Energy.

The fact that the public company merger consideration and the other terms and conditions of the transaction agreement resulted from active and extensive arm's-length negotiations between the GC Power Group and its advisors, on the one hand, and each of CenterPoint Energy, the special committee and their respective advisors, on the other hand.

Under the terms of the transaction agreement, before the effective time of the public company merger, the special committee must either concur in or direct the action by us to terminate or amend the transaction agreement or waive any condition to our obligation to close the public company merger or the non-nuclear asset acquisition.

Our shareholders who do not support the public company merger have the ability to obtain fair value for their shares if they validly perfect and exercise their dissenters' rights under Texas law. Please read Dissenters' Appraisal Rights for information on how to exercise your dissenters' rights.

In addition, our board of directors acknowledged that CenterPoint Energy's direct wholly owned subsidiary, Utility Holding, as the holder of approximately 81% of our outstanding voting stock, would execute a written consent irrevocably approving the public company merger, the non-nuclear asset acquisition and the nuclear asset acquisition at the time of execution of the transaction agreement and, consequently, our board of directors may not consider any other offers for a sale of our assets or common stock, including through a merger, reorganization, tender offer, share exchange, exchange offer or similar transaction. Our board of directors also considered that GC Power Group had refused to condition the public company merger upon the approval of at least a majority of our unaffiliated shareholders, despite requests for such a condition by representatives of the special committee. Our board of directors also considered the fact that no unaffiliated representative had been retained to act solely on behalf of our unaffiliated shareholders, but rather that the special committee had been formed to represent our unaffiliated shareholders. After considering all of the facts and circumstances, our board of directors ultimately determined that the public company merger was procedurally fair to our unaffiliated shareholders for the reasons discussed above.

Other Considerations of the Special Committee and Our Board of Directors

The special committee and our board of directors did not analyze the fairness of the public company merger consideration in isolation from the considerations referred to above. The special committee and our board of directors did not attempt to distinguish between factors that support a

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

determination that the public company merger is fair and factors that support a determination that the public company merger is in the best interests of our shareholders.

The special committee and our board of directors considered the current and historical trading prices of our common stock and the range of purchase prices offered by unaffiliated third-party bidders in the auction process

Table of Contents

as relevant in providing an indication of our going concern value. The members of the special committee also considered the various valuation methodologies and financial analyses performed by RBC that were presented to the special committee, including our historical stock price performance, comparable companies analysis, comparable asset acquisitions analysis and discounted cash flow analysis, as part of their consideration of our going concern value, and relied upon and adopted RBC's analysis. In addition, each of the CenterPoint Energy representatives also considered, relied upon and adopted the various valuation methodologies and financial analyses performed by Citigroup that were presented to the CenterPoint Energy board of directors in connection with the delivery of Citigroup's written opinion, dated July 21, 2004, to CenterPoint Energy (although the Citigroup opinion did not address the consideration to be received by our unaffiliated shareholders in the public company merger).

In consideration of the fairness of the public company merger to our unaffiliated shareholders, the special committee and our board of directors do not believe that our net book value was material or relevant to a determination of the fairness of the public company merger. The special committee and our board of directors do not believe that our net book value was material to their conclusions regarding the fairness of the transaction agreement and the transactions contemplated thereby, including the public company merger, because in their view our book value does not accurately reflect our value. Specifically, the special committee and our board of directors believes that our book value per share (\$39.18 as of June 30, 2004, which is substantially below the \$47.00 per share transaction price to our unaffiliated shareholders) is not indicative of our market value because book value is purely historical in nature and not forward-looking. In addition, although book value may be a relevant indicator of value with respect to certain regulated utilities, we currently sell generation capacity, power and ancillary services to wholesale purchasers at market based rates, and therefore we do not earn regulated returns on the basis of our costs or the book value of our assets. Accordingly, the special committee and our board of directors focused primarily on current period measurements of our operational and financial performance in determining the substantive fairness of the proposed transaction.

Likewise, the special committee and our board of directors did not consider our liquidation value material or relevant in determining the substantive fairness of the proposed transactions. Our special committee and board of directors consider our business to be a viable going concern, view the market price of our common stock as an indication of our value as a going concern, and do not consider our liquidation value as a relevant valuation methodology. The special committee and our board of directors believe that, as a viable going concern, our liquidation value would be significantly lower than our valuation as a going concern and would therefore not provide a useful valuation methodology in determining the substantive fairness of the proposed transactions. Therefore, the special committee and our board of directors have not conducted an appraisal of our assets to determine our liquidation value. In addition, because neither we nor any of the CenterPoint Energy Entities have purchased any of our common stock during the past two years, there were no such transactions for the special committee or our board of directors to consider in determining the substantive fairness of the proposed transactions.

