

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number 1-3187

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of
incorporation or organization)

22-3865106

(I.R.S. Employer Identification No.)

1111 LOUISIANA

HOUSTON, TEXAS 77002

(Address and zip code of
principal executive offices)

(713) 207-1111

(Registrant's telephone number,
including area code)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC MEETS THE CONDITIONS SET FORTH IN
GENERAL INSTRUCTION H(1)(A) AND (B) OF FORM 10-Q AND IS THEREFORE FILING THIS
FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

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

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

As of May 1, 2004, all 1,000 common shares of CenterPoint Energy Houston
Electric, LLC were held by Utility Holding, LLC, a wholly owned subsidiary of
CenterPoint Energy, Inc.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2004

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.....	1
Statements of Consolidated Income	
Three Months Ended March 31, 2003 and 2004 (unaudited).....	1
Consolidated Balance Sheets	
December 31, 2003 and March 31, 2004 (unaudited).....	2
Statements of Consolidated Cash Flows	
Three Months Ended March 31, 2003 and 2004 (unaudited).....	4
Notes to Unaudited Consolidated Financial Statements.....	5
Item 2. Management's Narrative Analysis of the Results of Operations.....	12
Item 4. Controls and Procedures.....	20
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings.....	21
Item 6. Exhibits and Reports on Form 8-K.....	21

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will," or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

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

- the timing and outcome of the regulatory process related to the 1999 Texas Electric Choice Law leading to the determination and recovery of the true-up components and the securitization of these amounts;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, constraints placed on our activities or business by the Public Utility Holding Company Act of 1935, as amended (1935 Act), changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- changes in interest rates or rates of inflation;
- weather variations and other natural phenomena;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, receipt of certain approvals under the 1935 Act, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- non-payment for our services due to financial distress of our customers, including Reliant Energy, Inc. (formerly named Reliant Resources) (RRI);
- the outcome of the pending securities lawsuits against us, Reliant Energy, Incorporated and RRI;
- the ability of RRI to satisfy its obligations to us including indemnity obligations and obligations to pay the "price to beat" clawback; and
- other factors we discuss in "Risk Factors" beginning on page 11 of the CenterPoint Energy Houston Electric, LLC Annual Report on Form 10-K for the year ended December 31, 2003.

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 STATEMENTS OF CONSOLIDATED INCOME
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
REVENUES.....	\$ 447,403	\$ 329,150
EXPENSES:		
Operation and maintenance.....	133,008	132,139
Depreciation and amortization.....	64,742	65,073
Taxes other than income taxes.....	44,052	47,045
Total.....	241,802	244,257
OPERATING INCOME.....	205,601	84,893
OTHER INCOME (EXPENSE):		
Interest and other finance charges.....	(82,382)	(77,087)
Interest on transition bonds.....	(9,848)	(9,674)
Other, net.....	8,508	6,925
Total.....	(83,722)	(79,836)
INCOME BEFORE INCOME TAXES.....	121,879	5,057
Income Tax Expense.....	41,704	1,752
NET INCOME.....	\$ 80,175	\$ 3,305

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 CONSOLIDATED BALANCE SHEETS
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

ASSETS

	DECEMBER 31, 2003	MARCH 31, 2004
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 30,720	\$ 16,088
Accounts and notes receivable, net.....	91,332	109,117
Accounts receivable -- affiliated companies, net.....	3,897	--
Accrued unbilled revenues.....	71,507	66,673
Materials and supplies.....	56,008	53,863
Taxes receivable.....	184,634	85,524
Other.....	14,209	10,697
	-----	-----
Total current assets.....	452,307	341,962
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment.....	6,084,665	6,108,211
Less accumulated depreciation and amortization.....	(2,040,382)	(2,074,326)
	-----	-----
Property, plant and equipment, net.....	4,044,283	4,033,885
	-----	-----
OTHER ASSETS:		
Other intangibles, net.....	39,010	38,850
Regulatory assets.....	4,896,439	4,910,959
Accounts and notes receivable -- affiliated companies...	814,513	814,513
Other.....	79,770	94,100
	-----	-----
Total other assets.....	5,829,732	5,858,422
	-----	-----
TOTAL ASSETS.....	\$ 10,326,322	\$10,234,269
	=====	=====

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS) -- (CONTINUED)
(UNAUDITED)

LIABILITIES AND MEMBER'S EQUITY

	DECEMBER 31, 2003	MARCH 31, 2004
	-----	-----
CURRENT LIABILITIES:		
Current portion of transition bond long-term debt.....	\$ 41,189	\$ 43,099
Accounts payable.....	35,771	32,176
Accounts payable -- affiliated companies, net.....	--	13,248
Notes payable -- affiliated companies, net.....	113,179	110,285
Taxes accrued.....	82,650	25,662
Interest accrued.....	64,769	39,670
Regulatory liabilities.....	185,812	186,791
Other.....	62,085	57,142
	-----	-----
Total current liabilities.....	585,455	508,073
	-----	-----
OTHER LIABILITIES:		
Accumulated deferred income taxes, net.....	1,799,926	1,821,904
Unamortized investment tax credits.....	55,845	54,102
Benefit obligations.....	83,236	87,010
Regulatory liabilities.....	923,038	889,783
Notes payable -- affiliated companies.....	379,900	150,850
Accounts payable -- affiliated companies.....	398,984	400,717
Other.....	11,424	14,749
	-----	-----
Total other liabilities.....	3,652,353	3,419,115
	-----	-----
LONG-TERM DEBT:		
Transition bonds.....	675,665	659,762
Other.....	2,672,019	2,903,184
	-----	-----
Total long-term debt.....	3,347,684	3,562,946
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 6)		
MEMBER'S EQUITY:		
Common stock.....	1	1
Paid-in capital.....	2,190,111	2,190,111
Retained earnings.....	550,718	554,023
	-----	-----
Total member's equity.....	2,740,830	2,744,135
	-----	-----
TOTAL LIABILITIES AND MEMBER'S EQUITY.....	\$ 10,326,322	\$ 10,234,269
	=====	=====

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 STATEMENTS OF CONSOLIDATED CASH FLOWS
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 80,175	\$ 3,305
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	64,742	65,073
Amortization of deferred financing costs.....	6,348	7,674
Deferred income taxes.....	74,267	20,666
Investment tax credits.....	(1,173)	(1,743)
Changes in other assets and liabilities:		
Accounts and notes receivable, net.....	(1,777)	(12,951)
Accounts receivable/payable, affiliates.....	(22,418)	18,878
Inventory.....	1,908	2,145
Accounts payable.....	(9,892)	(3,595)
Taxes receivable.....	(22,956)	99,110
Interest and taxes accrued.....	(69,185)	(82,087)
Net regulatory assets and liabilities.....	(202,727)	(57,638)
Other current assets.....	718	3,512
Other current liabilities.....	(5,410)	(4,944)
Other assets.....	6,763	(10,109)
Other liabilities.....	(10,591)	8,411
Other, net.....	717	2,136
Net cash provided by (used in) operating activities.....	(110,491)	57,843
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and other.....	(47,983)	(44,863)
Net cash used in investing activities.....	(47,983)	(44,863)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt.....	758,830	229,050
Increase (decrease) in short-term notes with affiliates, net.....	106,930	(2,894)
Payments of long-term debt.....	(318,649)	(14,013)
Decrease in long-term notes payable, affiliates.....	(429,000)	(229,050)
Debt issuance costs.....	(17,296)	(10,712)
Other, net.....	60	7
Net cash provided by (used in) financing activities.....	100,875	(27,612)
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(57,599)	(14,632)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	70,866	30,720
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 13,267	\$ 16,088
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest.....	\$ 92,697	\$ 108,789
Income taxes (refunds).....	--	(13,810)

See Notes to the Company's Interim Financial Statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

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

Background. The Company is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring (Restructuring) of Reliant Energy, Incorporated (Reliant Energy). CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and those of its subsidiaries. The 1935 Act, among other things, limits the ability of CenterPoint Energy and its regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

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

The Company's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's Statements of Consolidated Income are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) fluctuations in demand for energy, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's presentation of financial statements in the current year. These reclassifications do not affect net income.

Note 2(e) (Regulatory Assets and Liabilities), Note 4 (Regulatory Matters) and Note 9 (Commitments and Contingencies) to the consolidated annual financial statements in the CenterPoint Houston Form 10-K relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference.

For information regarding certain legal and regulatory proceedings, see Note 6 to the Interim Financial Statements.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. On December 24, 2003, the FASB issued a revision to FIN 46 (FIN 46-R). For special-purpose entities (SPE's) created before February 1, 2003, the Company applied the provisions of FIN 46 or FIN 46-R as of December 31, 2003. The revised FIN 46-R is effective for all other entities for financial periods ending after March 15, 2004. The adoption of FIN 46-R had no effect on the Company's consolidated financial statements.

On December 23, 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132(R)) which increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. Companies are required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. SFAS No. 132(R) also requires companies to disclose various elements of pension and postretirement benefit costs in interim-period financial statements for quarters beginning after December 15, 2003. The Company has adopted the disclosure requirements of SFAS No. 132(R) in Note 7 to these Interim Financial Statements.

In December 2003, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) which will become effective in 2006. The Act contains incentives for the Company, if it continues to provide prescription drug benefits for its retirees, through the provision of a non-taxable reimbursement to the Company of specified costs. The Company has many different alternatives available under the Act, and, until clarifying regulations are issued with respect to the Act, the Company is unable to determine the financial impact the Act will have on the Company. On January 12, 2004, the FASB issued FASB Staff Position (FSP) FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FAS 106-1). In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending, and that guidance, when issued, may require the Company to change previously reported information.

(3) REGULATORY MATTERS

(a) 2004 True-Up Proceeding.

On March 31, 2004, the Company, Texas Genco LP and Reliant Energy Retail Services LLC, a former affiliate and current subsidiary of Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI), filed the final true-up application required by the 1999 Texas Electric Choice Law (Texas electric restructuring law) with the Public Utility Commission of Texas (Texas Utility Commission). The Texas electric restructuring law authorizes public utilities to recover in 2004 a true-up balance composed of stranded power plant costs, the cost of environmental controls and certain other costs associated with transition from a regulated to a competitive environment (2004 True-Up Proceeding). The Company's true-up balance is \$3.8 billion. An additional \$631 million in interest could be added if approved in a proceeding pending before the Texas Supreme Court.

The Texas electric restructuring law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although under its rules the Texas Utility Commission can extend the 150-day deadline for good cause. The Texas Utility Commission has scheduled hearings beginning June 21, 2004. The true-up proceeding will result in either additional charges being assessed or credits being issued through the utility's non-bypassable delivery charges. The Texas electric restructuring law permits transmission and distribution utilities to recover the true-up balance through transition charges on their non-bypassable delivery charge, to the extent that such components are established in certain regulatory proceedings. Non-bypassable delivery charges are those that must be paid by essentially all customers and cannot, except in limited circumstances, be avoided by switching to self-generation. The law also authorizes the Texas Utility Commission to permit utilities to issue transition bonds based on the securitization of revenues associated with the transition charges. Any delay in the final order date will result in a delay in the securitization of the true-up components and the implementation of the non-bypassable charges described above, and could delay the recovery of carrying costs on the true-up components determined by the Texas Utility Commission.

