

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 SEPTEMBER 30, 2006

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 a large accelerated filer,
an accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check
one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of October 31, 2006, 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 SEPTEMBER 30, 2006

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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 amount of our recovery of the true-up components, including, in particular, the results of appeals to the courts of determinations on rulings obtained to date;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation, changes in or application of laws or regulations applicable to other aspects of our business;
- timely and appropriate rate actions and increases, allowing recovery of costs and a reasonable return on investment;
- 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, 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, Inc.) (RRI);
- the ability of RRI and its subsidiaries to satisfy their obligations to us, including indemnity obligations;
- the outcome of litigation brought by or against us;
- our ability to control costs;
- the investment performance of CenterPoint Energy, Inc.'s employee benefit plans;
- our potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or to have the anticipated benefits to us; and
- other factors we discuss in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated herein by reference.

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.)
 CONDENSED STATEMENTS OF CONSOLIDATED INCOME
 (MILLIONS OF DOLLARS)
 (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2006	2005	2006
REVENUES	\$484	\$533	\$1,243	\$1,374
EXPENSES:				
Operation and maintenance	156	157	448	439
Depreciation and amortization	90	104	247	287
Taxes other than income taxes	55	53	163	168
Total	301	314	858	894
OPERATING INCOME	183	219	385	480
OTHER INCOME (EXPENSE):				
Interest and other finance charges	(78)	(27)	(230)	(83)
Interest on transition bonds	(9)	(32)	(27)	(98)
Return on true-up balance	35	--	104	--
Other, net	13	16	36	48
Total	(39)	(43)	(117)	(133)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM ..	144	176	268	347
Income tax expense	(49)	(57)	(90)	(114)
INCOME BEFORE EXTRAORDINARY ITEM	95	119	178	233
Extraordinary item, net of tax	--	--	30	--
NET INCOME	\$ 95	\$119	\$ 208	\$ 233

See Notes to the Company's Interim Condensed Financial Statements

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

ASSETS

	DECEMBER 31, 2005	SEPTEMBER 30, 2006
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40	\$ 51
Accounts and notes receivable, net	150	188
Accounts receivable - affiliated companies	--	8
Accrued unbilled revenues	108	122
Materials and supplies	60	59
Deferred tax asset	1	--
Other	34	46
	-----	-----
Total current assets	393	474
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	6,463	6,681
Less accumulated depreciation and amortization ...	(2,386)	(2,517)
	-----	-----
Property, plant and equipment, net	4,077	4,164
	-----	-----
OTHER ASSETS:		
Other intangibles, net	38	37
Regulatory assets	2,902	2,788
Notes receivable -- affiliated companies	750	750
Other	67	34
	-----	-----
Total other assets	3,757	3,609
	-----	-----
TOTAL ASSETS	\$ 8,227	\$ 8,247
	=====	=====

See Notes to the Company's Interim Condensed Financial Statements

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

LIABILITIES AND MEMBER'S EQUITY

	DECEMBER 31, 2005	SEPTEMBER 30, 2006
	-----	-----
CURRENT LIABILITIES:		
Current portion of transition bond long-term debt ...	\$ 73	\$ 147
Accounts payable	57	37
Accounts and notes payable -- affiliated companies ..	79	35
Taxes accrued	139	95
Interest accrued	50	28
Other	43	57
	-----	-----
Total current liabilities	441	399
	-----	-----
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	1,400	1,335
Unamortized investment tax credits	42	37
Benefit obligations	139	138
Regulatory liabilities	294	336
Notes payable -- affiliated companies	151	151
Other	44	48
	-----	-----
Total other liabilities	2,070	2,045
	-----	-----
LONG-TERM DEBT:		
Transition bonds	2,407	2,260
Other	1,591	1,591
	-----	-----
Total long-term debt	3,998	3,851
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
MEMBER'S EQUITY:		
Common stock	--	--
Paid-in capital	1,719	1,720
Retained earnings (deficit)	(1)	232
	-----	-----
Total member's equity	1,718	1,952
	-----	-----
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$8,227	\$8,247
	=====	=====

See Notes to the Company's Interim Condensed Financial Statements

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 208	\$ 233
Extraordinary item, net of tax	(30)	--
	178	233
Income before extraordinary item		
Adjustments to reconcile income before extraordinary item to net cash provided by operating activities:		
Depreciation and amortization	247	287
Amortization of deferred financing costs	23	9
Deferred income taxes	96	(66)
Investment tax credits	(5)	(5)
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(80)	(36)
Accounts receivable/payable, affiliates	20	(2)
Inventory	(3)	1
Accounts payable	(9)	(10)
Taxes receivable	28	--
Interest and taxes accrued	(54)	(5)
Net regulatory assets	(152)	56
Other current assets	(6)	(6)
Other current liabilities	(13)	6
Other assets	(27)	10
Other liabilities	(6)	4
Other, net	--	1
	237	477
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(196)	(288)
Increase in notes receivable from affiliates	(3)	--
Increase in restricted cash of transition bond companies	--	(5)
Other, net	--	11
	(199)	(282)
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(48)	(74)
Decrease in notes payable to affiliates	--	(50)
Debt issuance costs	(2)	--
Dividend to parent	--	(61)
Other, net	1	1
	(49)	(184)
Net cash used in financing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11)	11
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	25	40
	\$ 14	\$ 51
CASH AND CASH EQUIVALENTS AT END OF PERIOD	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest, net of capitalized interest	\$ 263	\$ 194
Income taxes	93	210

See Notes to the Company's Interim Condensed Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED 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 are the condensed consolidated interim financial statements and notes (Interim Condensed Financial Statements) of CenterPoint Energy Houston Electric, LLC and its subsidiaries (collectively, CenterPoint Houston or the Company). The Interim Condensed 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, 2005 (CenterPoint Houston Form 10-K).

Background. The Company engages in the electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston. 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 of Reliant Energy, Incorporated (Reliant Energy) that implemented certain requirements of the Texas Electric Choice Plan (Texas electric restructuring law).

CenterPoint Energy was a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The Energy Policy Act of 2005 (Energy Act) repealed the 1935 Act effective February 8, 2006, and since that date CenterPoint Energy and its subsidiaries have no longer been subject to restrictions imposed under the 1935 Act. The Energy Act includes a new Public Utility Holding Company Act of 2005 (PUHCA 2005) which grants to the Federal Energy Regulatory Commission (FERC) authority to require holding companies and their subsidiaries to maintain certain books and records and make them available for review by the FERC and state regulatory authorities in certain circumstances. On December 8, 2005, the FERC issued rules implementing PUHCA 2005. Pursuant to those rules, on June 14, 2006, CenterPoint Energy filed with the FERC the required notification of its status as a public utility holding company. On October 19, 2006, the FERC adopted additional rules regarding maintenance of books and records by utility holding companies and additional reporting and accounting requirements for centralized service companies that make allocations to public utilities regulated by the FERC under the Federal Power Act. Although CenterPoint Energy provides services to its subsidiaries through a service company, its service company is not subject to the service company rules.