The preceding discussion of the factors considered by the special committee and our board of directors is not intended to be exhaustive but does set forth the material factors the special committee and our board of directors considered. The special committee and our board of directors reached their conclusions regarding the fairness of the transaction agreement and the public company merger in light of the various factors described above that each member of the special committee and our board of directors believed were appropriate. In view of the wide variety of factors considered in connection with the evaluation of the public company merger and the complexity of these matters, the special committee and our board of directors found it impracticable, and did not attempt, to quantify, rank or otherwise assign relative weights to each of the specific factors they considered or determine that any factor was of particular importance in reaching their determinations that the transaction agreement and the public company merger, are in the best interests of the company and our unaffiliated shareholders. Rather, the special committee and our board of directors viewed their determinations as being based on the judgment of their respective members, in light of the totality of the information presented and considered, including the knowledge of such members of our business, financial condition and prospects and the advice of financial and legal advisors, except that, for the reasons noted above, our board of directors gave

Table of Contents

substantial weight to the determinations and recommendation of the special committee. In considering the factors discussed above, individual directors may have given different weights to different factors.

Fairness Opinion of RBC Capital Markets Corporation

To assist the special committee with the evaluation of the public company merger and public company merger consideration, RBC was retained to render an opinion as to the fairness, from a financial point of view, of the public company merger consideration to be received by the holders of our common stock (other than CenterPoint Energy).

RBC was not engaged to, nor did it, evaluate our underlying business decision to enter into the transaction agreement, evaluate alternative transaction structures or other financial or strategic alternatives or solicit third party indications of interest with regard to our assets or common stock or otherwise participate in the transaction process. RBC was not asked to pass upon, and expressed no opinion with respect to any matters other than the fairness, from a financial point of view, of the public company merger consideration to be received by the holders of our common stock (other than CenterPoint Energy) pursuant to the transaction agreement.

On July 20, 2004, RBC delivered its oral opinion, which was subsequently confirmed in writing on July 21, 2004, to the special committee and our board of directors that, as of that date, and subject to the various assumptions, qualifications and limitations set forth therein, the public company merger consideration to be received by the holders of our common stock (other than CenterPoint Energy) was fair, from a financial point of view, to such holders.

RBC, as part of its investment banking services, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, corporate restructurings, underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for corporate and other purposes.

The full text of RBC's written opinion is attached as Appendix C to this information statement and sets forth the assumptions made, general procedures followed, matters considered and limits on the review undertaken. RBC's opinion is directed only to whether the public company merger consideration to be received by the holders of our common stock (other than CenterPoint Energy) is fair, from a financial point of view, to such holders. The summary of RBC's written opinion below is qualified in its entirety by reference to the full text of the opinion. You are urged to read the opinion carefully and in its entirety.

In reading the discussion of the fairness opinion set forth below, you should be aware that:

RBC provided its opinion for the information and assistance of the special committee and our board of directors in connection with the public company merger;

RBC does not express any opinion or make any recommendation to our shareholders as to how to vote with respect to the public company merger.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

In connection with rendering its opinion, RBC, among other things:

reviewed the financial terms of the draft transaction agreement received by RBC on July 20, 2004 without disclosure schedules or exhibits;

reviewed and analyzed certain publicly available financial and other data with respect to us and certain other relevant historical operating data relating to us made available to RBC from published sources and from our internal records;

conducted discussions with members of our management with respect to our business prospects and financial outlook;

received and reviewed financial forecasts prepared by our management in July 2004 as described under [Our Financial Projections](#) ;

Table of Contents

reviewed the reported prices and historical trading activity for our common stock; and

performed other studies and analyses as RBC deemed appropriate.

In arriving at its opinion, in addition to reviewing the matters listed above, RBC performed the following analyses:

compared selected market valuation metrics of our company and other selected comparable publicly-traded companies with the metrics implied by the public company merger;

compared selected financial metrics, to the extent publicly available, of selected comparable asset acquisitions with the public company merger; and

prepared a discounted cash flow analysis using the financial forecasts prepared by our management.