The Company will be required to establish and support the \$3.8 billion it seeks to recover in the 2004 True-Up Proceeding. Third parties will have the opportunity and are expected to challenge the Company's calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if the Company agrees to forego recovery of a portion of the request under a settlement agreement, the Company would be unable to recover those amounts in the future.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, the Company appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as the Company

contends is required by law. On January 30, 2004, the Texas Supreme Court granted the Company's petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. The Company has not accrued interest income on stranded costs in its consolidated financial statements.

As of March 31, 2004, the Company recorded net regulatory assets totaling \$3.3 billion, which are expected to be recovered in the 2004 True-Up Proceeding. If events were to occur during the 2004 True-Up Proceeding that made the recovery of these regulatory assets no longer probable, the Company would write off the unrecoverable balance of such assets as a charge against earnings.

(b) Final Fuel Reconciliation.

On March 4, 2004, an Administrative Law Judge (ALJ) issued a Proposal for Decision (PFD) relating to the Company's final fuel reconciliation. The Company reserved \$117 million, including interest, in the fourth quarter of 2003 reflecting the ALJ's recommendation. On April 15, 2004, the Texas Utility Commission reviewed the PFD in the Company's final fuel reconciliation case, affirmed the PFD's finding in part, reversed in part, and remanded one issue back to the ALJ. The Texas Utility Commission's decision is pending the outcome of the remanded issue. The results of the Texas Utility Commission's final decision will be a component of the 2004 True-Up Proceeding.

(4) LONG-TERM DEBT

In February 2004, \$56 million aggregate principal amount of collateralized 5.6% pollution control bonds due 2027 and \$44 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on behalf of the Company. The pollution control bonds are collateralized by general mortgage bonds of the Company with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to extinguish two series of 6.7% collateralized pollution control bonds with an aggregate principal amount of \$100 million issued on behalf of CenterPoint Energy. The Company's 6.7% first mortgage bonds which collateralized CenterPoint Energy's payment obligations under the refunded pollution control bonds were retired in connection with the extinguishment of the refunded pollution control bonds. The Company's 6.7% notes payable to CenterPoint Energy were also cancelled upon the extinguishment of the refunded pollution control bonds.

In March 2004, \$45 million aggregate principal amount of 3.625% collateralized insurance-backed pollution control bonds due 2012 and \$84 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on behalf of the Company. The pollution control bonds are collateralized by general mortgage bonds of the Company with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to extinguish two series of 6.375% collateralized pollution control bonds with an aggregate principal amount of \$45 million and one series of 5.6% collateralized pollution control bonds with an aggregate principal amount of \$84 million issued on behalf of CenterPoint Energy. The Company's 6.375% and 5.6% first mortgage bonds which collateralized CenterPoint Energy's payment obligations under the refunded pollution control bonds were retired in connection with the extinguishment of the refunded pollution control bonds. The Company's 6.375% and 5.6% notes payable to CenterPoint Energy were also cancelled upon the extinguishment of the refunded pollution control bonds.

(5) RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

The following table summarizes receivables from, or payables to, CenterPoint Energy or its subsidiaries:

	DECEMBER 31, 2003	MARCH 31, 2004
	-----	-----
	(IN MILLIONS)	
Accounts receivable from affiliates.....	\$ 50	\$ 28
Accounts payable to affiliates.....	(46)	(41)
	-----	-----
Accounts receivable/(payable) -- affiliated companies, net.....	\$ 4	\$ (13)
	=====	=====
Notes payable -- affiliated companies (1).....	\$ (113)	\$(110)
	=====	=====
Long-term accounts and notes receivable -- affiliated companies (2).....	\$ 815	\$ 815
	=====	=====
Long-term notes payable -- affiliated companies (3).....	\$ (380)	\$(151)
	=====	=====
Long-term accounts payable -- affiliated companies (4).....	\$ (399)	\$(401)
	=====	=====

(1) This represents money pool borrowings.

(2) Included in the \$815 million notes receivable -- affiliated companies is a \$750 million note receivable from CenterPoint Energy payable on demand and bearing interest at the prime rate that originated when the Company converted its money fund investment at the time of the Restructuring. Since August 31, 2002, the Company has been a participant in the CenterPoint Energy money pool. The \$750 million note receivable is included in long-term notes receivable from affiliate in the Consolidated Balance Sheets because the Company does not plan to demand repayment of the note within the next twelve months.

(3) For more information on the long-term notes payable to affiliate, see Note 4.

(4) In 2003, CenterPoint Energy recorded a \$399 million impairment related to the partial distribution of its investment in Texas Genco. Since this amount is expected to be recovered in the 2004 True-Up Proceeding, the Company has recorded a regulatory asset reflecting its right to recover this amount and an associated payable to CenterPoint Energy. For more information on the 2004 True-Up Proceeding, see Note 3.

The Company had net interest income (expense) related to affiliate borrowings of \$(10) million and \$2 million for the three months ended March 31, 2003 and March 31, 2004, respectively.

The 1935 Act generally prohibits borrowings by CenterPoint Energy from its subsidiaries, including the Company, either through the money pool or otherwise.

During the three months ended March 31, 2003 and 2004, revenues derived from energy delivery charges provided by the Company to a subsidiary of RRI totaled \$212 million and \$199 million, respectively.

CenterPoint Energy provides some corporate services to the Company. The costs of services have been charged directly to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment and proportionate corporate formulas based on assets, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had the Company not been an affiliate. Amounts charged to the Company for these services were \$32 million and \$24 million for the three months ended March 31, 2003 and 2004, respectively, and are included primarily in operation and maintenance expenses.

(6) COMMITMENTS AND CONTINGENCIES

RRI Indemnified Litigation

The Company, CenterPoint Energy or their predecessor, Reliant Energy, and certain of their former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and RRI, the Company, CenterPoint Energy and its other subsidiaries are entitled to be indemnified by RRI for any losses, including attorneys' fees and other costs, arising out of the lawsuits described below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. Pursuant to the indemnification obligation, RRI is defending the Company, CenterPoint Energy and its other subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

Electricity and Gas Market Manipulation Cases. A large number of lawsuits have been filed against numerous market participants and remain pending in both federal and state courts in California and Nevada in connection with the operation of the electricity and natural gas markets in California and certain other western states in 2000-2001, a time of power shortages and significant increases in prices. These lawsuits, many of which have been filed as class actions, are based on a number of legal theories including violation of state and federal antitrust laws, laws against unfair and unlawful business practices, the federal Racketeer Influenced Corrupt Organization Act, false claims statutes and similar theories and breaches of contracts to supply power to governmental entities. Plaintiffs in these lawsuits, which include state officials and governmental entities as well as private litigants, are seeking a variety of forms of relief, including recovery of compensatory damages (in some cases in excess of \$1 billion), a trebling of compensatory damages and punitive damages, injunctive relief, restitution, interest due, disgorgement, civil penalties and fines, costs of suit, attorneys' fees and divestiture of assets. To date, some of these complaints have been dismissed by the trial court and are on appeal, but most of the lawsuits remain in early procedural stages. CenterPoint Energy's former subsidiary, RRI, was a participant in the California markets, owning generating plants in the state and participating in both electricity and natural gas trading in that state and in western power markets generally. RRI, some of its subsidiaries and in some cases, corporate officers of some of those companies, have been named as defendants in these suits.

The Company, CenterPoint Energy or their predecessor, Reliant Energy, were named in approximately 25 of these lawsuits, which were instituted between 2001 and 2004 and are pending in state court in Los Angeles County and in federal district courts in San Francisco, San Diego, Los Angeles and Nevada and before the Ninth Circuit Court of Appeals. However, neither CenterPoint Energy nor Reliant Energy was a participant in the electricity or natural gas markets in California. The Company and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court and the Company believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from such remaining cases.

Other Class Action Lawsuits. Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of RRI and/or Reliant Energy have been consolidated in federal district court in Houston. RRI and certain of its former and current executive officers are named as defendants. The consolidated complaint also names RRI, Reliant Energy, the underwriters of the initial public offering of RRI common stock in May 2001 (RRI Offering) and RRI's and Reliant Energy's independent auditors as defendants. The consolidated amended complaint seeks monetary relief purportedly on behalf of purchasers of common stock of Reliant Energy or RRI during certain time periods ranging from February 2000 to May 2002, and purchasers of common stock that can be traced to the RRI Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001. In January 2004 the trial judge dismissed the plaintiffs' allegations that the defendants had engaged in fraud, but claims based on alleged misrepresentations in the registration statement issued in the RRI Offering remain.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former and current officers of RRI for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to artificially inflate trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law. In January 2004 the trial judge ordered dismissal of

plaintiffs' claims on the ground that they did not set forth a claim. The plaintiffs filed an amended complaint in March 2004, which the defendants are asking the court to dismiss.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Two of the lawsuits have been dismissed without prejudice. Reliant Energy and certain current and former members of its benefits committee are the remaining defendants in the third lawsuit. That lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act of 1974. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaint seeks monetary damages for losses suffered on behalf of the plans and a putative class of plan participants whose accounts held Reliant Energy or RRI securities, as well as equitable relief in the form of restitution.

In October 2002, a derivative action was filed in the federal district court in Houston, against the directors and officers of CenterPoint Energy. The complaint sets forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleges that the defendants caused CenterPoint Energy to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleges breach of fiduciary duty in connection with the spin-off of RRI and the RRI Offering. The complaint seeks monetary damages on behalf of CenterPoint Energy as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on CenterPoint Energy before filing suit. Thereafter, the plaintiff sent another demand asserting the same claims.

CenterPoint Energy's board of directors investigated that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a CenterPoint Energy shareholder. The latter letter demanded that CenterPoint Energy take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. In June 2003, the Board determined that these proposed actions would not be in the best interests of CenterPoint Energy.

The Company believes that none of the lawsuits described under "Other Class Action Lawsuits" has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to the plaintiffs.

Other Legal Matters

Texas Antitrust Action. In July 2003, Texas Commercial Energy filed a lawsuit against Reliant Energy, RRI, Reliant Electric Solutions, LLC, several other RRI subsidiaries and a number of other participants in the Electric Reliability Council of Texas (ERCOT) power market in federal court in Corpus Christi, Texas. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleges that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit seeks damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. In February 2004, this complaint was amended to add the Company and CenterPoint Energy, as successors to Reliant Energy, and Texas Genco, LP as defendants. The plaintiff's principal allegations have previously been investigated by the Texas Utility Commission and found to be without merit. The Company also believes the plaintiff's allegations are without merit and will seek their dismissal.

Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of the Company's predecessor, Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claimed that they were entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. After a jury trial involving the Three Cities claims (but not the class of cities), the trial court decertified the class and entered a judgment for \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. Despite other jury findings for the plaintiffs, the trial court's judgment was based on the jury's finding in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the

alleged wrongs began. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, a state court of appeals in Houston rendered an opinion reversing the judgment against CenterPoint Energy and rendering judgment that the Three Cities take nothing by their claims. The court of appeals found that the jury's finding of laches barred all of the Three Cities' claims and that the Three Cities were not entitled to recovery of any attorneys' fees. The Three Cities filed a petition for review at the Texas Supreme Court which declined to hear the case. The Three Cities filed a motion for rehearing, which was denied by the Supreme Court in April 2004. Now that the Three Cities case has been favorably resolved, the Company intends to seek dismissal of the claims of the other cities.

Other Proceedings

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(7) EMPLOYEE BENEFIT PLANS

The Company's employees participate in CenterPoint Energy's postretirement benefit plan.

The Company's net periodic cost includes the following components relating to postretirement benefits:

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
	(IN MILLIONS)	
Service cost	\$ --	\$ --
Interest cost	3	4
Expected return on plan assets.....	(2)	(2)
Net amortization.....	2	2
	----	----
Net periodic cost.....	\$ 3	\$ 4
	=====	=====

The Company previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$11 million to its postretirement benefits plan in 2004. As of March 31, 2004, \$2 million has been contributed.

ITEM 2. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS

The following narrative analysis should be read in combination with our Interim Financial Statements contained in this Form 10-Q.

We are an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy). CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). For information about the 1935 Act, please read " -- Liquidity -- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends."

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and are therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in our results of operations between the three months ended March 31, 2004 and the three months ended March 31, 2003. Reference is made to "Management's Narrative Analysis of Results of Operations" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2003 (CenterPoint Houston Form 10-K).

SIGNIFICANT EVENTS IN 2004

The 1999 Texas Electric Choice Law (Texas electric restructuring law) contains provisions that allow us to recover the amount by which the market value of CenterPoint Energy's generating assets, as determined by the Public Utility Commission of Texas (Texas Utility Commission) under a formula prescribed in the law, is below the regulatory net book value of those assets as of the end of 2001. It also allows us to recover certain other transition costs, such as a final fuel reconciliation balance, regulatory assets and the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and actual market prices for generation as determined in the state-mandated capacity auctions during that period (called the Excess Cost Over Market (ECOM) true-up). Those amounts, and certain other adjustments (the true-up balance), are to be determined by the Texas Utility Commission in a proceeding that began on March 31, 2004 (2004 True-Up Proceeding). Our true-up balance is \$3.8 billion, excluding interest. The law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although, under its rules the Texas Utility Commission can extend the 150-day deadline for good cause. The Texas Utility Commission has scheduled hearings beginning June 21, 2004. Various parties have intervened in our true-up proceeding, and we expect intervenors to vigorously oppose recovery of the amounts we are seeking. After the Texas Utility Commission determines the amount of the true-up balance that we may recover, we will recover those amounts through a transition charge added to our non-bypassable delivery charge. An ultimate determination or a settlement at an amount less than that recorded in our financial statements could lead to a charge that would materially adversely affect our results of operations, financial condition and cash flows. Assuming receipt of a timely final order from the Texas Utility Commission, we expect to begin earning a rate of return on the true-up balance in the third quarter of 2004. We intend to seek authority from the Texas Utility Commission to securitize all or a portion of the true-up balance as early as the fourth quarter of 2004 through the issuance of transition bonds and to be in a position to issue those bonds by early 2005. Transition bonds would be issued through a special purpose entity that would be a subsidiary of ours, but they would be non-recourse to us. Any portion of the true-up balance not securitized by transition bonds will be recovered through a non-bypassable competition transition charge. We will distribute recovery of the true-up components not used to repay indebtedness to CenterPoint Energy through either the payment of dividends or the settlement of intercompany payables. CenterPoint Energy can then move funds back to us, either through equity or intercompany debt, in order to maintain our capital structure at the appropriate levels.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, we appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as we contend is required by law. On January 30, 2004, the Texas Supreme Court granted our petition for review of the true-up rule.

Oral arguments were heard on February 18, 2004. The decision by the Court is pending. We have not accrued interest income on stranded costs of approximately \$631 million in our consolidated financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by, among other things, seasonal fluctuations and other changes in the demand for electricity, the actions of various governmental authorities having jurisdiction over the rates we charge, debt service costs, income tax expense, our ability to collect receivables from retail electric providers and our ability to recover our stranded costs and regulatory assets. For more information regarding factors that may affect the future results of operations of our business, please read "Business -- Risk Factors" in Item 1 of the CenterPoint Houston Form 10-K and "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of the CenterPoint Houston Form 10-K, each of which is incorporated herein by reference.

The following table sets forth our consolidated results of operations for the three months ended March 31, 2003 and 2004, followed by a discussion of our consolidated results of operations based on operating income. We have provided a reconciliation of consolidated operating income to net income below.

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
	----- (IN MILLIONS) -----	
Revenues:		
Electric revenues.....	\$ 303	\$ 314
ECOM true-up.....	132	--
Transition bond revenues.....	13	15
	-----	-----
Total revenues.....	448	329
	-----	-----
Expenses:		
Operation and maintenance.....	133	132
Depreciation and amortization.....	62	60
Taxes other than income taxes.....	44	47
Transition bond expenses.....	3	5
	-----	-----
Total expenses.....	242	244
	-----	-----
Operating Income.....	206	85
Interest and Other Finance Charges.....	(92)	(87)
Other Income, net	8	7
	-----	-----
Income Before Income Taxes.....	122	5
Income Tax Expense.....	(42)	(2)
	-----	-----
Net Income.....	\$ 80	\$ 3
	=====	=====
Actual gigawatt-hours (Gwh) delivered:		
Residential.....	4,558	4,402
Total (1).....	14,788	15,520

(1) Usage volumes for commercial and industrial customers are included in total Gwh delivered; however, the majority of these customers are billed on a peak demand (Kw) basis and, as a result, revenues do not vary based on consumption.

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

We reported operating income of \$85 million for the three months ended March 31, 2004, consisting of \$75 million for the regulated electric transmission and distribution utility and \$10 million for the transition bond company. For the three months ended March 31, 2003, operating income totaled \$206 million, consisting of \$64 million for the regulated electric transmission and distribution utility, \$10 million for the transition bond company and \$132 million of non-cash income associated with ECOM. ECOM is recoverable under the Texas electric restructuring law and is included in our recently filed true-up application. Beginning in 2004, there is no ECOM contribution to earnings. The transition bond company's operating income represents the amount necessary to pay interest on the transition bonds. The regulated electric transmission and distribution utility continues to benefit from solid customer growth. Revenues increased \$9 million for the three months ended March 31, 2004 as compared to

the same period in 2003 from the addition of 48,000 metered customers since March 2003. This increase was partially offset by milder weather which negatively impacted the quarter by \$6 million.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of Part II of the CenterPoint Houston Form 10-K and "Risk Factors" in Item 1 of Part I of the CenterPoint Houston Form 10-K, each of which is incorporated herein by reference. In addition to these factors, the discontinuation of non-cash operating income associated with ECOM is expected to negatively impact our earnings in 2004.

LIQUIDITY

Off-Balance Sheet Arrangements. Other than operating leases, we have no off-balance sheet arrangements.

Long-term Debt. Our long-term debt consists of our obligations and the obligations of our subsidiaries, including transition bonds issued by an indirect wholly owned subsidiary (transition bonds).

In February 2004, \$56 million aggregate principal amount of collateralized 5.60% pollution control bonds due 2027 and \$44 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on our behalf. The pollution control bonds are collateralized by our general mortgage bonds with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to extinguish two series of 6.7% collateralized pollution control bonds with an aggregate principal amount of \$100 million issued on behalf of CenterPoint Energy. Our 6.7% first mortgage bonds, which collateralized CenterPoint Energy's payment obligations under the refunded pollution control bonds, were retired in connection with the extinguishment of the refunded pollution control bonds. Our 6.7% notes payable to CenterPoint Energy were cancelled upon the extinguishment of the refunded pollution control bonds.

In March 2004, \$45 million aggregate principal amount of 3.625% collateralized insurance-backed pollution control bonds due 2012 and \$84 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on our behalf. The pollution control bonds are collateralized by our general mortgage bonds with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to extinguish two series of 6.375% collateralized pollution control bonds with an aggregate principal amount of \$45 million and one series of 5.6% collateralized pollution control bonds with an aggregate principal amount of \$84 million issued on CenterPoint Energy's behalf. Our 6.375% and 5.6% first mortgage bonds which collateralized CenterPoint Energy's payment obligations under the refunded pollution control bonds were retired in connection with the extinguishment of the refunded pollution control bonds. Our 6.375% and 5.6% notes payable to CenterPoint Energy were cancelled upon the extinguishment of the refunded pollution control bonds.

The following table shows future maturity dates of long-term debt issued by us to third parties and affiliates and expected future maturity dates of transition bonds issued by our subsidiary, CenterPoint Energy Transition Bond Company, LLC (Bond Company), as of April 30, 2004. Amounts are expressed in thousands.

CENTERPOINT HOUSTON -----		

TRANSITION YEAR THIRD-		
PARTY AFFILIATE SUB-TOTAL		
BONDS	TOTAL	-----

2004.....		
\$ -- \$ -- \$ --	\$ 27,185	\$
	27,185	
2005.....		
1,310,000 --	1,310,000	
46,806	1,356,806	
2006.....		
-- -- --	54,295	54,295
2007.....		
-- -- --	59,912	59,912
2008.....		
-- -- --	65,529	65,529
2009.....		
-- -- --	73,018	73,018
2010.....		
-- -- --	80,506	80,506
2011.....		
-- -- --	87,995	87,995
2012.....		
45,570 --	45,570	99,229
	144,799	
2013.....		
450,000 --	450,000	108,590
	558,590	
2014.....		
300,000 --	300,000	--
	300,000	
2015.....		
-- 150,850	150,850	--
	150,850	
2017.....		
127,385 --	127,385	--
	127,385	
2021.....		
102,442 --	102,442	--
	102,442	
2023.....		
200,000 --	200,000	--
	200,000	
2027.....		
56,095 --	56,095	--
56,095		
2033.....		
312,275 --	312,275	--
312,275		

Total.....		
\$ 2,903,767	\$ 150,850	\$
3,054,617	\$ 703,065	\$
3,757,682	=====	
	=====	
	=====	

First mortgage bonds and general mortgage bonds in aggregate principal amounts of \$102 million and \$1.3 billion, respectively, have been issued directly to third parties. External debt of \$1.5 billion is senior and secured by general mortgage bonds. The affiliate debt is senior and unsecured.