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

The Company's Interim Condensed Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the respective periods. Amounts reported in the Company's Condensed 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) seasonal fluctuations in demand for energy, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of businesses, assets and other interests.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement applies whenever other statements require, or permit, assets or liabilities to be measured at fair value. The statement does not expand the use of fair value accounting in any new circumstances and is effective for the Company for the year ended December 31, 2008 and for interim periods included in that year, with early adoption encouraged. The Company does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS No. 158). SFAS No. 158 requires the Company, as the sponsor of a single employer defined benefit plan, to (a) recognize on its Balance Sheets as an asset a plan's over-funded status or as a liability such plan's under-funded status, (b) measure a plan's assets and obligations that determine its funded status as of the end of the Company's fiscal year and (c) recognize changes in the funded status of a plan in the year in which the changes occur through adjustments to other comprehensive income. SFAS No. 158 is effective for the Company for the year ended December 31, 2006.

SFAS No. 158 is expected to require a non-cash charge to the Company's equity to recognize previously unrecognized costs related to its postretirement plan. The amount of the charge is unknown at this time due to possible changes in discount rates and investment returns through year-end. However, if SFAS No. 158 had been adopted as of December 31, 2005, the charge to comprehensive income would have been approximately \$44 million (net of tax). The adoption of SFAS No. 158 will not impact the Company's compliance with debt covenants.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company expects to adopt FIN 48 in the first quarter of 2007 and is currently evaluating the impact the adoption will have on the Company's financial position.

(3) REGULATORY MATTERS

(a) Recovery of True-Up Balance.

In March 2004, the Company filed its true-up application with the Public Utility Commission of Texas (Texas Utility Commission), requesting recovery of \$3.7 billion, excluding interest, as allowed under the Texas electric restructuring law. In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing the Company to recover a true-up balance of approximately \$2.3 billion, which included interest through August 31, 2004, and providing for adjustment of the amount to be recovered to include interest on the balance until recovery, the principal portion of additional excess mitigation credits returned to customers after August 31, 2004 and certain other matters. The Company and other parties filed appeals of the True-Up Order to a district court in Travis County, Texas. In August 2005, the court issued its final judgment on the various appeals. In its judgment, the court affirmed most aspects of the True-Up Order, but reversed two of the Texas Utility Commission's rulings. The judgment would have the effect of restoring approximately \$650 million, plus interest, of the \$1.7 billion the Texas Utility Commission had disallowed from the Company's initial request. The Company and other parties appealed the district court's judgment. Oral argument to the 3rd Court of Appeals in Austin is not expected to occur before late November 2006. No amounts related to the district court's judgment have been recorded in the consolidated financial statements.

Among the issues raised in the Company's appeal of the True-Up Order is the Texas Utility Commission's reduction of the Company's stranded cost recovery by approximately \$146 million for the present value of certain deferred tax benefits associated with its former electric generation assets. Such reduction was considered in the Company's recording of an after-tax extraordinary loss of \$977 million in the last half of 2004. The Company believes that the Texas Utility Commission based its order on proposed regulations issued by the Internal Revenue Service (IRS) in March 2003 related to those tax benefits. Those proposed regulations would have allowed utilities owning assets that were deregulated before March 4, 2003 to make a retroactive election to pass the benefits of Accumulated Deferred Investment Tax Credits (ADITC) and Excess Deferred Federal Income Taxes (EDFIT) back to customers. However, in December 2005, the IRS withdrew those proposed normalization regulations and issued new proposed regulations that do not include the provision allowing a retroactive election to pass the tax benefits back to customers. In a recent Private Letter Ruling (PLR) issued to a Texas utility on facts similar to the Company's, the IRS, without referencing its proposed regulations, ruled that a normalization violation would occur

if ADITC and EDFIT were required to be returned to customers. The Company intends to seek a PLR asking the IRS whether the Texas Utility Commission's order reducing the Company's stranded cost recovery by \$146 million for ADITC and EDFIT would cause a normalization violation. If the Company's PLR determines that such reduction would cause a normalization violation with respect to the ADITC and the Texas Utility Commission's order relating to such reduction is not reversed or otherwise modified, the IRS could require the Company to pay an amount equal to the Company's unamortized ADITC balance as of the date that the normalization violation is deemed to have occurred. In addition, if a normalization violation with respect to EDFIT is deemed to have occurred and the Texas Utility Commission's order relating to such reduction is not reversed or otherwise modified, the IRS could deny the Company the ability to elect accelerated tax depreciation benefits beginning in the taxable year that the normalization violation is deemed to have occurred. If a normalization violation should ultimately be found to exist, it could have an adverse impact on the Company's results of operations, financial condition and cash flows. However, the Company is vigorously pursuing the appeal of this issue and will seek other relief from the Texas Utility Commission to avoid a normalization violation. The Texas Utility Commission has not previously required a company subject to its jurisdiction to take action that would result in a normalization violation.

There are two ways for the Company to recover the true-up balance: by issuing transition bonds to securitize the amounts due and/or by implementing a competition transition charge (CTC). Pursuant to a financing order issued by the Texas Utility Commission in March 2005 and affirmed in August 2005 by the Travis County District Court, in December 2005, a subsidiary of the Company issued \$1.85 billion in transition bonds with interest rates ranging from 4.84 percent to 5.30 percent and final maturity dates ranging from February 2011 to August 2020. Through issuance of the transition bonds, the Company recovered approximately \$1.7 billion of the true-up balance determined in the True-Up Order plus interest through the date on which the bonds were issued.

In July 2005, the Company received an order from the Texas Utility Commission allowing it to implement a CTC designed to collect approximately \$596 million over 14 years plus interest at an annual rate of 11.075 percent (CTC Order). The CTC Order authorizes the Company to impose a charge on retail electric providers (REPs) to recover the portion of the true-up balance not covered by the financing order. The CTC Order also allows the Company to collect approximately \$24 million of rate case expenses over three years without a return through a separate tariff rider (Rider RCE). The Company implemented the CTC and Rider RCE effective September 13, 2005 and began recovering approximately \$620 million. Effective September 13, 2005, the return on the CTC portion of the true-up balance is included in the Company's tariff-based revenues. During the three and nine months ended September 30, 2006, the Company recognized approximately \$14 million and \$44 million, respectively, in operating income from the CTC. Additionally, during the three and nine months ended September 30, 2006, the Company recognized approximately \$4 million and \$10 million, respectively, of the allowed equity return not previously recorded. As of September 30, 2006, the Company had not recorded an allowed equity return of \$237 million on its true-up balance because such return is being recognized as it is recovered in the future.

Certain parties appealed the CTC Order to the 98th District Court in Travis County. In May 2006, the district court issued a judgment reversing the CTC Order in three respects. First, the court ruled that the Texas Utility Commission had improperly relied on provisions of its rule dealing with the interest rate applicable to CTC amounts. The district court reached that conclusion on the grounds that the Texas Supreme Court had previously invalidated that entire section of the rule. Second, the district court reversed the Texas Utility Commission's ruling that allows the Company to recover through the CTC the costs (approximately \$5 million) for a panel appointed by the Texas Utility Commission in connection with the valuation of the Company's electric generation assets. Finally, the district court accepted the contention of one party that the CTC should not be allocated to retail customers who have switched to new on-site generation. The Company and CenterPoint Energy disagree with the district court's conclusions and in May 2006 appealed the judgment to the court of appeals and, if required, plan to seek further review from the Texas Supreme Court. All briefs in the appeal have been filed. The Company has requested oral argument, but no date has been set. Pending completion of judicial review and any action required by the Texas Utility Commission following a remand from the courts, the CTC remains in effect. The 11.075 percent interest rate in question was applicable from the implementation of the CTC Order on September 13, 2005 until August 1, 2006, the effective date of the implementation of a new CTC in compliance with the new rule discussed below. The ultimate outcome of this matter cannot be predicted at this time. However, the Company does not expect the disposition of this matter to have a material adverse effect on the Company's or CenterPoint Energy's financial condition, results of operations or cash flows.