For the purposes of its analysis and opinion, RBC assumed and relied upon, without assuming any responsibility for independent verification of, the accuracy and completeness of the financial, legal, tax, operating and other information provided to RBC by us, and the information supplied or otherwise made available to, discussed with, or reviewed by or for RBC (including, without limitation, our financial statements and the related notes thereto), and did not independently verify such information. With respect to the transaction process conducted on our behalf, RBC assumed and relied upon, without assuming any responsibility for independent verification of, the accuracy and completeness of the information supplied, summarized or otherwise made available to, discussed with, or reviewed by or for RBC, including as to the completeness of the process.

For purposes of rendering its opinion, RBC, with the consent of the special committee, assumed in all respects material to RBC's analysis, that the representations and warranties of each party contained in the transaction agreement are true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the transaction agreement, and that all conditions to the consummation of the public company merger will be satisfied without waiver thereof.

RBC did not assume any responsibility to perform, and did not perform, an independent evaluation or appraisal of any of our assets or liabilities, nor was RBC furnished with any such valuations or appraisals. RBC did not assume any obligation to conduct, and did not conduct, any physical inspection of our properties or facilities. Additionally, RBC was not asked to and did not consider the possible effects of any litigation or other legal claims. RBC's opinion relates to us as a going concern and, accordingly, does not express an opinion regarding our liquidation value. RBC's opinion is necessarily based on market, economic, financial, legal and other conditions as in effect on, and the information and transaction agreement made available to RBC as of, July 20, 2004. It should be understood that, although subsequent developments may affect RBC's opinion, RBC has not updated, revised or reaffirmed its opinion and does not have any obligation to do so.

RBC's analyses were based on, among other things, the updated financial projections prepared by our management in July 2004, which we discuss below in Our Financial Projections. RBC assumed that the financial projections were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of our future financial performance and that we will perform substantially in accordance with such forecast. RBC expressed no opinion as to any aspect of these financial projections.

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

In receiving RBC's oral fairness opinion on July 20, 2004, and reviewing with RBC the written materials prepared by RBC in support of its opinion (a copy of which has been filed with the SEC, as an exhibit to the Schedule 13E-3 of which this information statement forms a part), the special committee was aware of and consented to the assumptions and other matters discussed above.

Summary of Analyses

The following is a brief summary of the material analyses performed by RBC and presented to the special committee in connection with rendering its fairness opinion. This summary is qualified in its entirety by

Table of Contents

reference to the full text of RBC's opinion, which is attached as Appendix C to this information statement. **You are urged to read the full text of the RBC opinion carefully and in its entirety for the assumptions made, procedures followed, other matters considered and limits of the review by RBC.**

RBC considered a number of analyses in assessing the fairness of the public company merger consideration, from a financial point of view, to our common shareholders (other than CenterPoint Energy). These analyses included:

an analysis of selected market valuation metrics of selected comparable publicly traded companies;

an analysis of selected financial metrics of selected comparable asset acquisitions; and

a discounted cash flow analysis, using the financial projections prepared by our management in July 2004, as described under Our Financial Projections.

Some of the financial analyses summarized below include summary data and information presented in tabular format. In order to understand fully the financial analyses, the summary data and tables must be read together with the full text of the analyses. Considering the summary data and tables alone could create a misleading or incomplete view of RBC's financial analyses.

Historical Common Stock Performance. RBC conducted a historical analysis of the closing price of our common stock based on closing prices on the New York Stock Exchange and also examined prices of a peer group of publicly-traded companies (this peer group of companies is listed below under Comparable Company Analysis).

RBC noted that in the period from the commencement of public trading in our common stock on December 18, 2002 until July 16, 2004, our average closing stock price was \$27.02 and our average daily trading volume was 115,003 shares.

RBC noted that for the year ending July 16, 2004, our average closing stock price was \$32.31 and our average daily trading volume was 91,790 shares.

RBC noted that for the ninety days ending July 16, 2004, our average closing stock price was \$39.29 and our average daily trading volume was 81,533 shares.

RBC noted that for the sixty days ending July 16, 2004, our average closing stock price was \$41.14 and our average daily trading volume was 97,392 shares.

RBC noted that for the thirty days ending July 16, 2004, our average closing stock price was \$44.09 and our average daily trading volume was 110,481 shares.