CenterPoint Energy's \$2.3 billion credit facility provides that, until such time as that facility has been reduced to \$750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of stranded costs, after making any payments required under our \$1.3 billion term loan, and the net cash proceeds from any sales of the common stock of Texas Genco Holdings, Inc. (Texas Genco) owned by CenterPoint Energy or of material portions of Texas Genco's assets, shall be applied to repay loans under the CenterPoint Energy credit facility and reduce the credit facility. CenterPoint Energy's \$2.3 billion credit facility contains no other restrictions with respect to our use of proceeds from financing activities.

We have outstanding approximately \$253 million aggregate principal amount of first mortgage bonds and approximately \$3.3 billion aggregate principal amount of general mortgage bonds, of which approximately \$678 million combined aggregate principal amount of first mortgage bonds and general mortgage bonds collateralizes debt of CenterPoint Energy. The lien of the general mortgage indenture is junior to that of the mortgage, pursuant to which the first mortgage bonds are issued. The aggregate amount of incremental general mortgage bonds and first mortgage bonds that could be issued as of March 31, 2004 is approximately \$300 million based on estimates of the value of our property encumbered by the general mortgage, the cost of such property, the amount of retired bonds that could be used as the basis for issuing new bonds and the 70%

bonding ratio contained in the general mortgage. However, contractual limitations on us and CenterPoint Energy expiring in November 2005 limit the incremental aggregate amount of first mortgage bonds and general mortgage bonds that may be issued to \$200 million. Generally, first mortgage bonds and general mortgage bonds can be issued to refinance outstanding first mortgage bonds or general mortgage bonds in the same principal amount.

The following table shows the maturity dates of the \$678 million of first mortgage bonds and general mortgage bonds that we have issued as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected on the financial statements of CenterPoint Houston because of the contingent nature of the obligations. Amounts are expressed in thousands.

YEAR	FIRST MORTGAGE BONDS	GENERAL MORTGAGE BONDS	TOTAL
2011	\$ --	\$ 19,200	\$ 19,200
2015	150,850	--	150,850
2018	--	50,000	50,000
2019	--	200,000	200,000
2020	--	90,000	90,000
2026	--	100,000	100,000
2028	--	68,000	68,000
Total	\$ 150,850	\$ 527,200	\$ 678,050

As of April 30, 2004, outstanding first mortgage bonds and general mortgage bonds aggregated approximately \$3.6 billion as shown in the following table. Amounts are expressed in thousands.

ISSUED AS COLLATERAL FOR ISSUED DIRECTLY TO COLLATERAL FOR THE CENTERPOINT THIRD PARTIES COMPANY'S DEBT ENERGY'S DEBT	TOTAL
First Mortgage Bonds	\$ 102,442
General Mortgage Bonds	\$ 150,850
	\$ 253,292
	\$ 1,262,275
	\$ 1,539,050
	\$ 527,200
	\$ 3,328,525
Total	\$ 1,364,717
	\$ 1,539,050
	\$ 678,050
	\$ 3,581,817

The Texas electric restructuring law allows the former integrated utility to recover its stranded costs in order to recover its generation investment in the 2004 True-Up Proceeding. We will be required to establish and support the amounts of these costs in order to recover them. Third parties will have the opportunity and are expected to challenge our calculation of these costs.

Following the unbundling of the integrated utility into its components, we remain a regulated transmission and distribution utility through which stranded investment is recovered. We will distribute recovery of the true-up components not used to repay indebtedness to CenterPoint Energy through either the payment of dividends or the settlement of intercompany payables. CenterPoint Energy can then move funds back to us, either through equity or intercompany debt, in order to maintain our capital structure at the appropriate levels.

CenterPoint has recorded an impairment of \$399 million related to the partial distribution of its investment in Texas Genco. Since this amount is expected to be recovered in the 2004 True-Up Proceeding, we have recorded a regulatory asset reflecting our right to recover this amount and an associated payable to CenterPoint Energy. Any additional impairment or loss that CenterPoint Energy incurs on its Texas Genco investment that we expect to recover as stranded investment will be recorded in the same manner.

The Bond Company has \$703 million aggregate principal amount of outstanding transition bonds that were issued in 2001 in accordance with the Texas electric restructuring law. The transition bonds are secured by "transition property," as defined in the Texas electric restructuring law, which includes the irrevocable right to recover, through non-bypassable transition charges payable by retail electric customers, qualified costs provided in the Texas electric restructuring law. The transition bonds are reported as our long-term debt, although the holders of the transition bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the transition bond company. We have no payment obligations with respect to the transition bonds except to remit collections of transition charges as set forth in a servicing agreement between us and the Bond Company and in an intercreditor agreement among us, the Bond Company and other parties.

Bank Facilities. As of April 30, 2004, we had no bank facilities available to meet our short-term liquidity needs.

Cash Requirements in 2004. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. Our principal cash requirements during the remainder of 2004 include the following:

- approximately \$240 million of capital expenditures;

- an estimated \$183 million in refunds of excess mitigation credits through December 31, 2004; and
- \$27 million of maturing transition bonds.

We expect that anticipated cash flows from operations and intercompany borrowings will be sufficient to meet our cash needs for 2004.

We will distribute recovery of the true-up components not used to repay indebtedness to CenterPoint Energy through either the payment of dividends or the settlement of intercompany payables. CenterPoint Energy can then move funds back to us, either through equity or intercompany debt, in order to maintain our capital structure at the appropriate levels. Under the orders described under " - - Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends," our member's equity as a percentage of total capitalization must be at least 30%, although the Securities and Exchange Commission (SEC) has permitted the percentage to be below this level for other companies taking into account non-recourse securitization debt as a component of capitalization.

Impact on Liquidity of a Downgrade in Credit Ratings. As of May 1, 2004, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P), and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior debt.

COMPANY/INSTRUMENT	MOODY'S		S&P		FITCH	
	RATING	OUTLOOK(1)	RATING	OUTLOOK (2)	RATING	OUTLOOK (3)
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds).....	Baa2	Negative	BBB	Negative	BBB+	Negative

- (1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.
- (2) An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term.
- (3) A "negative" outlook from Fitch encompasses a one-to-two year horizon as to the likely ratings direction.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to obtain short- and long-term financing, the cost of such financings and the execution of our commercial strategies.

Cross Defaults. The terms of our debt instruments generally provide that a default on obligations by CenterPoint Energy does not cause a default under our debt instruments. A payment default on debt for borrowed money and certain other specified types of obligations by us exceeding \$50 million will cause a default under our \$1.3 billion loan maturing in 2005. A payment default on, or a non-payment default that permits acceleration of, any of our indebtedness exceeding \$50 million will cause a default under CenterPoint Energy's \$2.3 billion credit facility entered into on October 7, 2003. A payment default by us in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of \$50 million, will cause a default on senior debt of CenterPoint Energy aggregating \$1.4 billion.

Pension Plan. As discussed in Note 7(a) to the consolidated annual financial statements in the CenterPoint Houston Form 10-K (CenterPoint Houston 10-K Notes), which is incorporated herein by reference, we participate in CenterPoint Energy's qualified non-contributory pension plan covering substantially all employees. Pension expense for 2004 is estimated to be \$23 million based on an expected return on plan assets of 9.0% and a discount rate of 6.25% as of December 31, 2003. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

Other Factors that Could Affect Cash Requirements. In addition to the above factors, our liquidity and capital resources could be affected by:

- various regulatory actions; and
- the ability of Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI) and its subsidiaries to satisfy their obligations as our principal customer and in respect of RRI's indemnity obligations to us.

Money Pool. We participate in a "money pool" through which we and certain of our affiliates can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money pool's net funding requirements are generally met by borrowings of CenterPoint Energy. The terms of the money pool are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act and under an order from the SEC relating to our financing activities on June 30, 2003 (June 2003 Financing Order). Our money pool borrowing limit under such financing order is \$600 million. At March 31, 2004, we had borrowings from the money pool of \$110 million. The money pool may not provide sufficient funds to meet our cash needs.

Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends. Factors affecting our ability to issue securities, pay dividends on our common stock or to take other actions to adjust our capitalization include:

- covenants and other provisions in our borrowing agreements; and
- limitations imposed on us under the 1935 Act.

Our collateralized term loan limits our debt, excluding transition bonds, as a percentage of total capitalization to 68%.

Our parent, CenterPoint Energy, is a registered public utility holding company under the 1935 Act. The 1935 Act and related rules and regulations impose a number of restrictions on our parent's activities and those of its subsidiaries, including us. The 1935 Act, among other things, limits our parent's ability and the ability of its regulated subsidiaries, including us, to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

The June 2003 Financing Order is effective until June 30, 2005. Additionally, CenterPoint Energy has received several subsequent orders which provide additional financing authority. These orders establish limits on the amount of external debt and equity securities that can be issued by CenterPoint Energy and its regulated subsidiaries, including us, without additional authorization but generally permit CenterPoint Energy and its subsidiaries, including us, to refinance our existing obligations. We are in compliance with the authorized limits. As of April 30, 2004, we are authorized to issue an additional aggregate \$46 million of debt and an aggregate \$250 million of preferred stock and preferred securities.

The SEC has reserved jurisdiction over, and must take further action to permit, the issuance of \$250 million of additional debt by us.

The orders require that if CenterPoint Energy or any of its regulated subsidiaries, including us, issue any securities that are rated by a nationally recognized statistical rating organization (NRSRO), the security to be issued must obtain an investment grade rating from at least one NRSRO and, as a condition to such issuance, all outstanding rated securities of the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The orders also contain certain requirements for interest rates, maturities, issuance expenses and use of proceeds.

The 1935 Act limits the payment of dividends to payment from current and retained earnings unless specific authorization is obtained to pay dividends from other sources. We expect to pay dividends out of current earnings. The June 2003 Financing Order requires that we maintain a ratio of common equity to total capitalization of at least 30%.

Relationship with CenterPoint Energy. We are an indirect wholly owned subsidiary of CenterPoint Energy. As a result of this relationship, the financial condition and liquidity of our parent company could affect our access to capital, our credit standing and our financial condition.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Our significant accounting policies are discussed in Note 2 to the CenterPoint Houston 10-K Notes. We believe the following accounting policies involve the application of critical accounting estimates. Accordingly, these accounting estimates have been reviewed and discussed with the audit committee of the board of directors of CenterPoint Energy.

ACCOUNTING FOR RATE REGULATION

Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated entities account for and report assets and liabilities consistent with the recovery of those incurred costs in rates if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. We apply SFAS No. 71, which results in our accounting for the regulatory effects of recovery of stranded costs and other regulatory assets resulting from the unbundling of the transmission and distribution business from our electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Significant accounting estimates embedded within the application of SFAS No. 71 relate to \$3.3 billion of recoverable electric generation-related regulatory assets as of March 31, 2004. These costs are recoverable under the provisions of the Texas electric restructuring law. The ultimate amount of cost recovery is subject to a final determination, which will occur in 2004, and is contingent upon the market value of Texas Genco. Any significant changes in the regulatory recovery mechanism currently in place could result in a material write-down of these regulatory assets.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

We review the carrying value of our long-lived assets, including identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Unforeseen events and changes in circumstances and market conditions and material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows, regulatory matters and operating costs could negatively affect the fair value of our assets and result in an impairment charge.

Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques.

UNBILLED REVENUES

Revenues related to the sale and/or delivery of electricity are generally recorded when electricity is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled electric delivery revenue is estimated each month based on daily supply volumes, applicable rates and analyses reflecting significant historical trends and experience. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Interim Financial Statements for a discussion of new accounting pronouncements that affect us.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2004 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of certain legal and regulatory proceedings affecting us, please review Notes 3 and 6 to our Interim Financial Statements, "Business - - Regulation" and " - - Environmental Matters" in Item 1 of the CenterPoint Houston Form 10-K, Item 3 of the CenterPoint Houston Form 10-K and Notes 4 and 9(b) to the CenterPoint Houston 10-K Notes, each of which is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing of CenterPoint Energy Houston Electric, LLC or CenterPoint Energy, Inc. as indicated.

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
3.1	Articles of Organization of CenterPoint Energy Houston Electric, LLC	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(b)
3.2	Limited Liability Company Regulations of CenterPoint Energy Houston Electric, LLC	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(c)
10.1.1	\$1,310,000,000 Credit Agreement dated as of November 12, 2002, among CenterPoint Houston and the banks named therein	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(g)(1)
10.1.2	First Amendment to Exhibit 10.1.1, dated as of September 3, 2003	CenterPoint Energy's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.7
10.1.3	Pledge Agreement, dated as of November 12, 2002 executed in connection with Exhibit 10.1.1	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(g)(2)
+31.1	Rule 13a-14(a)/15d-14(a) Certification of David M. McClanahan			
+31.2	Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock			
+32.1	Section 1350 Certification of David M. McClanahan			
+32.2	Section 1350 Certification of Gary L. Whitlock			

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
+99.1	<p>Items incorporated by reference from the CenterPoint Houston Form 10-K. Item 1 "Business -- Regulation," " -- Environmental Matters," " -- Risk Factors," Item 3 "Legal Proceedings" and Item 7 "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" and Notes 2(e) (Regulatory Assets and Liabilities), 4 (Regulatory Matters), 7(a) (Pension Plans) and 9 (Commitments and Contingencies).</p>			

(b) Reports on Form 8-K.

On March 3, 2004, we filed a Current Report on Form 8-K dated March 3, 2004 to furnish under Item 9 of that form a slide presentation we expect will be presented to various members of the financial and investment community from time to time.

On March 10, 2004, we filed a Current Report on Form 8-K dated March 4, 2004 to report the administrative law judge's recommendation regarding our final fuel reconciliation proceeding and its effect on our previously reported 2003 earnings.

On April 1, 2004, we filed a Current Report on Form 8-K dated April 1, 2004 to report that CenterPoint Houston, Texas Genco LP and Reliant Energy Retail Services LLC filed the final true-up application required by the 1999 Texas Electric Choice Law with the Texas Utility Commission. A slide showing the components of the true-up balance for CenterPoint Energy was furnished under Item 9 of that form.

On April 1, 2004, we filed a Current Report on Form 8-K dated April 1, 2004 to furnish under Item 9 of that form a slide presentation we expect will be presented to various members of the financial and investment community from time to time.

SIGNATURES

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

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ James S. Brian

James S. Brian
Senior Vice President and
Chief Accounting Officer

Date: May 7, 2004

INDEX TO EXHIBITS

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated by reference to a prior filing of CenterPoint Energy Houston Electric, LLC or CenterPoint Energy, Inc. as indicated.

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
3.1	Articles of Organization of CenterPoint Energy Houston Electric, LLC	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(b)
3.2	Limited Liability Company Regulations of CenterPoint Energy Houston Electric, LLC	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(c)
10.1.1	\$1,310,000,000 Credit Agreement dated as of November 12, 2002, among CenterPoint Houston and the banks named therein	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(g)(1)
10.1.2	First Amendment to Exhibit 10.1.1, dated as of September 3, 2003	CenterPoint Energy's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.7
10.1.3	Pledge Agreement, dated as of November 12, 2002 executed in connection with Exhibit 10.1.1	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(g)(2)
+31.1	Rule 13a-14(a)/15d-14(a) Certification of David M. McClanahan			
+31.2	Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock			
+32.1	Section 1350 Certification of David M. McClanahan			
+32.2	Section 1350 Certification of Gary L. Whitlock			
+99.1	Items incorporated by reference from the CenterPoint Houston Form 10-K. Item 1 "Business -- Regulation," " -- Environmental Matters," " -- Risk Factors," Item 3 "Legal Proceedings" and Item 7 "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" and Notes 2(e) (Regulatory Assets and Liabilities), 4 (Regulatory Matters), 7(a) (Pension Plans) and 9 (Commitments and Contingencies).			

CERTIFICATION

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Houston Electric, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

By: /s/ David M. McClanahan

David M. McClanahan
Manager and Principal Executive Officer

CERTIFICATION

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Houston Electric, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

By: /s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the period ended March 31, 2004 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Manager and Principal Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David M. McClanahan

David M. McClanahan
Manager and Principal Executive Officer
May 7, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the period ended March 31, 2004 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Gary L. Whitlock, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer
May 7, 2004

ITEM 1. BUSINESS

REGULATION

We are subject to regulation by various federal, state and local governmental agencies, including the regulations described below.

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

As a subsidiary of a registered public utility holding company, we are subject to a comprehensive regulatory scheme imposed by the Securities and Exchange Commission (SEC) in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, we are required to obtain approval from the SEC under the 1935 Act.

CenterPoint Energy received an order from the SEC under the 1935 Act on June 30, 2003 and supplemental orders thereafter relating to its financing activities and those of its regulated subsidiaries, including us, as well as other matters. The orders are effective until June 30, 2005. As of December 31, 2003, the orders generally permitted CenterPoint Energy and its subsidiaries, including us, to issue securities to refinance indebtedness outstanding at June 30, 2003, and authorized CenterPoint Energy and its subsidiaries, including us, to issue certain incremental external debt securities and common and preferred stock through June 30, 2005, without prior authorization from the SEC. The orders also contain certain requirements regarding ratings of CenterPoint Energy's securities, interest rates, maturities, issuance expenses and use of proceeds. The orders require that we maintain a ratio of common equity to total capitalization of at least 30%.

FEDERAL ENERGY REGULATORY COMMISSION

We are not a "public utility" under the Federal Power Act and therefore are not generally regulated by the Federal Energy Regulatory Commission, although certain of our transactions are subject to limited FERC jurisdiction.

STATE AND LOCAL REGULATION

We conduct operations pursuant to a certificate of convenience and necessity issued by the Texas Utility Commission that covers our present service area and facilities. In addition, we hold non-exclusive franchises, typically having a term of forty years, from the incorporated municipalities in our service territory. These franchises give us the right to construct, operate and maintain our transmission and distribution system within the streets and public ways of these municipalities for the purpose of delivering electric service to the municipality, its residents and businesses in exchange for payment of a fee. The franchise for the City of Houston is scheduled to expire in 2007.

All retail electric providers in our service area pay the same rates and other charges for transmission and distribution services.

Our distribution rates charged to retail electric providers for residential customers are based on amounts of energy delivered whereas distribution rates for a majority of commercial and industrial customers are based on peak demand. Transmission rates charged to other distribution companies are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted. All distribution companies in ERCOT pay us the same rates and other charges for transmission services. Our current transmission and distribution rates have been in effect since January 1, 2002, when electric competition began. This regulated delivery charge includes the transmission and distribution rate (which includes costs for nuclear decommissioning and municipal franchise fees), a system benefit fund fee imposed by the Texas electric restructuring law, a transition charge associated with securitization of regulatory assets and an excess mitigation credit imposed by the Texas Utility Commission.

ENVIRONMENTAL MATTERS

We are subject to a number of federal, state and local laws and regulations relating to the protection of the environment and the safety and health of company personnel and the public. These requirements relate to a broad range of our activities, including:

- the discharge of pollutants into the air, water and soil;
- the identification, generation, storage, handling, transportation, disposal, record keeping, labeling and reporting of, and the emergency response in connection with, hazardous and toxic materials and wastes, including asbestos, associated with our operations;
- noise emissions from our facilities; and
- safety and health standards, practices and procedures that apply to the workplace and the operation of our facilities.

In order to comply with these requirements, we may need to spend substantial amounts and devote other resources from time to time to:

- construct or acquire new equipment; and
- modify or replace existing and proposed equipment.

If we do not comply with environmental requirements that apply to our operations, regulatory agencies could seek to impose on us civil, administrative and/or criminal liabilities as well as seek to curtail our operations. Under some statutes, private parties could also seek to impose upon us civil fines or liabilities for property damage, personal injury and possibly other costs.

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), owners and operators of facilities from which there has been a release or threatened release of hazardous substances, together with those who have transported or arranged for the disposal of those substances, are liable for:

- the costs of responding to that release or threatened release; and
- the restoration of natural resources damaged by any such release.

LIABILITY FOR PREEXISTING CONDITIONS AND REMEDIATION

Asbestos and Other. As a result of their age, many of our facilities contain significant amounts of asbestos insulation, other asbestos-containing materials and lead-based paint. Existing state and federal rules require the proper management and disposal of these potentially toxic materials. We have planned for the proper management, abatement and disposal of asbestos and lead-based paint at our facilities.

We have been named, along with numerous others, as a defendant in a large number of lawsuits filed by a number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. We anticipate that additional claims like those received may be asserted in the future, and we intend to continue our practice of vigorously contesting claims that we do not consider to have merit.

RISK FACTORS

PRINCIPAL RISK FACTORS ASSOCIATED WITH OUR BUSINESS

WE MAY NOT BE SUCCESSFUL IN RECOVERING THE FULL VALUE OF OUR TRUE-UP COMPONENTS.

We expect to make a filing on March 31, 2004 in a true-up proceeding provided for by the Texas electric restructuring law. The purpose of this proceeding will be to quantify and reconcile the following costs or true-up components:

- "stranded costs," which consist of the positive excess of the regulatory net book value of generation assets, as defined, over the market value of the assets;
- the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period;
- the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as generation-related regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;
- final fuel over- or under-recovery; less
- "price to beat" clawback components.