In June 2006, the Texas Utility Commission adopted the revised rule governing the carrying charges on unrecovered true-up balances as recommended by its staff (Staff). The rule, which applies to the Company, reduces carrying costs on the unrecovered CTC balance prospectively from 11.075 percent to a weighted average cost of capital of 8.06 percent. The annualized impact on operating income is approximately \$18 million per year for the first year with lesser impacts in subsequent years. On July 17, 2006, the Company made a compliance filing necessary to implement the rule changes effective August 1, 2006 per the settlement agreement discussed in Note 3(d) below.

(b) Final Fuel Reconciliation.

The results of the Texas Utility Commission's final decision related to the Company's final fuel reconciliation are a component of the True-Up Order. The Company has appealed certain portions of the True-Up Order involving a disallowance of approximately \$67 million relating to the final fuel reconciliation in 2003 plus interest of \$10 million. The Company has fully reserved for the disallowance and related interest accrual. A judgment was entered by a Travis County court in May 2005 affirming the Texas Utility Commission's decision. The Company filed an appeal to the 3rd Court of Appeals in Austin in June 2005, and in April 2006, the 3rd Court of Appeals issued a judgment affirming the Texas Utility Commission's decision. The Company filed an appeal with the Texas Supreme Court in August 2006, and in October 2006, the Texas Supreme Court requested that the Texas Utility Commission and the City of Houston file written responses to the Company's petition for review. The Texas Supreme Court may grant or deny the petition for review. If the petition is denied, the Court of Appeals' judgment would become final. If the petition is granted, the Texas Supreme Court would address the merits of the Company's appeal. There is no deadline for the Texas Supreme Court's decisions.

(c) Remand of 2001 Unbundled Cost of Service (UCOS) Order.

The 3rd Court of Appeals in Austin remanded to the Texas Utility Commission an issue that was decided by the Texas Utility Commission in the Company's 2001 UCOS proceeding. In its remand order, the court ruled that the Texas Utility Commission had failed to adequately explain its basis for its determination of certain projected transmission capital expenditures. The Court of Appeals ordered the Texas Utility Commission to reconsider that determination on the basis of the record that existed at the time of the Texas Utility Commission's original order. In April 2006, the Texas Utility Commission opined orally that the rate base should be reduced by \$57 million and instructed its Staff to quantify the effect on the Company's rates. In the settlement of the Company's rate proceeding described in Note 3(d) below, the parties to the remand proceeding agreed to settle all issues that could be raised in the remand. Under the terms of that settlement, the Company implemented riders to its tariff rates under which it will provide rate credits to retail and wholesale customers for a total of approximately \$8 million per year until a total of \$32 million has been credited to customers under those tariff riders. Those riders became effective October 10, 2006. The Company reduced revenues and established a corresponding regulatory liability for \$32 million in the second quarter of 2006 to reflect this obligation.

(d) Rate Case.

In October 2005, the Texas Utility Commission Staff filed a memorandum summarizing its review of the Earnings Reports filed by electric utilities for the calendar year ended December 31, 2004. Based on its review, the Staff concluded that continuation of the Company's rates could result in excess retail transmission and distribution revenues and excess wholesale transmission revenues and recommended that the Texas Utility Commission initiate a review of the reasonableness of existing rates.

In December 2005, the Texas Utility Commission agreed to order a rate proceeding concerning the reasonableness of the Company's existing rates for transmission and distribution service and required the Company to make a filing by April 15, 2006 to justify or change those rates. In April 2006, the Company filed cost data and other information that supported the current rates.

In July, 2006, the Company entered into a settlement agreement with the parties to the proceeding that resolved the issues raised in this matter. The Company filed a Stipulation and Agreement (the Agreement) with the Texas Utility Commission in August 2006 to seek approval of that settlement agreement. On September 5, 2006, the Texas Utility Commission issued its final order approving the Agreement. Revised base rates and other revised tariffs became effective as of October 10, 2006.

Under the terms of the Agreement, the Company's base rate revenues will be reduced by a net of approximately \$58 million per year. Also, the Company will increase its energy efficiency expenditures by an additional \$10 million per year over the \$13 million included in existing rates. The expenditures will be made to benefit both residential and commercial customers. The Company also will fund \$10 million per year for programs providing financial assistance to qualified low-income customers in its service territory.

The Agreement provides for a rate freeze until June 30, 2010 under which the Company will not seek to increase its base rates and the other parties will not petition to decrease those rates. The rate freeze is subject to adjustments for changes related to certain transmission costs, implementation of the Texas Utility Commission's recently-adopted change to its CTC rule and certain other changes. The rate freeze does not apply to changes required to reflect the result of currently pending appeals of the True-Up Order, the pending appeal of the Texas Utility Commission's order regarding the Company's final fuel reconciliation, the appeal of the order implementing the Company's CTC or the implementation of transition charges associated with current and future securitizations. In addition, the Company is not required to file annual earnings reports for the calendar years 2006 through 2008, but is required to file an earnings report for 2009 no later than March 1, 2010. The Company must make a new base rate filing not later than June 30, 2010, based on a test year ended December 31, 2009, unless the Texas Utility Commission staff and certain cities with original jurisdiction notify the Company that such a filing is unnecessary.

The Agreement will permit the Company to amortize its expenditures of approximately \$28 million related to Hurricane Rita over a seven-year period and to amortize regulatory expenses of approximately \$7 million over a four-year period, both beginning in October 2006. Pursuant to the Agreement, the Texas Utility Commission determined that franchise fees payable by the Company under new franchise agreements with the City of Houston and certain other municipalities in the Company's service area are deemed reasonable and necessary, along with the revised base rates.

The Agreement also resolves all issues that could be raised in the Texas Utility Commission's proceeding to review its decision in the Company's 2001 UCOS case. See Note 3(c) above.

(4) LONG-TERM DEBT

In March 2006, the Company replaced its \$200 million five-year revolving credit facility with a \$300 million five-year revolving credit facility. The facility has a first drawn cost of London Interbank Offered Rate (LIBOR) plus 45 basis points based on the Company's current credit ratings, as compared to LIBOR plus 75 basis points for borrowings under the facility it replaced. The facility contains covenants, including a debt (excluding transition bonds) to total capitalization covenant of 65%.

Under the credit facility, an additional utilization fee of 10 basis points applies to borrowings any time more than 50% of the facility is utilized, and the spread to LIBOR fluctuates based on the Company's credit rating. Borrowings under the facility are subject to customary terms and conditions. However, there is no requirement that the Company make representations prior to borrowings as to the absence of material adverse changes or litigation that could be expected to have a material adverse effect. Borrowings under the credit facility are subject to acceleration upon the occurrence of events of default that the Company considers customary.

As of September 30, 2006, the Company had no borrowings and approximately \$4 million of outstanding letters of credit under its \$300 million credit facility. The Company was in compliance with all covenants as of September 30, 2006.

The Company has \$151 million of first mortgage bonds and \$527 million of general mortgage bonds that it has issued as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected in the consolidated financial statements because of the contingent nature of the obligations.