RBC also pointed out that in the period from the commencement of public trading in our common stock on December 18, 2002 until July 16, 2004, our common stock outperformed the comparable companies analyzed in RBC's Comparable Company Analysis as well as the S&P 500 Index and the S&P Electric Utilities Index. Specifically, our common stock appreciated 426.3% over this period, while the comparable companies as a whole appreciated 68.3%, the S&P 500 Index appreciated 23.6% and the S&P Electric Utilities Index appreciated 25.3%.

Comparable Company Analysis. RBC analyzed selected historical and projected operating information provided by our management, stock price performance data, and our valuation multiples, and compared this data to that of selected publicly traded companies, comprised of the Generation, Texas-Based Utilities, and Regulated with Generation companies, listed below. RBC used historical financial information and the projections for these companies derived from publicly available financial information, and, where available, these projections were adjusted to reflect a calendar year end. For us, RBC used the financial projections prepared by management in

Table of Contents

July 2004 as described under Our Financial Projections . In conducting its analysis, RBC considered selected trading multiples of the following companies:

Generation

The AES Corporation

Calpine Corporation

Dynegy Inc.

NRG Energy, Inc.

Reliant Energy, Inc.

Texas-Based Utilities

American Electric Power Company, Inc.

CenterPoint Energy, Inc.

Entergy Corporation

TXU Corp.

Regulated with Generation

Allegheny Energy, Inc.

Constellation Energy Group Inc.

Edison International

FPL Group, Inc.

PPL Corporation

To select the foregoing companies, RBC considered all publicly traded companies that operate in the electrical generation/supply business within the United States. Of those companies, RBC considered companies that belonged to the Generation, Texas-Based Utilities or Regulated with Generation categories because companies in such categories often have characteristics that are similar to ours.

The Generation group is comprised of independent power companies that operate power plants in the United States that are not part of a regulated utility rate base. There are a very limited number of companies that belong to this category. Of such companies, RBC selected those with a primary focus in power generation. RBC did not include companies in this category that had power generation only as a smaller portion of their business.

The members of the Texas-Based Utilities group were chosen because they operate in the same political environment and electrical market, and utilize the same transmission and distribution system as us. RBC noted, however, that these companies are regulated utilities, which is significantly different from our unregulated operating environment.

RBC considered utilities in the Regulated with Generation group because, like Texas Genco, they are participants in the competitive power generation market in the United States. From this category, RBC selected those companies that, like Texas Genco, have significant non-regulated generation assets or that have nuclear plants in their portfolio.

RBC noted to the Special Committee that none of the companies in any of the foregoing categories was directly comparable to Texas Genco but that the selected companies did provide a frame of reference for purposes of RBC's analysis.

Table of Contents

RBC reviewed, among other things, the comparable companies multiples of enterprise value to earnings before interest, taxes, depreciation and amortization, or EBITDA, and price to earnings for the last twelve months, or LTM, as well as calendar year, or CY, 2004 estimated and 2005 estimated. RBC calculated a range of implied valuations for our common stock using the minimum, mean, median and maximum comparable company multiples and the financial projections prepared by our management in July 2004. The following table summarizes the analysis:

	Implied Equity Value per Share			
	Min.	Mean	Median	Max.
Comparable Company Analysis Multiple				
<i>Enterprise Value / EBITDA</i>				
LTM	\$ 43.59	\$ 62.13	\$ 60.71	\$ 95.03
2004E	\$ 59.92	\$ 69.14	\$ 64.79	\$ 83.44
2005E	\$ 63.45	\$ 72.94	\$ 73.30	\$ 83.84
<i>Price / Earnings</i>				
LTM	\$ 29.10	\$ 37.89	\$ 39.29	\$ 43.90
2004E	\$ 54.93	\$ 58.06	\$ 56.84	\$ 63.62
2005E	\$ 52.84	\$ 62.76	\$ 60.67	\$ 76.06

In its analysis, RBC noted that many of the implied equity values per share resulting from the comparable company analysis, particularly those at the high or low end of the range of implied values, were derived from companies that were not substantially comparable to us because of, among other factors, leverage, sensitivity to power prices, differentiation in fuel mix, relative position in principal regulated markets, geographic and product diversification, and operating history, all of which may have impacted cash flow and earnings volatility. The impact of such volatility may affect the relationship between the stock prices for these companies and their earnings and cash flows, resulting in multiples that may not be indicative of the values of such companies, which would have impaired meaningful comparison. Accordingly, a complete analysis of the results of the foregoing calculations cannot be limited to a quantitative review of such results and involves complex considerations and judgments regarding differences in financial and operating characteristics of the comparable companies and other factors that could affect our public valuation and that of the comparable companies.