We will be required to establish and support the amounts we seek to recover in the 2004 True-Up Proceeding. We expect these amounts to be substantial. Third parties will have the opportunity and are expected to challenge our calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if we agree to forego recovery of a portion of the request under a settlement agreement, we would be unable to recover these costs in the future. Additionally, in October 2003, a group of intervenors filed a petition asking the Texas Utility Commission to open a rulemaking proceeding and reconsider certain aspects of its true-up rules. In November 2003, the Texas Utility Commission voted to deny the petition. Despite the denial of the petition, we expect that issues could be raised in the 2004 True-Up Proceeding regarding our compliance with the Texas Utility Commission's rules regarding ECOM recovery, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state-mandated auctions. We believe Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM true-up regulatory asset no longer probable, we would write off the unrecoverable balance of such asset as a charge against earnings.

In the event we have not begun to recover the amounts established in the 2004 True-Up Proceeding prior to our \$1.3 billion term loan maturity date in November 2005, our ability to repay or refinance this term loan may be adversely affected.

The Texas Utility Commission's ruling that the 2004 True-Up Proceeding filing will be made on March 31, 2004 means that the calculation of the market value of a share of Texas Genco common stock for purposes of the Texas Utility Commission's stranded cost determination will be based on market prices during the 120 trading days ending on March 30, 2004 plus a control premium, if any, up to a maximum of 10%. If Texas Genco is sold to a third party at a lower price than the market value used by the Texas Utility Commission, we would be unable to recover the difference.

OUR RECEIVABLES ARE CONCENTRATED IN A SMALL NUMBER OF RETAIL ELECTRIC PROVIDERS.

Our receivables from the distribution of electricity are collected from retail electric providers that supply the electricity we distribute to their customers. Currently, we do business with approximately 43 retail electric providers. Adverse economic conditions, structural problems in the new ERCOT market or financial difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for our services or could cause them to delay such payments. We depend on these retail electric providers to remit payments on a timely basis. Any delay or default in payment could adversely affect our cash flows, financial condition and results of operations. Reliant Resources, through its subsidiaries, is our largest customer. Approximately 70% of our \$83 million in billed receivables from retail electric providers at December 31, 2003 was owed by subsidiaries of Reliant Resources. Pursuant to the Texas electric restructuring law, Reliant Resources will be obligated to make a "price to beat" clawback payment to us in 2004 which is currently estimated by Reliant Resources to be \$175 million. Our financial condition may be adversely affected if Reliant Resources is unable to meet these obligations.

RATE REGULATION OF OUR BUSINESS MAY DELAY OR DENY OUR FULL RECOVERY OF OUR COSTS.

Our rates are regulated by certain municipalities and the Texas Utility Commission based on an analysis of our invested capital and expenses incurred in a test year. Thus, the rates that we are allowed to charge may not match our expenses at any given time. While rate regulation in Texas is premised on providing a reasonable opportunity to recover reasonable and necessary operating expenses and to earn a reasonable return on our invested capital, there can be no assurance that the Texas Utility Commission will judge all of our costs to be reasonable or necessary or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of our costs.

DISRUPTIONS AT POWER GENERATION FACILITIES OWNED BY THIRD PARTIES COULD INTERRUPT OUR SALES OF TRANSMISSION AND DISTRIBUTION SERVICES.

We depend on power generation facilities owned by third parties to provide retail electric providers with electric power which we transmit and distribute to customers of the retail electric providers. We do not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, our services may be interrupted, and our results of operations, financial condition and cash flows may be adversely affected.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A portion of our revenues is derived from rates that we collect from each retail electric provider based on the amount of electricity we distribute on behalf of each retail electric provider. Thus, our revenues and results of operations are subject to seasonality, weather conditions and other changes in electricity usage, with revenues being higher during the warmer months.

RISK FACTORS ASSOCIATED WITH OUR CONSOLIDATED FINANCIAL CONDITION

IF WE ARE UNABLE TO ARRANGE FUTURE FINANCINGS ON ACCEPTABLE TERMS, OUR ABILITY TO FUND FUTURE CAPITAL EXPENDITURES AND REFINANCE EXISTING INDEBTEDNESS COULD BE LIMITED.

As of December 31, 2003, we had \$3.9 billion of outstanding indebtedness on a consolidated basis, including a \$1.3 billion collateralized term loan due in 2005. In addition, the capital constraints and other factors currently impacting our business may require our future indebtedness to include terms that are more restrictive or burdensome than those of our current indebtedness. These terms may negatively impact our ability to operate our business or adversely affect our financial condition and results of operations. The success of our future financing efforts may depend, at least in part, on:

- our ability to recover the true-up components;
- general economic and capital market conditions;

- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings by us and by CenterPoint Energy;
- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to Reliant Resources as our customer and in connection with Reliant Resources' indemnification obligations arising in connection with its separation from CenterPoint Energy;
- provisions of relevant tax and securities laws; and
- our ability to obtain specific approval of specific financing transactions under the 1935 Act.

Our capital structure and liquidity will be significantly impacted in the 2004/2005 period by our ability to recover the true-up components through the regulatory process beginning in March 2004. To the extent our recovery is denied or materially reduced, our liquidity and financial condition will be materially adversely affected.

As of March 1, 2004, we have \$3.2 billion principal amount of general mortgage bonds outstanding and \$382 million of first mortgage bonds outstanding. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Although approximately \$400 million of additional first mortgage and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of December 31, 2003, we have agreed under the \$1.3 billion collateralized term loan maturing in 2005 to not issue, subject to certain exceptions, more than \$200 million of incremental secured or unsecured debt. In addition, we are contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in our "Management's Narrative Analysis of Results of Operations--Liquidity--Impact on Liquidity of a Downgrade in Credit Ratings" in Item 7 of Part II of this report. We cannot assure you that these credit ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

AN INCREASE IN SHORT-TERM INTEREST RATES COULD ADVERSELY AFFECT OUR CASH FLOWS.

As of December 31, 2003, we had \$1.3 billion of outstanding floating-rate debt owed to third parties. The interest rate spreads on such debt are substantially above our historical interest rate spreads. In addition, any floating-rate debt issued by us in the future could be at interest rates substantially above our historical borrowing rates. While we may seek to use interest rate swaps in order to hedge portions of our floating-rate debt, we may not be successful in obtaining hedges on acceptable terms. An increase in short-term interest rates could result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

THE FINANCIAL CONDITION AND LIQUIDITY OF OUR PARENT COMPANY COULD AFFECT OUR ACCESS TO CAPITAL, OUR CREDIT STANDING AND OUR FINANCIAL CONDITION.

Our ratings and credit may be impacted by CenterPoint Energy's credit standing. CenterPoint Energy and its subsidiaries other than us have approximately \$2.2 billion principal amount of debt required to be paid through 2006. This amount excludes amounts related to capital leases, securitization debt and indexed debt securities obligations. We cannot assure you that CenterPoint Energy and its other subsidiaries will be able to pay or refinance these amounts. If CenterPoint Energy were to experience a

deterioration in its credit standing or liquidity difficulties, our access to credit and our ratings could be adversely affected and the repayment of notes receivable from CenterPoint Energy in the amount of \$815 million as of December 31, 2003 could be adversely affected.

WE ARE A WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY. CENTERPOINT ENERGY CAN EXERCISE SUBSTANTIAL CONTROL OVER OUR BUSINESS AND OPERATIONS AND COULD DO SO IN A MANNER THAT IS ADVERSE TO OUR INTERESTS.

We are managed by officers and employees of CenterPoint Energy. Our management will make determinations with respect to the following:

- our payment of dividends;
- decisions on our financings and our capital raising activities;
- mergers or other business combinations; and
- our acquisition or disposition of assets.

There are no contractual restrictions on our ability to pay dividends to CenterPoint Energy. Our management could decide to increase our dividends to CenterPoint Energy to support its cash needs. This could adversely affect our liquidity. Under the 1935 Act, our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend.

OTHER RISKS

WE COULD INCUR LIABILITIES ASSOCIATED WITH BUSINESSES AND ASSETS WE HAVE TRANSFERRED TO OTHERS.

Under some circumstances, we could incur liabilities associated with assets and businesses we no longer own. These assets and businesses were previously owned by Reliant Energy directly or through subsidiaries and include:

- those transferred to Reliant Resources or its subsidiaries in connection with the organization and capitalization of Reliant Resources prior to its initial public offering in 2001;
- those transferred to Texas Genco in connection with its organization and capitalization; and
- those transferred to CenterPoint Energy and us in connection with the August 2002 restructuring of Reliant Energy.

In connection with the organization and capitalization of Reliant Resources, Reliant Resources and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. Reliant Resources also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the transferred assets and businesses. The indemnity provisions were intended to place sole financial responsibility on Reliant Resources and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Reliant Resources, regardless of the time those liabilities arose. If Reliant Resources is unable to satisfy a liability that has been so assumed in circumstances in which Reliant Energy has not been released from the liability in connection with the transfer, CenterPoint Energy or us could be responsible for satisfying the liability.

Reliant Resources reported in its Annual Report on Form 10-K for the year ended December 31, 2003 that as of December 31, 2003 it had \$6.1 billion of total debt and its unsecured debt ratings are currently below investment grade. If Reliant Resources were unable to meet its obligations, it would need to consider, among various options, restructuring under the bankruptcy laws, in which event Reliant Resources might not honor its indemnification obligations and claims by Reliant Resources' creditors might be made against us as its former owner.

Reliant Energy and Reliant Resources are named as defendants in a number of lawsuits arising out of power sales in California and other West Coast markets and financial reporting matters. Although these matters relate to

the business and operations of Reliant Resources, claims against Reliant Energy have been made on grounds that include the effect of Reliant Resources' financial results on Reliant Energy's historical financial statements and liability of Reliant Energy as a controlling shareholder of Reliant Resources. We could incur liability if claims in one or more of these lawsuits were successfully asserted against us and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed to us with respect to those claims.

In connection with the organization and capitalization of Texas Genco, Texas Genco assumed liabilities associated with the electric generation assets Reliant Energy transferred to it. Texas Genco also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were held by us and we were not released by third parties from these liabilities. The indemnity provisions were intended generally to place sole financial responsibility on Texas Genco and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Texas Genco, regardless of the time those liabilities arose. If Texas Genco were unable to satisfy a liability that had been so assumed or indemnified against, and provided Reliant Energy had not been released from the liability in connection with the transfer, we could be responsible for satisfying the liability.

WE, AS A SUBSIDIARY OF CENTERPOINT ENERGY, A HOLDING COMPANY, ARE SUBJECT TO REGULATION UNDER THE 1935 ACT. THE 1935 ACT AND RELATED RULES AND REGULATIONS IMPOSE A NUMBER OF RESTRICTIONS ON OUR ACTIVITIES.

CenterPoint Energy and its subsidiaries, including us but excluding Texas Genco, are subject to regulation by the SEC under the 1935 Act. The 1935 Act, among other things, limits the ability of a holding company and its regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

CenterPoint Energy and its subsidiaries, including us, received an order from the SEC under the 1935 Act on June 30, 2003 relating to financing activities, which is effective until June 30, 2005. We must seek a new order before the expiration date. Although authorized levels of financing, together with current levels of liquidity, are believed to be adequate during the period the order is effective, unforeseen events could result in capital needs in excess of authorized amounts, necessitating further authorization from the SEC. Approval of filings under the 1935 Act can take extended periods.