(5) RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

Related Party Transactions. The Company participates in a money pool through which it 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 net funding requirements of the money pool are expected to be met with borrowings under CenterPoint

Energy's revolving credit facility or the sale of commercial paper. As of December 31, 2005 and September 30, 2006, the Company had borrowings from the money pool of \$68 million and \$18 million, respectively.

For the three months ended September 30, 2005 and 2006, the Company had net interest income related to affiliate borrowings of \$11 million and \$13 million, respectively, and \$29 million and \$36 million for the nine months ended September 30, 2005 and 2006, 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 \$30 million and \$26 million for the three-month periods ended September 30, 2005 and 2006, respectively, and \$84 million for each of the nine-month periods ended September 30, 2005 and 2006, and are included primarily in operation and maintenance expenses.

Major Customers. During the three months ended September 30, 2005 and 2006, revenues derived from energy delivery charges provided by the Company to subsidiaries of Reliant Energy, Inc. (formerly Reliant Resources, Inc.) (RRI) totaled \$249 million and \$225 million, respectively, and \$615 million and \$569 million during the nine months ended September 30, 2005 and 2006, respectively.

(6) COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

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 CenterPoint Energy and RRI, CenterPoint Energy and its subsidiaries, including the Company, 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 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 federal court in California, Colorado and Nevada and in state court 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. 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.

CenterPoint Energy and/or Reliant Energy have been named in approximately 30 of these lawsuits, which were instituted between 2001 and 2006 and are pending in California state court in San Diego County, in Nevada state court in Clark County, in federal district court in Colorado, Nevada and the Northern District of California and before the Ninth Circuit Court of Appeals. However, the Company, CenterPoint Energy and Reliant Energy were not participants in the electricity or natural gas markets in California. CenterPoint Energy and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court, and CenterPoint Energy believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from such remaining cases.

To date, several of the electricity complaints have been dismissed, and several of the dismissals have been affirmed by appellate courts. Others have been resolved by the settlement described in the following paragraph. Four of the gas complaints have also been dismissed based on defendants' claims of federal preemption and the filed rate doctrine, and these dismissals have been appealed. In June 2005, a San Diego state court refused to dismiss other gas complaints on the same basis. The other gas cases remain in the early procedural stages.

On August 12, 2005, RRI reached a settlement with the FERC enforcement staff, the states of California, Washington and Oregon, California's three largest investor-owned utilities, classes of consumers from California and other western states, and a number of California city and county government entities that resolves their claims against RRI related to the operation of the electricity markets in California and certain other western states in 2000-2001. The settlement also resolves the claims of the three states and the investor-owned utilities related to the 2000-2001 natural gas markets. The settlement has been approved by the FERC, by the California Public Utilities Commission, and by the courts in which the electricity class action cases are pending. Two parties have appealed the courts' approval of the settlement to the California Court of Appeals. A party in the FERC proceedings filed a motion for rehearing of the FERC's order approving the settlement, which the FERC denied on May 30, 2006. That party has filed for review of the FERC's orders in the Ninth Circuit Court of Appeals. CenterPoint Energy is not a party to the settlement, but may rely on the settlement as a defense to any claims brought against it related to the time when CenterPoint Energy was an affiliate of RRI. The terms of the settlement do not require payment by CenterPoint Energy.

Other Class Action Lawsuits. 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 CenterPoint Energy. Two of the lawsuits were dismissed without prejudice. In the remaining lawsuit, CenterPoint Energy and certain current and former members of its benefits committee are defendants. That lawsuit alleged that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by CenterPoint Energy, in violation of the Employee Retirement Income Security Act of 1974 by permitting the plans to purchase or hold securities issued by CenterPoint 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 sought monetary damages for losses suffered on behalf of the plans and a putative class of plan participants whose accounts held CenterPoint Energy or RRI securities, as well as restitution. In January 2006, the federal district judge granted a motion for summary judgment filed by CenterPoint Energy and the individual defendants. The plaintiffs appealed the ruling to the Fifth Circuit Court of Appeals. CenterPoint Energy believes that this lawsuit is without merit and will continue to vigorously defend the case. However, the ultimate outcome of this matter cannot be predicted at this time.

ENVIRONMENTAL MATTERS

Asbestos. Some facilities owned by CenterPoint Energy contain or have contained asbestos insulation and other asbestos-containing materials. CenterPoint Energy or its subsidiaries, including the Company, have been named, along with numerous others, as a defendant in lawsuits filed by a number of individuals who claim injury due to exposure to asbestos. Some of the claimants have worked at locations owned by CenterPoint Energy, but most existing claims relate to facilities previously owned by CenterPoint Energy or its subsidiaries. CenterPoint Energy anticipates that additional claims like those received may be asserted in the future. In 2004, CenterPoint Energy sold its generating business, to which most of these claims relate, to Texas Genco LLC, which is now known as NRG Texas LP (NRG). Under the terms of the arrangements regarding separation of the generating business from CenterPoint Energy and its sale to Texas Genco LLC, ultimate financial responsibility for uninsured losses from claims relating to the generating business has been assumed by Texas Genco LLC and its successor, but CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from the purchaser. Although their ultimate outcome cannot be predicted at this time, CenterPoint Energy intends to continue vigorously contesting claims that it does not consider to have merit and does not expect, based on its experience to date, these matters, either individually or in the aggregate, to have a material adverse effect on CenterPoint Energy's financial condition, results of operations or cash flows.

Other Environmental. From time to time the Company has received notices from regulatory authorities or others regarding its status as a potentially responsible party in connection with sites found to require remediation due to the

presence of environmental contaminants. In addition, the Company has been named from time to time as a defendant in litigation related to such sites. Although the ultimate outcome of such matters cannot be predicted at this time, the Company does not expect, based on its experience to date, these matters, either individually or in the aggregate, to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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 regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company does not expect the disposition of these matters to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

NUCLEAR DECOMMISSIONING FUND COLLECTIONS

Pursuant to regulatory requirements and its tariff, the Company, as collection agent, collects from its transmission and distribution customers the nuclear decommissioning charge assessed with respect to the 30.8% ownership interest in the South Texas Project which it owned when it was part of an integrated electric utility. Amounts collected are transferred to nuclear decommissioning trusts maintained by the current owner of that interest in the South Texas Project. During 2003 and 2004, \$2.9 million was transferred each year and \$3.2 million was transferred in 2005. There are various investment restrictions imposed on owners of nuclear generating stations by the Texas Utility Commission and the Nuclear Regulatory Commission relating to nuclear decommissioning trusts. Pursuant to the provisions of both a separation agreement and a final order of the Texas Utility Commission relating to the 2005 transfer of ownership to Texas Genco LLC, now NRG, the Company and a subsidiary of NRG were, until July 1, 2006, jointly administering the decommissioning funds through the Nuclear Decommissioning Trust Investment Committee. On June 9, 2006, the Texas Utility Commission approved an application by the Company and an NRG subsidiary to name the NRG subsidiary as the sole fund administrator. As a result, the Company is no longer responsible for administration of decommissioning funds it collects as collection agent.

TAX CONTINGENCIES

The Company has established reserves for certain tax items, primarily certain items related to employee benefits. The total amount reserved for these tax items was approximately \$12 million and \$13 million as of December 31, 2005 and September 30, 2006, respectively.