Comparable Asset Acquisitions Analysis. RBC reviewed and analyzed selected comparable asset acquisition transactions based on recent acquisitions of power generation assets fueled by gas, coal, nuclear fuel or a combination thereof (portfolio). The acquisitions selected in the RBC analysis were (listed by Acquiror/Target/Seller):

Portfolio

Carlyle, Riverstone Global Energy & Power Fund, Sempra Energy Partners/10 Power Plants/American Electric Power Co.

PSEG Fossil LLC/Bridgeport & New Haven Power Plants/Wisconsin Energy Corp.

Coal

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

Brownsville Public Utilities Board/7.8% Interest in Oklaunion Power Station/American Electric Power Co.

UGI Corp./4.9% Interest in Conemaugh Generating Station/Allegheny Energy Inc.

Red Hawk Energy LLC/39.5% Interest in Mt. Poso Cogeneration Facility/NRG Energy Inc.

Sempra Energy/Bremond Plant/Texas-New Mexico Power Co.

Dominion Resources Inc./State Line Power Plant/Mirant Corp.

Gas

KGen Partners LLC/Gas-Fired Power Plants/Duke Energy Corp.

Centrica Plc/Bastrop Energy Partners L.P./FPL Energy LLC

Entergy Corp./Perryville Power Plant/Perryville Energy Partners LLC

Table of Contents**Nuclear**

Cameco South Texas Project LP/25.2% Interest in STP/American Electric Power Co.

Constellation Energy Group Inc./R.E. Ginna Nuclear Power Plant/Energy East Corp.

Dominion Resources Inc./Kewaunee Power Plant/WPS Resources Corp. (59%), Alliant Energy Corp. (41%)

Exelon Corp./50.0% Interest in AmerGen Energy Co. LLC/British Energy Plc

FPL Group Inc./88.2% Interest in Seabrook Nuclear Generating Station/Consortium

Entergy Corp./Vermont Yankee Nuclear Plant/Vermont Yankee Nuclear Power Corp.

RBC reviewed, among other things, the comparable acquisitions financial metric of U.S. dollar per kilowatt implied by the enterprise values and net generating capacity of the assets acquired. RBC calculated a range of implied valuations for our common stock using the minimum, mean, median and maximum comparable acquisitions financial metric of U.S. dollar per kilowatt and our net generating capacity as of March 31, 2004, made available to RBC from published sources. The following table summarizes the analysis:

	Implied Equity Value per Share			
	Min.	Mean	Median	Max.
Fuel Type				
Coal	\$ 17.96	\$ 27.10	\$ 25.99	\$ 40.24
Gas	\$ 7.04	\$ 15.53	\$ 18.67	\$ 20.88
Nuclear	\$ 2.13	\$ 4.75	\$ 4.16	\$ 7.80
Implied Total by Fuel Type	\$ 27.13	\$ 47.38	\$ 48.82	\$ 68.92
Portfolio	\$ 30.07	\$ 30.39	\$ 30.39	\$ 30.71

Discounted Cash Flow Analysis. RBC performed a discounted cash flow analysis in which it analyzed the present (as of June 30, 2004) value of our projected after-tax cash flows through December 31, 2008, which were based on the updated financial projections prepared by our management in July 2004 as described under Our Financial Projections, at a range of discount rates and terminal EBITDA multiples. In performing this analysis, RBC:

defined unlevered free cash flows as EBITDA less cash taxes on earnings before interest and taxes, or EBIT, capital expenditures and changes in working capital;

Edgar Filing: TEXAS GENCO HOLDINGS INC - Form PRER14C

based projected unlevered free cash flows on the financial projections prepared by our management in July 2004;

calculated terminal values by applying a terminal EBITDA multiple to our projected 2008 EBITDA; and

determined a range of appropriate weighted average costs of capital or discount rates.