The United States Congress is currently considering legislation that has a provision that would repeal the 1935 Act. We cannot predict at this time whether this legislation or any variation thereof will be adopted or, if adopted, the effect of any such law on our business.

WE DO NOT MAINTAIN INSURANCE COVERAGE ON OUR TRANSMISSION AND DISTRIBUTION SYSTEM. INSUFFICIENT INSURANCE COVERAGE AND INCREASED INSURANCE COSTS COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

In common with other companies in our line of business that serve coastal regions, we do not have insurance covering our transmission and distribution system because we believe it to be cost prohibitive. If we were to sustain any loss of or damage to our transmission and distribution properties, we would be entitled to seek to recover such loss or damage through a change in our regulated rates, although there is no assurance that we would ultimately obtain any such rate recovery or that any such rate recovery would be timely granted. Therefore, we cannot assure you that we will be able to restore any loss of or damage to any of our transmission and distribution properties without negative impact on our results of operations, financial condition and cash flows.

ITEM 3. LEGAL PROCEEDINGS

For a brief description of certain legal and regulatory proceedings affecting us, please read "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 4 and 9(b) to our consolidated financial statements, which information is incorporated herein by reference.

In addition to the matters incorporated herein by reference, the following matter that we previously reported has been resolved:

In August and October 2003, class action lawsuits were filed against CenterPoint Houston and Reliant Energy Services in federal court in New York on behalf of purchasers of natural gas futures contracts on the New York Mercantile Exchange. A third, similar class action was filed in the same court in November 2003. The complaints alleged that the defendants manipulated the price of natural gas through their gas trading activities and price reporting practices in violation of the Commodity Exchange Act during the period January 1, 2000 through December 31, 2002. The plaintiffs sought damages based on the effect of such alleged manipulation on the value of the gas futures contracts they bought or sold. In January 2004, the plaintiffs voluntarily dismissed CenterPoint Houston from these lawsuits.

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

Our past earnings are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on or be affected by numerous factors including:

- the timing and outcome of the regulatory process leading to the determination and recovery of the true-up components and the securitization of these amounts;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, constraints placed on our activities or business by the 1935 Act, changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- termination of accruals of ECOM true-up after 2003;
- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- changes in interest rates or rates of inflation;
- weather variations and other natural phenomena;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, receipt of certain approvals under the 1935 Act, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- non-payment for our services due to financial distress of our customers, including Reliant Resources;
- the outcome of the pending securities lawsuits against us, Reliant Energy and Reliant Resources;
- the ability of Reliant Resources to satisfy its obligations to us including indemnity obligations and obligations to pay the "price to beat" clawback; and
- other factors discussed in Item 1 of this report under "Risk Factors."

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) REGULATORY ASSETS AND LIABILITIES

The Company applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2002 and 2003:

	DECEMBER 31,	
	2002	2003
	(IN MILLIONS)	
Recoverable Electric Generation-Related Regulatory Assets, net:		
Recoverable electric generation plant mitigation	2,051	2,116
Excess mitigation liability	(969)	(778)
	-----	-----
Net electric generation plant mitigation asset	1,082	1,338
Excess cost over market (ECOM/capacity auction) true-up	697	1,357
Texas Genco distribution/impairment	--	399
Regulatory tax asset	175	119
Final fuel under/(over) recovery balance	64	(98)
Other 2004 True-Up Proceeding items	53	119
	-----	-----
Total 2004 Recoverable Electric Generation-Related Regulatory Assets.....	2,071	3,234
Securitized regulatory asset	706	682
Unamortized loss on reacquired debt	58	80
Estimated removal costs	--	(232)
Other long-term regulatory assets/liabilities	26	24
	-----	-----
Total	\$ 2,861	\$ 3,788
	=====	=====

If events were to occur that would make the recovery of these assets and liabilities no longer probable, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment of the carrying costs of plant and inventory assets. Because estimates of the fair value of Texas Genco are required, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. See Note 4(a) for additional discussion of regulatory assets.

(4) REGULATORY MATTERS

(a) TRUE-UP COMPONENTS AND SECURITIZATION

The Texas Electric Restructuring Law. In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (the Texas electric restructuring law), which substantially amended the regulatory structure governing electric utilities in order to allow and encourage retail competition which began in January 2002. The Texas electric restructuring law required the separation of the generation, transmission and distribution, and retail sales functions of electric utilities into three different units. Under the law, neither the generation function nor the retail function is subject to traditional cost of service regulation, and the generation and the retail function are each operated on a competitive basis. The transmission and distribution function that the Company performs remains subject to traditional utility rate regulation. The Company recovers the cost of its service through an energy delivery charge approved by the Texas Utility Commission.

Under the Texas electric restructuring law, transmission and distribution utilities in Texas, such as the Company, whose generation assets were "unbundled" may recover, following a regulatory proceeding to be held in 2004 (2004 True-Up Proceeding) as further discussed below in "--2004 True-Up Proceeding":

- "stranded costs," which consist of the positive excess of the net regulatory book value of generation assets, as defined, over the market value of the assets, taking specified factors into account;
- the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period;
- the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as generation-related regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;
- final fuel over- or under-recovery; less
- "price to beat" clawback components.

The Texas electric restructuring law permits transmission and distribution utilities to recover the true-up components through transition charges on retail electric customers' bills, to the extent that such components are established in certain regulatory proceedings. These transition charges are non-bypassable, meaning that they must be paid by essentially all customers and cannot, except in limited circumstances, be avoided by switching to self-generation. The law also authorizes the Texas Utility Commission to permit those utilities to issue transition bonds based on the securitization of revenues associated with the transition charges. The Company recovered a portion of its regulatory assets in 2001 through the issuance of transition bonds. For a further discussion of these matters, see "--Securitization" below.

The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. During a base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula were required to be applied in a manner to accelerate depreciation of generation-related plant assets for regulatory purposes if the utility was expected to have stranded costs. In addition, depreciation expense for transmission and distribution-related assets could be redirected to generation assets for regulatory purposes during that period if the utility was expected to have stranded costs. The Company undertook both of these remedies provided in the Texas electric restructuring law, but in a rate order issued in October 2001,

the Texas Utility Commission required the Company to reverse those actions. For a further discussion of these matters, see "--Mitigation" below.

2004 True-Up Proceeding. In 2004, the Texas Utility Commission will conduct true-up proceedings for investor-owned utilities. The purpose of the true-up proceeding is to quantify and reconcile the amount of the true-up components. The true-up proceeding will result in either additional charges being assessed on, or credits being issued to, retail electric customers. The Company expects to make the filing to initiate its final true-up proceeding on March 31, 2004. The Texas electric restructuring law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although under its rules the Texas Utility Commission can extend the 150-day deadline for good cause. Any delay in the final order date will result in a delay in the securitization of the Company's true-up components and the implementation of the non-bypassable charges to described above, and could delay the recovery of carrying costs on the true-up components determined by the Texas Utility Commission.

The Company will be required to establish and support the amounts it seeks to recover in the 2004 True-Up Proceeding. Third parties will have the opportunity and are expected to challenge the Company's calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if the Company agrees to forego recovery of a portion of the request under a settlement agreement, the Company would be unable to recover those amounts in the future.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, the Company appealed certain provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as the Company contends is required by law. On January 30, 2004, the Texas Supreme Court granted the Company's petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. The Company has not accrued interest income on stranded costs in its consolidated financial statements, but estimates such interest income would be material to the Company's consolidated financial statements.

Stranded Cost Component. The Company will be entitled to recover stranded costs through a transition charge to its customers if the regulatory net book value of generating plant assets exceeds the market value of those assets. The regulatory net book value of generating plant assets is the balance as of December 31, 2001 plus certain costs incurred for reductions in emissions of oxides of nitrogen (NOx), any above-market purchased power contracts and certain other amounts. The market value will be equal to the average daily closing price on The New York Stock Exchange for publicly held shares of Texas Genco common stock for 30 consecutive trading days chosen by the Texas Utility Commission out of the last 120 trading days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission. If Texas Genco is sold to a third party at a lower price than the market value used by the Texas Utility Commission, the Company would be unable to recover the difference.

ECOM True-Up Component. The Texas Utility Commission used a computer model or projection, called an excess cost over market (ECOM) model, to estimate stranded costs related to generation plant assets. Accordingly, the Texas Utility Commission estimated the market power prices that would be received in the generation capacity auctions mandated by the Texas electric restructuring law during 2002 and 2003. Any difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period will be a component of the 2004 True-Up Proceeding. In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the years ended December 31, 2002 and 2003, the Company recorded approximately \$697 million and \$661 million, respectively, in non-cash ECOM True-Up revenue. ECOM True-Up revenue is recorded as a regulatory asset and totaled \$1.4 billion as of December 31, 2003.

In 2003, some parties sought modifications to the true-up rules. Although the Texas Utility Commission denied that request, the Company expects that issues could be raised in the 2004 True-Up Proceeding regarding its compliance with the Texas Utility Commission's rules regarding the ECOM true-up, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state-mandated auctions. The Company believes Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the

2004 True-Up Proceeding that made the recovery of the ECOM true-up regulatory asset no longer probable, the Company would write off the unrecoverable balance of that asset as a charge against earnings.

Fuel Over/Under Recovery Component. The Company and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission in July 2002. This final fuel reconciliation filing covered reconcilable fuel expense and interest of approximately \$8.5 billion incurred from August 1, 1997 through January 30, 2002. In January 2003, a settlement agreement was reached, as a result of which certain items totaling \$24 million were written off during the fourth quarter of 2002 and items totaling \$203 million were carried forward for later resolution by the Texas Utility Commission. In late 2003, a hearing was concluded on those remaining issues. On March 4, 2004, an Administrative Law Judge (ALJ) recommended that CenterPoint Houston not be allowed to recover \$87 million in fuel expenses incurred during the reconciliation period. CenterPoint Houston will contest this recommendation when the Texas Utility Commission considers the ALJ's conclusions on April 15, 2004. However, since the recovery of this portion of the regulatory asset is no longer probable, CenterPoint Houston reserved \$117 million, including interest, in the fourth quarter of 2003. The ALJ also recommended that \$46 million be recovered in the 2004 True-Up Proceeding rather than in the fuel proceeding. The results of the Texas Utility Commission's decision will be a component of the 2004 True-Up Proceeding.