(7) EMPLOYEE BENEFIT PLANS

The Company's employees participate in CenterPoint Energy's postretirement benefits plan. The Company's net periodic cost includes the following components relating to postretirement benefits:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2005	2006	2005	2006
	----	----	----	----
	(IN MILLIONS)			
Service cost	\$--	\$--	\$--	\$ 1
Interest cost	4	4	13	12
Expected return on plan assets	(3)	(2)	(8)	(8)
Amortization of transition obligation ..	2	1	5	4
	---	---	---	---
Net periodic cost	\$ 3	\$ 3	\$10	\$ 9
	===	===	===	===

The Company expects to contribute approximately \$10 million to CenterPoint Energy's postretirement benefits plan in 2006, of which \$7 million had been contributed as of September 30, 2006.

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

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

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) and Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), 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 and nine months ended September 30, 2005 and the three and nine months ended September 30, 2006. 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, 2005 (CenterPoint Houston Form 10-K).

CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by seasonal fluctuations in the demand for electricity. Our results of operations are also affected by, among other things, the actions of various governmental authorities having jurisdiction over 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 "Risk Factors" in Item 1A of Part I of the CenterPoint Houston Form 10-K.

The following table sets forth our consolidated results of operations for the three and nine months ended September 30, 2005 and 2006, 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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2006	2005	2006
(IN MILLIONS, EXCEPT CUSTOMER DATA)				
Revenues:				
Electric transmission and distribution utility ..	\$ 453	\$ 453	\$ 1,164	\$ 1,170
Transition bond companies	31	80	79	204
Total revenues	484	533	1,243	1,374
Expenses:				
Operation and maintenance	155	155	446	436
Depreciation and amortization	69	58	197	182
Taxes other than income taxes	55	53	163	168
Transition bond companies	22	48	52	108
Total expenses	301	314	858	894
Operating income	183	219	385	480
Interest and other finance charges	(87)	(59)	(257)	(181)
Return on true-up balance	35	--	104	--
Other income, net	13	16	36	48
Income before income taxes and extraordinary item ..	144	176	268	347
Income tax expense	(49)	(57)	(90)	(114)
Income before extraordinary item	95	119	178	233
Extraordinary item, net of tax	--	--	30	--
Net income	\$ 95	\$ 119	\$ 208	\$ 233
Actual gigawatt-hours (Gwh) delivered:				
Residential	8,871	8,523	19,607	19,317
Total	22,351	22,830	57,134	59,239
Average number of metered customers:				
Residential	1,690,819	1,740,079	1,675,904	1,729,348
Total	1,921,594	1,976,559	1,904,235	1,964,189

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

We reported operating income of \$219 million for the three months ended September 30, 2006, consisting of \$187 million for the regulated electric transmission and distribution utility (TDU) (including \$14 million for the CTC) and \$32 million related to the transition bonds. For the three months ended September 30, 2005, operating income totaled \$183 million, consisting of \$174 million for the TDU (including \$2 million for the CTC) and \$9 million related to the transition bonds. Revenues for the TDU continue to benefit from solid customer growth, with nearly 49,000 metered customers added since September 2005 (\$10 million), higher transmission cost recovery (\$3 million) and recovery of our 2004 true-up balance (\$2 million). Houston experienced normal weather during the third quarter of 2006, which created an unfavorable weather variance (\$14 million) when compared to the abnormally warm weather in 2005, that substantially offset the increases in revenues discussed above. Operation and maintenance expense remained flat primarily due to higher tree trimming expenses (\$3 million) and higher transmission costs (\$3 million) offset by lower employee benefit expenses (\$4 million) and decreased corporate support services (\$4 million). Depreciation and amortization expense decreased (\$11 million) primarily as a result of amortization of regulatory liabilities related to the 2004 true-up balance (\$13 million), partially offset by an increase in depreciation expense due to higher plant balances (\$3 million).

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

We reported operating income of \$480 million for the nine months ended September 30, 2006, consisting of \$384 million for the TDU (including \$44 million for the CTC) and \$96 million related to the transition bonds. For

the nine months ended September 30, 2005, operating income totaled \$385 million, consisting of \$358 million for the TDU (including \$2 million for the CTC) and \$27 million related to the transition bonds. Revenues for the TDU increased due to continued customer growth, with nearly 49,000 metered customers added since September 2005 (\$28 million), recovery of our 2004 true-up balance (\$28 million) and higher transmission recovery (\$8 million), partially offset by the unfavorable weather discussed above and decreased usage (\$28 million) and the impact related to the resolution of the 2001 UCOS order (\$32 million). Operation and maintenance expense decreased primarily due to a gain on the sale of land in 2006 (\$14 million) and lower employee benefit and payroll-related expenses (\$6 million), which was partially offset by higher transmission costs (\$8 million) and severance costs associated with staff reductions (\$4 million). Depreciation and amortization expense decreased (\$15 million) primarily as a result of amortization of regulatory liabilities related to the 2004 true-up balance (\$26 million), partially offset by an increase in depreciation expense due to higher plant balances (\$8 million). Additionally, taxes other than income taxes increased primarily due to higher franchise fees (\$13 million) partially offset by decreased property and state franchise tax (\$6 million).

OTHER INCOME (EXPENSE)

Interest expense, excluding transition bond-related interest expense, decreased \$51 million and \$147 million for the three months and nine months ended September 30, 2006, respectively, due to reduced borrowing costs and borrowing levels. Additionally, other income related to the return on the true-up balance decreased \$35 million and \$104 million for the three months and nine months ended September 30, 2006, respectively, as the return on the true-up balance was discontinued in September 2005 and December 2005 due to the implementation of the CTC and the sale of transition bonds, respectively.

EXTRAORDINARY ITEM

Net income for the nine months ended September 30, 2005 included an after-tax extraordinary gain of \$30 million reflecting an adjustment to the extraordinary loss recorded in the last half of 2004 to write-down generation-related regulatory assets as a result of the final orders issued by the Texas Utility Commission.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read Note 3(d) to the Interim Condensed Financial Statements for a discussion of CenterPoint Houston's rate case settlement, "Risk Factors" in Item 1A of Part I and "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.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, working capital needs, various regulatory actions and appeals relating to such regulatory actions. Our principal cash requirements for the remaining three months of 2006 include approximately \$90 million of capital expenditures.

We expect that borrowings under our credit facility, anticipated cash flows from operations and intercompany borrowings will be sufficient to meet our cash needs for the next twelve months.

Off-Balance Sheet Arrangements. Other than operating leases and first mortgage bonds and general mortgage bonds issued as collateral for long-term debt of CenterPoint Energy, Inc. (CenterPoint Energy) as discussed below, we have no off-balance sheet arrangements.

Credit Facilities. In March 2006, we replaced our \$200 million five-year revolving credit facility with a \$300 million five-year revolving credit facility. The facility has a first drawn cost of London Interbank Offered Rate (LIBOR) plus 45 basis points based on our current credit ratings, as compared to LIBOR plus 75 basis points for borrowings under the facility it replaced. The facility contains covenants, including a debt (excluding transition bonds) to total capitalization covenant of 65%.

Under the credit facility, an additional utilization fee of 10 basis points applies to borrowings any time more than 50% of the facility is utilized, and the spread to LIBOR fluctuates based on our credit rating. Borrowings under the facility are subject to customary terms and conditions. However, there is no requirement that we make representations prior to borrowings as to the absence of material adverse changes or litigation that could be expected to have a

material adverse effect. Borrowings under the credit facility are subject to acceleration upon the occurrence of events of default that we consider customary. We are currently in compliance with the various business and financial covenants contained in our credit facility. As of October 31, 2006, we had no borrowings and approximately \$4 million of outstanding letters of credit under the credit facility.