Table of Contents

In making these calculations, RBC applied a range of terminal EBITDA multiples from 6.0x to 8.5x and a range of discount rates from 8.0% to 15.0%. This analysis yielded the following per share equity values for our common stock:

Weighted Average Cost of Capital	Equity Value per Share					
	Terminal EBITDA Multiple					
	6.0x	6.5x	7.0x	7.5x	8.0x	8.5x
8.0%	\$ 50.38	\$ 53.28	\$ 56.17	\$ 59.07	\$ 61.96	\$ 64.86
9.0%	\$ 48.80	\$ 51.59	\$ 54.38	\$ 57.17	\$ 59.96	\$ 62.75
10.0%	\$ 47.29	\$ 49.98	\$ 52.67	\$ 55.36	\$ 58.05	\$ 60.74
11.0%	\$ 45.84	\$ 48.43	\$ 51.02	\$ 53.62	\$ 56.21	\$ 58.81
12.0%	\$ 44.45	\$ 46.95	\$ 49.45	\$ 51.96	\$ 54.46	\$ 56.96
13.0%	\$ 43.12	\$ 45.53	\$ 47.95	\$ 50.36	\$ 52.78	\$ 55.19
14.0%	\$ 41.84	\$ 44.17	\$ 46.50	\$ 48.84	\$ 51.17	\$ 53.50
15.0%	\$ 40.62	\$ 42.87	\$ 45.12	\$ 47.37	\$ 49.62	\$ 51.88

While discounted cash flow analysis is a widely used valuation methodology, it necessarily relies on numerous assumptions, including projected financial information, terminal values and discount rates. Thus, it is not necessarily indicative of our actual, present or future value or results, which may be significantly more or less favorable than suggested by such analysis.

The merger and acquisition transaction environment varies over time because of macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. RBC noted that no company or transaction reviewed was identical to the proposed transactions and that, accordingly, these analyses involve complex considerations and judgments concerning differences in financial and operating characteristics and other factors that may have affected the values in the comparable companies and transactions.

The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analysis or the summary set forth above, without considering the analysis as a whole, could create an incomplete view of the processes underlying the opinion of RBC. In arriving at its fairness determination, RBC considered the results of all these constituent analyses and did not attribute any particular weight to any particular factor or analysis considered by it; rather, RBC made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all such analyses. Certain of RBC's analyses are based upon projections of future results and are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by such analyses. The foregoing summary does not purport to be a complete description of the analyses performed by RBC. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

As described above, RBC's opinion to the special committee was among many factors taken into consideration by the special committee in making its determination to approve the transaction agreement. The decision to recommend to our board of directors the approval of the terms of the transaction agreement, including the \$47.00 per share public company merger consideration to be received by the holders of our common stock (other than CenterPoint Energy), was solely that of the special committee. The opinion of RBC was provided to the special committee and the board of directors in connection with, and for the purpose of, its evaluation of the public company merger and does not constitute a recommendation to any person, including the holders of our common stock, as to how such person should vote or act on any matter related to the transaction agreement or the public company merger.

Table of Contents

RBC has received a fee of \$1.0 million in connection with its engagement and in connection with the delivery of its opinion to the special committee. RBC will also be reimbursed for its reasonable and customary expenses in connection therewith. No portion of RBC's fee or expense reimbursement was contingent upon the successful completion of the public company merger, any other related transaction, or the conclusions reached in the RBC opinion. No limitations were imposed by the special committee on RBC with respect to the investigations made or procedures followed by it in rendering its opinion. We also agreed to indemnify RBC and related persons against liabilities, including liabilities under federal securities laws that arise out of the engagement of RBC, and expenses in connection with its engagement.

Position of the CenterPoint Energy Entities as to the Fairness of the Public Company Merger

SEC rules require the CenterPoint Energy Entities to provide certain information regarding their position as to the fairness of the public company merger to our other shareholders. The CenterPoint Energy Entities have provided us with the information set forth in this section of the information statement.

The CenterPoint Energy Entities believe that the public company merger is fair to our unaffiliated shareholders. However, no CenterPoint Energy Entity has engaged a financial advisor to perform any valuation analysis for the purposes of assessing the fairness to our unaffiliated shareholders of the transactions described in this information statement. Instead, the CenterPoint Energy Entities have independently considered the factors discussed below.

Each of Messrs. McClanahan, Whitlock and Rozzell, to whom we collectively refer as the CenterPoint Energy representatives, is a member of our board of directors. In addition, each of Messrs. McClanahan, Whitlock and Rozzell is an executive officer of CenterPoint Energy, and Mr. McClanahan is also a member of CenterPoint Energy's board of directors. None of the CenterPoint Energy representatives was a member of the special committee of our board of directors, but they attended the meeting of our board of directors held on July 20, 2004 at which our board received a presentation from the chairman of the special committee and voted to approve the transaction agreement and the transactions contemplated thereby, including the public company merger. The matters discussed during this meeting are described above under "Background of the Transactions" and "Position of Our Special Committee and Board of Directors as to the Fairness of the Public Company Merger."