"Price to Beat" Clawback Component. In connection with the implementation of the Texas electric restructuring law, the Texas Utility Commission has set a "price to beat" that retail electric providers affiliated or formerly affiliated with a former integrated utility must charge residential and small commercial customers within their affiliated electric utility's service area. The true-up provides for a clawback of the "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by a other retail electric providers by January 1, 2004. Pursuant to the Texas electric restructuring law and a master separation agreement entered into in connection with the September 30, 2002 spin-off of the CenterPoint Energy's interest in Reliant Resources, Inc. (Reliant Resources) to its shareholders, Reliant Resources is obligated to pay the Company for the clawback component of the true-up. Based on an order issued on February 13, 2004 by the Texas Utility Commission, the clawback will equal \$150 times the number of residential customers served by Reliant Resources in the Company's service territory, less the number of residential customers served by Reliant Resources outside the Company's service territory, on January 1, 2004. As reported in Reliant Resources' Annual Report on Form 10-K for the year ended December 31, 2003, Reliant Resources expects that the clawback payment will be \$175 million. The clawback will reduce the amount of recoverable costs to be determined in the 2004 True-Up Proceeding.

Securitization. The Texas electric restructuring law provides for the use of special purpose entities to issue transition bonds for the economic value of generation-related regulatory assets and stranded costs. These transition bonds will be amortized over a period not to exceed 15 years through non-bypassable transition charges. In October 2001, a special purpose subsidiary of the Company issued \$749 million of transition bonds to securitize certain generation-related regulatory assets. These transition bonds have a final maturity date of September 15, 2015 and are non-recourse to the Company and its subsidiaries other than to the special purpose issuer. Payments on the transition bonds are made out of funds from non-bypassable transition charges.

The Company expects that upon completion of the 2004 True-Up Proceeding, it will seek to securitize the amounts established for the true-up components. Before the Company can securitize these amounts, the Texas Utility Commission must conduct a proceeding and issue a financing order authorizing the Company to do so. Under the Texas electric restructuring law, the Company is entitled to recover any portion of the true-up balance not securitized by transition bonds through a non-bypassable competition transition charge.

Mitigation. In an order issued in October 2001, the Texas Utility Commission established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that the Company has overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its transition plan and the Texas electric restructuring law. In this final order, the Company was required to reverse the amount of redirected depreciation (\$841 million) and accelerated depreciation (\$1.1 billion) taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. In accordance with the order, the Company recorded a regulatory liability of \$1.1 billion to reflect the prospective refund of the accelerated depreciation, and in January

2002 the Company began refunding excess mitigation credits, which are to be refunded over a seven-year period. The annual refund of excess mitigation credits is approximately \$238 million. As of December 31, 2002 and 2003, the Company had recorded net electric plant mitigation regulatory assets of \$1.1 billion and \$1.3 billion, respectively, based on the Company's expectation that these amounts will be recovered in the 2004 True-Up Proceeding as stranded costs. In the event that the excess mitigation credits prove to have been unnecessary and the Company is determined to have stranded costs, excess mitigation credits will be included in the stranded costs to be recovered. In June 2003, the Company sought authority from the Texas Utility Commission to terminate these credits based on then current estimates of what that final determination would be. The Texas Utility Commission denied the request in January 2004.

(b) AGREEMENTS RELATED TO TEXAS GENERATING ASSETS

Texas Genco is the beneficiary of decommissioning trusts that have been established to provide funding for decontamination and decommissioning of the South Texas Project in which Texas Genco owns a 30.8% interest. The Company collects through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trusts, and deposits these amounts into the decommissioning trusts. Upon decommissioning of the facility, in the event funds from the trusts are inadequate, the Company or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trusts, the excess will be refunded to the ratepayers of the Company or its successor. The Company currently funds \$2.9 million a year to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project.

(7) EMPLOYEE BENEFIT PLANS

(a) PENSION PLANS

Substantially all of the Company's employees participate in CenterPoint Energy's qualified non-contributory pension plan. Under the cash balance formula, participants accumulate a retirement benefit based upon 4% of eligible earnings and accrued interest. Prior to 1999, the pension plan accrued benefits based on years of service, final average pay and covered compensation. As a result, certain employees participating in the plan as of December 31, 1998 are eligible to receive the greater of the accrued benefit calculated under the prior plan through 2008 or the cash balance formula.

CenterPoint Energy's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. Pension expense is allocated to the Company based on covered employees. This calculation is intended to allocate pension costs in the same manner as a separate employer plan. Assets of the plan are not segregated or restricted by CenterPoint Energy's participating subsidiaries. Pension benefit was \$6 million for the year ended December 31, 2001. The Company recognized pension expense of \$7 million and \$26 million for the years ended December 31, 2002 and 2003, respectively.

In addition to the plan, the Company participates in CenterPoint Energy's non-qualified benefit restoration plan, which allows participants to retain the benefits to which they would have been entitled under the non-contributory pension plan except for federally mandated limits on these benefits or on the level of compensation on which these benefits may be calculated. The expense associated with the non-qualified pension plan was less than \$1 million for the years ended December 31, 2001, 2002 and 2003, respectively.

(9) COMMITMENTS AND CONTINGENCIES

(a) LEASE COMMITMENTS

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2003, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions).

2004.....	\$	6
2005.....		6
2006.....		6
2007.....		6
2008.....		3

Total	\$	27
		=====

Total lease expense for all operating leases was approximately \$5 million during each of the years ended December 31, 2001, 2002 and 2003, respectively.

(b) LEGAL MATTERS

Legal Matters

Reliant Resources Indemnified Litigation.

The Company, CenterPoint Energy or their predecessor, Reliant Energy, and certain of their former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and Reliant Resources, CenterPoint Energy and its subsidiaries are entitled to be indemnified by Reliant Resources for any losses, including attorneys' fees and other costs, arising out of the lawsuits described below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. Pursuant to the indemnification obligation, Reliant Resources is defending CenterPoint Energy and its subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

Electricity and Gas Market Manipulation Cases. A large number of lawsuits have been filed against numerous market participants and remain pending in both federal and state courts in California and Nevada in connection with the operation of the electricity and natural gas markets in California and certain other western states in 2000-2001, a time of power shortages and significant increases in prices. These lawsuits, many of which have been filed as class actions, are based on a number of legal theories including violation of state and federal antitrust laws, laws against unfair and unlawful business practices, the federal Racketeer Influenced Corrupt Organization Act, false claims statutes and similar theories and breaches of contracts to supply power to governmental entities. Plaintiffs in these lawsuits, which include state officials and governmental entities as well as private litigants, are seeking a variety of forms of relief, including recovery of compensatory damages (in some cases in excess of \$1 billion), a trebling of compensatory damages and punitive damages, injunctive relief, restitution, interest due, disgorgement, civil penalties and fines, costs of suit, attorneys' fees and divestiture of assets. To date, some of these complaints have been dismissed by the trial court and are on appeal, but most of the lawsuits remain in early procedural stages. CenterPoint Energy's former subsidiary, Reliant Resources, was a participant in the California markets, owning generating plants in the state and participating in both electricity and natural gas trading in that state and in western power markets generally. Reliant Resources, some of its subsidiaries and in some cases, corporate officers of some of those companies, have been named as defendants in these suits. The Company, CenterPoint Energy or their predecessor, Reliant Energy, have also been named in approximately 25 of these lawsuits, which were instituted in 2002 and 2003 and are pending in state courts in San Diego, San Francisco and Los Angeles Counties and in federal district courts in San Francisco, San Diego, Los Angeles and Nevada. However, neither CenterPoint Energy nor Reliant Energy was a participant in the electricity or natural gas in California. The Company and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court and the Company believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from the remaining cases.

Other Class Action Lawsuits. Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy have been consolidated in federal district court

in Houston. Reliant Resources and certain of its former and current executive officers are named as defendants. Reliant Energy is also named as a defendant in seven of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the initial public offering of Reliant Resources common stock in May 2001 (Reliant Resources Offering). One lawsuit names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The consolidated amended complaint seeks monetary relief purportedly on behalf of purchasers of common stock of Reliant Energy or Reliant Resources during certain time periods ranging from February 2000 to May 2002, including purchasers of common stock that can be traced to the Reliant Resources Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001. In January 2004 the trial judge dismissed the plaintiffs' allegations that the defendants had engaged in fraud but claims based on alleged misrepresentations in the registration statement issued in the Reliant Resources Offering remain.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former and current officers of Reliant Resources for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to inflate artificially trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law. In January 2004 the trial judge ordered dismissal of plaintiffs' claims on the ground that they did not set forth a claim, but granted the plaintiffs leave to amend their complaint.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Reliant Energy and its directors are named as defendants in all of the lawsuits. Two of the lawsuits have been dismissed without prejudice. The remaining lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaints seek monetary damages for losses suffered on behalf of the plans and a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution. In January 2004 the trial judge dismissed the complaints against a number of defendants, but allowed the case to proceed against members of the Reliant Energy benefits committee.

In October 2002, a derivative action was filed in the federal district court in Houston, against the directors and officers of CenterPoint Energy. The complaint sets forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleges that the defendants caused CenterPoint Energy to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleges breach of fiduciary duty in connection with the spin-off of Reliant Resources and the Reliant Resources Offering. The complaint seeks monetary damages on behalf of CenterPoint Energy as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on the CenterPoint Energy before filing suit. Thereafter, the plaintiff sent another demand asserting the same claims.

CenterPoint Energy's board of directors investigated that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a CenterPoint Energy shareholder. The latter letter demanded that CenterPoint Energy take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. In June 2003, the Board determined that these proposed actions would not be in the best interests of CenterPoint Energy.

CenterPoint Energy believes that none of the lawsuits described under "Other Class Action Lawsuits" has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to any of the plaintiffs.

Other Legal Matters

Texas Antitrust Action. In July 2003, Texas Commercial Energy filed a lawsuit against Reliant Energy, Reliant Resources, Reliant Electric Solutions, LLC, several other Reliant Resources subsidiaries and several other participants in the ERCOT power market in federal court in Corpus Christi, Texas. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleges that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit seeks damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. In February 2004, this complaint was amended to add the Company and CenterPoint Energy, as successors to Reliant Energy, and Texas Genco, LP as defendants. The plaintiff's principal allegations have previously been investigated by the Texas Utility Commission and found to be without merit. The Company also believes the plaintiff's allegations are without merit and will seek their dismissal.

Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of the Company's predecessor, Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claimed that they were entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. After a jury trial of the original claimant cities (but not the class of cities), the trial court decertified the class and reduced the damages awarded by the jury to \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. Despite other jury findings for the plaintiffs, the trial court's judgment was based on the jury's finding in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, a state court of appeals in Houston rendered an opinion reversing the judgment against the CenterPoint Energy and rendering judgment that the Three Cities take nothing by their claims. The court of appeals found that the jury's finding of laches barred all of the Three Cities' claims and that the Three Cities were not entitled to recovery of any attorneys' fees. The Three Cities filed a petition for review at the Texas Supreme Court which declined to hear the case, although the time period for the Three Cities to file a motion for rehearing has not yet expired. The extent to which issues in the Three Cities case may affect the claims of the other cities served by the Company cannot be assessed until judgments are final and no longer subject to appeal.

Other Proceedings

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.