Temporary Investments. As of October 31, 2006, we had external temporary investments of \$50 million.

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 net funding requirements of the money pool are expected to be met with borrowings under CenterPoint Energy's revolving credit facility or the sale of commercial paper. At October 31, 2006, we had no borrowings from the money pool. The money pool may not provide sufficient funds to meet our cash needs.

Long-term Debt. Our long-term debt consists of our obligations and the obligations of our subsidiaries, including transition bonds issued by wholly owned subsidiaries. The following table shows future maturity dates of long-term debt issued by us to third parties and affiliates and scheduled future payment dates of transition bonds issued by our subsidiaries, CenterPoint Energy Transition Bond Company, LLC (Bond Company) and CenterPoint Energy Transition Bond Company II, LLC (Bond Company II), as of October 31, 2006. Amounts are expressed in millions.

YEAR	THIRD-PARTY	AFFILIATE	SUB-TOTAL	TRANSITION BONDS	TOTAL
2007 ...	\$ --	\$ --	\$ --	\$ 147	\$ 147
2008 ...	--	--	--	159	159
2009 ...	--	--	--	175	175
2010 ...	--	--	--	190	190
2011 ...	--	--	--	207	207
2012 ...	46	--	46	227	273
2013 ...	450	--	450	245	695
2014 ...	300	--	300	147	447
2015 ...	--	151	151	158	309
2016 ...	--	--	--	169	169
2017 ...	127	--	127	181	308
2018 ...	--	--	--	194	194
2019 ...	--	--	--	208	208
2021 ...	102	--	102	--	102
2023 ...	200	--	200	--	200
2027 ...	56	--	56	--	56
2033 ...	312	--	312	--	312
Total ..	\$1,593	\$151	\$1,744	\$2,407	\$4,151

As of October 31, 2006, outstanding first mortgage bonds and general mortgage bonds aggregated approximately \$2.3 billion as shown in the following table. Amounts are expressed in millions.

	ISSUED DIRECTLY TO THIRD PARTIES	ISSUED AS COLLATERAL FOR THE COMPANY'S DEBT	ISSUED AS COLLATERAL FOR CENTERPOINT ENERGY'S DEBT	TOTAL
First Mortgage Bonds	\$ 102	\$ --	\$151	\$ 253
General Mortgage Bonds ..	1,262	229	527	2,018
Total	\$1,364	\$229	\$678	\$2,271

The lien of the general mortgage indenture is junior to that of the mortgage, pursuant to which the first mortgage bonds are issued. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately \$2.1 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of September 30, 2006. However, we are contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

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 in our consolidated financial statements because of the contingent nature of the obligations. Amounts are expressed in millions.

YEAR	FIRST MORTGAGE BONDS	GENERAL MORTGAGE BONDS	TOTAL
2011	\$ --	\$ 19	\$ 19
2015	151	--	151
2018	--	50	50
2019	--	200	200
2020	--	90	90
2026	--	100	100
2028	--	68	68
Total ..	\$151	\$527	\$678

At October 31, 2006, Bond Company had \$575 million aggregate principal amount of outstanding transition bonds that were issued in 2001 in accordance with the 1999 Texas Electric Choice Plan (Texas electric restructuring law). At October 31, 2006, Bond Company II had \$1.83 billion aggregate principal amount of outstanding transition bonds that were issued in 2005 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 bond companies. 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 companies and, in an intercreditor agreement among us, the bond companies and other parties.

Impact on Liquidity of a Downgrade in Credit Ratings. As of October 31, 2006, 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.

INSTRUMENT	MOODY'S		S&P		FITCH	
	RATING	OUTLOOK(1)	RATING	OUTLOOK (2)	RATING	OUTLOOK (3)
Senior Secured Debt (First Mortgage Bonds).....	Baa2	Stable	BBB	Stable	A-	Stable

(1) A "stable" outlook from Moody's indicates that Moody's does not expect to put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

(2) An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term.

(3) A "stable" 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.

A decline in credit ratings could increase borrowing costs under our \$300 million credit facility. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and could negatively impact our ability to complete capital market transactions.

Cross Defaults. Under CenterPoint Energy's revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding \$50 million by us will cause a default. Pursuant to the indenture governing CenterPoint Energy's senior notes, 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. As of October 31, 2006, CenterPoint Energy had issued six series of senior notes aggregating \$1.4 billion in principal amount under this indenture. A default by CenterPoint Energy would not trigger a default under our debt instruments or bank credit facilities.

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

- increases in interest expense in connection with debt refinancings and borrowings under our credit facility;
- various regulatory actions;
- the ability of RRI and its subsidiaries to satisfy their obligations as our principal customers and in respect of RRI's indemnity obligations to us;
- the outcome of litigation brought by and against us;
- restoration costs and revenue losses resulting from natural disasters such as hurricanes; and
- various other risks identified in "Risk Factors" in Item 1A of Part I of the CenterPoint Houston Form 10-K.

Certain Contractual Limits on Ability to Issue Securities and Pay Dividends. Our credit facility limits our debt (excluding transition bonds) as a percentage of our total capitalization to 65 percent. Additionally, in connection with the issuance of a certain series of general mortgage bonds, we agreed not to issue, subject to certain exceptions, additional first mortgage bonds.

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 consolidated financial statements in the CenterPoint Houston Form 10-K. 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 former 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 \$308 million of recoverable electric generation-related regulatory assets as of September 30, 2006. These costs are recoverable under the provisions of the Texas electric restructuring law. Based on our analysis of the final order issued by the Texas Utility Commission, we recorded an after-tax charge to earnings in 2004 of approximately \$977 million to write-down our electric generation-related regulatory assets to their realizable value, which is reflected as an extraordinary loss in the Condensed Statements of Consolidated Income. Based on subsequent orders received from the Texas Utility Commission, we recorded an extraordinary gain of \$30 million after-tax in the second quarter of 2005 related to the regulatory asset. Additionally, a district court in Travis County, Texas issued a judgment that would have the effect of restoring approximately \$650 million, plus interest, of disallowed costs. The Company and other parties appealed the district court's judgment. Oral argument to the 3rd Court of Appeals in Austin is not expected to occur before late November 2006. No amounts related to the district court's judgment have been recorded in the consolidated financial statements. For additional information relating to regulatory proceedings, see Note 3 to our Interim Condensed Financial Statements.

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.

ASSET RETIREMENT OBLIGATIONS

We account for our long-lived assets under SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), and Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - An Interpretation of SFAS No. 143" (FIN 47). SFAS No. 143 and FIN 47 require that an asset retirement obligation be recorded at fair value in the period in which it is incurred if a reasonable estimate of fair value can be made. In the same period, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. Rate-regulated entities may recognize regulatory assets or liabilities as a result of timing differences between the recognition of costs as recorded in accordance with SFAS No. 143 and FIN 47, and costs recovered through the ratemaking process.

We estimate the fair value of asset retirement obligations by calculating the discounted cash flows that are dependent upon the following components:

- Inflation adjustment - The estimated cash flows are adjusted for inflation estimates for labor, equipment, materials, and other disposal costs;
- Discount rate - The estimated cash flows include contingency factors that were used as a proxy for the

market risk premium; and

- Third party markup adjustments - Internal labor costs included in the cash flow calculation were adjusted for costs that a third party would incur in performing the tasks necessary to retire the asset.