The CenterPoint Energy Entities and the CenterPoint Energy representatives were aware that the special committee of our board of directors had retained its own legal and financial advisors to assist in evaluating the various strategic alternatives CenterPoint Energy was pursuing. Certain of the CenterPoint Energy representatives provided requested assistance to those advisors. CenterPoint Energy, Citigroup and certain of the CenterPoint Energy representatives, as a group, also participated in numerous meetings with potential bidders to provide due diligence information. These meetings, which occurred during May, June and July 2004 and included a number of bidders in addition to the GC Power Group, are described under "Background of the Transactions." CenterPoint Energy and the CenterPoint Energy representatives' participation in these meetings and their understanding of the extensive process in seeking bidders for CenterPoint Energy's 81% interest in us are the basis for reliance by the CenterPoint Energy Entities on that process as one factor for their fairness determination discussed below.

The CenterPoint Energy Entities believe that the public company merger is substantively fair to our unaffiliated shareholders. In making their determination, the CenterPoint Energy Entities considered the following material factors, each of which they generally considered to weigh in favor of the substantive fairness of the public company merger to our unaffiliated shareholders:

The CenterPoint Energy Entities's understanding of our business and the industry in which we operate, our assets, financial condition and results of operations, and our competitive position within our industry.

Table of Contents

The auction process described under Background of the Transactions was thorough and inclusive. The auction process provided an extensive market check in which a broad range of over 100 potential strategic and financial buyers were contacted, and no restrictions were placed on the parties contacted or upon the structure or type of transaction that could be considered, other than CenterPoint Energy's expressed preference for a cash transaction. In addition, during the auction process extensive due diligence information regarding our business, operations and financial condition was provided to potential buyers in an effort to elicit the most favorable bids.

The fact that our unaffiliated shareholders are entitled to receive \$47.00 per share in the public company merger while CenterPoint Energy is only entitled to receive approximately \$45.25 per share for its 81% interest in us (consisting of approximately \$34.44 per share to be paid upon the closing of the non-nuclear asset acquisition and approximately \$10.81 per share to be paid at a later date upon the closing of the nuclear asset acquisition).

The \$47.00 per share public company merger consideration was \$15.33 higher than the \$31.67 exercise price of the RRI option described under Background of the Transactions The Restructuring of Reliant Energy in Response to the Texas Electric Restructuring Law, which RRI had declined to exercise in January 2004.

The fact that the public company merger consideration is all cash, which provides certainty of value to our shareholders.

The fact that in the final stages of the negotiations CenterPoint Energy agreed to the allocation of all of the approximately \$26.6 million aggregate increase in purchase price agreed to by GC Power Group to our unaffiliated shareholders.

The fact that Citigroup delivered its written opinion, dated July 21, 2004, to the board of directors of CenterPoint Energy that, as of that date and based on and subject to the considerations and limitations set forth in the opinion, the aggregate consideration to be received by CenterPoint Energy in the non-nuclear asset acquisition and the nuclear asset acquisition, which is equivalent to approximately \$45.25 per share, was fair, from a financial point of view, to CenterPoint Energy (although the Citigroup opinion did not address the fairness of the consideration to be received by our unaffiliated shareholders in the public company merger).

The fact that on August 6, 2004, as described under Report of Valuation Panel in CenterPoint Houston's 2004 True-Up Proceeding, a valuation panel established by the independent financial expert appointed by the PUC in connection with CenterPoint Houston's 2004 true-up proceeding issued a report to the PUC stating that, based on the analyses and factors described in its report, as of March 31, 2004, Texas Genco had a fair range of total common stock equity values between \$38.27 per share and \$46.58 per share, with a mid-point of \$42.425 per share. In addition, during an open hearing before the PUC in August 2004 the valuation panel stated that, under its analysis, the value of our common stock increased by approximately \$3.00 per share between March 31, 2004 and July 21, 2004 due to specified factors (i.e., implying a range of \$41.27 to \$49.58 per share, with a mid-point of \$45.425 per share), and the actual average per share price to be paid to CenterPoint Energy and our unaffiliated shareholders under the terms of the transaction agreement (i.e., approximately \$45.59 per share, which is \$1.41 per share less than the \$47.00 per share price to be paid to our unaffiliated shareholders) is higher than what the valuation panel would have paid based on its own analysis.