Changes in these factors could materially affect the obligation recorded to reflect the ultimate cost associated with retiring the assets under SFAS No. 143 and FIN 47. For example, if the inflation adjustment increased 25 basis points, this would increase the balance for asset retirement obligations by approximately 2%. Similarly, an increase in the discount rate by 25 basis points would decrease asset retirement obligations by approximately the same percentage. At September 30, 2006, our estimated cost of retiring these assets was approximately \$13 million.

UNBILLED ENERGY REVENUES

Revenues related to the delivery of electricity are generally recorded when electricity is delivered to customers. However, the determination of electricity deliveries 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 electricity 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 Condensed 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 September 30, 2006 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 and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

There has been no change in our internal controls over financial reporting that occurred during the three months ended September 30, 2006 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 discussion of material legal and regulatory proceedings affecting us, please read Notes 3 and 6 to our Interim Condensed Financial Statements, each of which is incorporated herein by reference. See also "Business -- Regulation" and "-- Environmental Matters" in Item 1 and "Legal Proceedings" in Item 3 of the CenterPoint Houston Form 10-K.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the CenterPoint Houston Form 10-K.

ITEM 5. OTHER INFORMATION

Our ratio of earnings to fixed charges for the nine months ended September 30, 2005 and 2006 was 2.14 and 2.85, respectively. We do not believe that the ratios for these nine-month periods are necessarily indicators of the ratios for the twelve-month periods due to the seasonal nature of our business. The ratios were calculated pursuant to applicable rules of the Securities and Exchange Commission.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

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 Houston or CenterPoint Energy 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	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	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(c)
4.1	\$300,000,000 Credit Agreement dated as of March 31, 2006 among CenterPoint Houston, as Borrower, and the Initial Lenders named therein, as Initial Lenders	CenterPoint Houston's Form 8-K dated March 31, 2006	1-3187	4.2
+12	Computation of Ratios of Earnings to Fixed Charges			
+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 1A "--Risk Factors."			

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: November 7, 2006

Index to Exhibits

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+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 1A "--Risk Factors."			

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

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
 (MILLIONS OF DOLLARS)

NINE MONTHS ENDED SEPTEMBER 30, -----	
2005	2006 ----- Net Income

\$ 208	\$ 233 Income taxes

90	114 Capitalized interest
	----- (2) (3)
	296 344 -----
	Fixed charges, as defined: Interest

257	181 Capitalized interest
	----- 2 3
	Interest component of rentals charged to operating income
1	1 ----- Total fixed charges
	----- 260 185 --
	----- Earnings, as defined
	----- \$ 556 \$
529	===== Ratio of earnings to fixed
charges	----- 2.14 2.85
	=====

CERTIFICATIONS

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 officer(s) 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 officer(s) 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: November 7, 2006

/s/ David M. McClanahan

David M. McClanahan
Chairman (Principal Executive Officer)

CERTIFICATIONS

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 officer(s) 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 officer(s) 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: November 7, 2006

/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 September 30, 2006 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Chairman (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
Chairman (Principal Executive Officer)
November 7, 2006

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 September 30, 2006 (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
November 7, 2006

ITEM 1A. RISK FACTORS

RISK FACTORS AFFECTING OUR BUSINESS

WE MAY NOT BE SUCCESSFUL IN ULTIMATELY RECOVERING THE FULL VALUE OF OUR TRUE-UP COMPONENTS, WHICH COULD RESULT IN THE ELIMINATION OF CERTAIN TAX BENEFITS AND COULD HAVE AN ADVERSE IMPACT ON OUR RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

In March 2004, we filed our true-up application with the Texas Utility Commission, requesting recovery of \$3.7 billion, excluding interest. In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing us to recover a true-up balance of approximately \$2.3 billion, which included interest through August 31, 2004, and providing for adjustment of the amount to be recovered to include interest on the balance until recovery, the principal portion of additional excess mitigation credits returned to customers after August 31, 2004 and certain other matters. We and other parties filed appeals of the True-Up Order to a district court in Travis County, Texas. In August 2005, the court issued its final judgment on the various appeals. In its judgment, the court affirmed most aspects of the True-Up Order, but reversed two of the Texas Utility Commission's rulings. The judgment would have the effect of restoring approximately \$650 million, plus interest, of the \$1.7 billion the Texas Utility Commission had disallowed from our initial request. First, the court reversed the Texas Utility Commission's decision to prohibit us from recovering \$180 million in credits through August 2004 that we were ordered to provide to retail electric providers as a result of an inaccurate stranded cost estimate made by the Texas Utility Commission in 2000. Additional credits of approximately \$30 million were paid after August 2004.

Second, the court reversed the Texas Utility Commission's disallowance of \$440 million in transition costs which are recoverable under the Texas Utility Commission's regulations. We and other parties appealed the district court decisions. Briefs have been filed with the 3rd Court of Appeals in Austin but oral argument has not yet been scheduled. No prediction can be made as to the ultimate outcome or timing of such appeals. Additionally, if the amount of the true-up balance is reduced on appeal to below the amount recovered through the issuance of transition bonds and under the CTC, while the amount of transition bonds outstanding would not be reduced, we would be required to refund the over recovery to our customers.

Among the issues raised in our appeal of the True-Up Order is the Texas Utility Commission's reduction of our stranded cost recovery by approximately \$146 million for the present value of certain deferred tax benefits associated with our former Texas Genco assets. Such reduction was considered in our recording of an after-tax extraordinary loss of \$977 million in the last half of 2004. We believe that the Texas Utility Commission based its order on proposed regulations issued by the IRS in March 2003 related to those tax benefits. Those proposed regulations would have allowed utilities which were deregulated before March 4, 2003 to make a retroactive election to pass the benefits of ADITC and EDFIT back to customers. However, in December 2005, the IRS withdrew those proposed normalization regulations and issued new proposed regulations that do not include the provision allowing a retroactive election to pass the tax benefits back to customers. If the December 2005 proposed regulations become

effective and if the Texas Utility Commission's order on this issue is not reversed on appeal or the amount of the tax benefits is not otherwise restored by the Texas Utility Commission, the IRS is likely to consider that a "normalization violation" has occurred. If so, the IRS could require us to pay an amount equal to our unamortized ADITC balance as of the date that the normalization violation was deemed to have occurred. In addition, if a normalization violation is deemed to have occurred, the IRS could also deny us the ability to elect accelerated depreciation benefits. If a normalization violation should ultimately be found to exist, it could have an adverse impact on our results of operations, financial condition and cash flows. The Texas Utility Commission has not previously required a company subject to its jurisdiction to take action that would result in a normalization violation.

OUR RECEIVABLES ARE CONCENTRATED IN A SMALL NUMBER OF RETAIL ELECTRIC PROVIDERS, AND ANY DELAY OR DEFAULT IN PAYMENT COULD ADVERSELY AFFECT OUR CASH FLOWS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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 66 retail electric providers. Adverse economic conditions, structural problems in the market served by the Electric Reliability Council of Texas, Inc. (ERCOT) 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. Applicable regulatory provisions require that customers be shifted to a provider of last resort if a retail electric provider cannot make timely payments. Reliant Energy, Inc. (RRI), through its subsidiaries, is our largest customer. Approximately 56% of our \$127 million in billed receivables from retail electric providers at December 31, 2005 was owed by subsidiaries of RRI. Any delay or default in payment could adversely affect our cash flows, financial condition and results of operations.

RATE REGULATION OF OUR BUSINESS MAY DELAY OR DENY OUR ABILITY TO EARN A REASONABLE RETURN AND FULLY RECOVER OUR COSTS.

Our rates are regulated by certain municipalities and the Texas Utility Commission based on an analysis of our invested capital and our expenses in a test year. Thus, the rates that we are allowed to charge may not match our expenses at any given time. The regulatory process by which rates are determined may not always result in rates that will produce full recovery of our costs and enable us to earn a reasonable return on our invested capital.

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

We transmit and distribute to customers of retail electric providers electric power that the retail electric providers obtain from power generation facilities owned by third parties. We do not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, our sales of transmission and distribution services may be

diminished or interrupted, and our results of operations, financial condition and cash flows may be adversely affected.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A significant portion of our revenues are derived from rates that we collect from each retail electric provider based on the amount of electricity we distribute on behalf of such 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 REFINANCE EXISTING INDEBTEDNESS COULD BE LIMITED.

As of December 31, 2005, we had \$4.1 billion of outstanding indebtedness on a consolidated basis, which includes \$2.5 billion of non-recourse transition bonds. Our future financing activities may depend, at least in part, on:

- o the timing and amount of our recovery of the true-up components, including, in particular, the results of appeals to the courts of determination on rulings obtained to date;
- o general economic and capital market conditions;
- o credit availability from financial institutions and other lenders;
- o investor confidence in us and the market in which we operate;
- o maintenance of acceptable credit ratings by us and CenterPoint Energy;
- o market expectations regarding our future earnings and probable cash flows;
- o market perceptions of our ability to access capital markets on reasonable terms;
- o our exposure to RRI as our customer and in connection with its indemnification obligations arising in connection with its separation from CenterPoint Energy; and
- o provisions of relevant tax and securities laws.

As of December 31, 2005, we had outstanding \$2.0 billion aggregate principal amount of general mortgage bonds under the General Mortgage, including approximately \$527 million held in trust to secure pollution control bonds for which CenterPoint Energy is obligated and approximately \$229 million held in trust to secure pollution control bonds for which we are obligated. Additionally, we had outstanding approximately \$253 million aggregate principal amount of first mortgage bonds under the Mortgage, including approximately \$151 million held in trust to secure certain pollution control bonds for which CenterPoint Energy is obligated. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately \$2.0 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of December 31, 2005. However, we are contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in "Management's Narrative Analysis of Results of Operations -- Liquidity -- Impact on Liquidity of a Downgrade in Credit Ratings" in Item 7 of this report. These credit ratings may not remain in effect for any given period of time and one or more of these ratings may 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.

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. As of December 31, 2005, CenterPoint Energy and its subsidiaries other than us have approximately \$665 million principal amount of debt required to be paid through 2008. This amount excludes amounts related to capital leases, securitization debt and indexed debt securities obligations. In addition, CenterPoint Energy has \$830 million of outstanding convertible notes on which holders could exercise their "put" rights during this period. CenterPoint Energy and its other subsidiaries may not 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 \$750 million as of December 31, 2005 could be adversely affected.

RISKS COMMON TO OUR BUSINESS AND OTHER RISKS

WE ARE SUBJECT TO OPERATIONAL AND FINANCIAL RISKS AND LIABILITIES ARISING FROM ENVIRONMENTAL LAWS AND REGULATIONS.

Our operations are subject to stringent and complex laws and regulations pertaining to health, safety and the environment. As an owner or operator of electric transmission and distribution systems, we must comply with these laws and regulations at the federal, state and local levels. These laws and regulations can restrict or impact our business activities in many ways, such as:

- o restricting the way we can handle or dispose of our wastes;
- o limiting or prohibiting construction activities in sensitive areas such as wetlands, coastal regions, or areas inhabited by endangered species;
- o requiring remedial action to mitigate pollution conditions caused by our operations, or attributable to former operations; and
- o enjoining the operations of facilities deemed in non-compliance with permits issued pursuant to such environmental laws and regulations.

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

- o construct or acquire new equipment;

- o acquire permits for facility operations; and
- o modify or replace existing and proposed equipment.

Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial actions, and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances have been disposed or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other waste products into the environment.

OUR INSURANCE COVERAGE MAY NOT BE SUFFICIENT. 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. Additionally, we do not have business interruption coverage. If we were to sustain any loss of, or damage to, our transmission and distribution properties, we may not be able to recover such loss or damage through a change in our regulated rates, and any such recovery may not be timely granted. Therefore, we may not 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.

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

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

- o those transferred to RRI or its subsidiaries in connection with the organization and capitalization of RRI prior to its initial public offering in 2001; and
- o those transferred to Texas Genco in connection with its organization and capitalization.

In connection with the organization and capitalization of RRI, RRI and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. RRI 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 RRI and its subsidiaries for all liabilities associated with the current and historical businesses and operations of RRI, regardless of the time those liabilities arose. If RRI 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, we and CenterPoint Energy could be responsible for satisfying the liability.

RRI's unsecured debt ratings are currently below investment grade. If RRI were unable to meet its obligations, it would need to consider, among various options, restructuring under the bankruptcy laws, in which event RRI might not honor its indemnification obligations and claims by RRI's creditors might be made against us as its former owner.

Reliant Energy and RRI 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 RRI, claims against Reliant Energy have been made on grounds that include the effect of RRI's financial results on Reliant Energy's historical financial statements and liability of Reliant Energy as a controlling shareholder of RRI. We could incur liability if claims in one or more of these lawsuits were successfully asserted against us and indemnification from RRI were determined to be unavailable or if RRI were unable to satisfy indemnification obligations owed 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 our obligations 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. In connection with the sale of Texas Genco's fossil generation assets (coal, lignite and gas-fired plants) to Texas Genco LLC, the separation agreement CenterPoint Energy entered into with Texas Genco in connection with the organization and capitalization of Texas Genco was amended to provide that all of Texas Genco's rights and obligations under the separation agreement relating to its fossil generation assets, including Texas Genco's obligation to indemnify CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the fossil generation assets and related business, were assigned to and assumed by Texas Genco LLC. In addition, under the amended separation agreement, Texas Genco is no longer liable for, and CenterPoint Energy has assumed and agreed to indemnify Texas Genco LLC against, liabilities that Texas Genco originally assumed in connection with its organization to the extent, and only to the extent, that such liabilities are covered by certain insurance policies or other similar agreements held by CenterPoint Energy. If Texas Genco or Texas Genco LLC 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.

CenterPoint Energy or its subsidiaries have been named, along with numerous others, as a defendant in lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos. Most claimants in such litigation have been workers who participated in construction of various industrial facilities, including power plants. Some of the claimants have worked at

locations CenterPoint Energy owns, but most existing claims relate to facilities previously owned by CenterPoint Energy but currently owned by Texas Genco LLC. We anticipate that additional claims like those received may be asserted in the future. Under the terms of the separation agreement between CenterPoint Energy and Texas Genco, ultimate financial responsibility for uninsured losses from claims relating to facilities transferred to Texas Genco has been assumed by Texas Genco, but under the terms of CenterPoint Energy's agreement to sell Texas Genco to Texas Genco LLC, CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance CenterPoint Energy maintains, subject to reimbursement of the costs of such defense from Texas Genco LLC.