The consummation of the public company merger and the payment of the public company merger consideration to our unaffiliated shareholders is not expected to require NRC or PUC approval, which means that payment to our unaffiliated shareholders will likely occur several months earlier as compared to the transactions proposed by Bidder White.

The GC Power Group proposal provided greater likelihood of payment to our unaffiliated shareholders as compared to the Bidder White proposal, because there were fewer and less stringent conditions to the closing of the public company merger. CenterPoint Energy notes in particular:

Table of Contents

The limited scope of the material adverse effect condition to closing, because GC Power Group agreed to include certain exceptions in the definition of material adverse effect in the transaction agreement (thus making it more difficult for GC Power Group to assert that a material adverse effect has occurred).

The fact that consummation of the public company merger is not expected to require NRC or PUC approval.

The fact that the transaction proposed by Bidder White was conditioned on the sale of our interest in the South Texas Project to a third party buyer, and, as a result, (a) a potential material adverse event relating to our interest in the South Texas Project would be more likely to prevent the closing of the proposed Bidder White transaction than the closing of the public company merger, since the transaction agreement does not contemplate the sale of our interest in the South Texas Project to a third party buyer, and (b) the Bidder White transaction would be subject to any potential delay associated with compliance with the right of first refusal procedures relating to the sale of our interest in the South Texas Project.

GC Power Group's commitment in the transaction agreement to take all steps necessary to avoid or eliminate each and every impediment under the HSR Act.

The nature of the financing commitments received by GC Power Group with respect to the proposed transactions, including the identity of the institutions providing such commitments, the limited conditions to the obligations of such institutions to fund such commitments, and the duration of such commitments.

The CenterPoint Energy Entities believe that the public company merger is procedurally fair to our unaffiliated shareholders. In making their determination, the CenterPoint Energy Entities considered the following material factors, each of which they generally considered to weigh in favor of the procedural fairness of the public company merger to our unaffiliated shareholders:

CenterPoint Energy's public statements since before the January 2003 distribution of approximately 19% of our outstanding common stock to CenterPoint Energy's shareholders that it intended to exit the generation sector of the electric power industry and to monetize its interest in us, with the result that the securities markets had been aware of CenterPoint Energy's intent since prior to the commencement of trading in our common stock.

The auction process described under "Background of the Transactions" was thorough and inclusive. The auction process provided an extensive market check in which a broad range of over one hundred potential strategic or financial buyers were contacted, and no restrictions were placed on the parties contacted or upon the structure or type of transaction that could be considered other than CenterPoint Energy's expressed preference for a cash transaction. In addition, during the auction process extensive due diligence information regarding our business, operations and financial condition was provided to potential buyers in an effort to elicit the most favorable bids.

The active participation of our directors, officers and senior management in the process leading up to the execution of the transaction agreement on July 21, 2004, which included preparing a confidential information memorandum that was distributed to potential bidders, participating in management and due diligence meetings with prospective bidders, and analyzing bids and transaction structures proposed by prospective bidders and related regulatory requirements.

The procedures and processes followed by our board of directors and the special committee in conducting the transaction, including the following:

The special committee, comprised of three independent members of our board of directors, was formed to represent our shareholders, other than CenterPoint Energy, in connection with (a) any proposal to acquire 100% of our outstanding common

stock, including the 19% owned by our

Table of Contents

unaffiliated shareholders, (b) any determination of whether we should incur additional debt in connection with a purchase of all or a portion of our common stock, and (c) other related issues.

The special committee was authorized to and did engage its own legal counsel and financial advisors to assist with its representation of our unaffiliated shareholders.

The special committee received advice from its own financial and legal advisors during the process.

The transaction proposed by GC Power Group was presented to the special committee for its consideration, and the special committee possessed all power necessary for it to review and evaluate the proposed transaction, consult with its own financial and legal advisors, and determine whether or not to recommend approval of the proposal or any other proposal to our full board of directors.

The fact that the special committee received the presentation of and opinion delivered by RBC that, as of July 21, 2004, the public company merger consideration to be received by our shareholders (other than CenterPoint Energy) was fair, from a financial point of view, to such holders.

The fact that the special committee unanimously determined that the transaction agreement and the transactions contemplated thereby, including the public company merger, were fair to, advisable and in the best interests of Texas Genco and our shareholders, other than CenterPoint Energy.

The fact that the public company merger consideration and the other terms and conditions of the transaction ag