

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 JUNE 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 1-31447

CENTERPOINT ENERGY, INC.
(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of
incorporation or organization)

74-0694415

(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)

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 August 1, 2006, CenterPoint Energy, Inc. had 311,766,506 shares of
common stock outstanding, excluding 166 shares held as treasury stock.

CENTERPOINT ENERGY, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 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 and actions with respect to:
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- 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;
- the timing and extent of changes in commodity prices, particularly natural gas;
- changes in interest rates or rates of inflation;
- weather variations and other natural phenomena;
- the timing and extent of changes in the supply of natural gas;
- the timing and extent of changes in natural gas basis differentials;
- 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;
- effectiveness of our risk management activities;
- inability of various counterparties to meet their obligations to us;
- 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, or in connection with the contractual arrangements pursuant to which we are a guarantor;
- the outcome of litigation brought by or against us;
- our ability to control costs;
- the investment performance of our 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, INC. AND SUBSIDIARIES
 CONDENSED STATEMENTS OF CONSOLIDATED INCOME
 (MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
REVENUES	\$1,842	\$1,843	\$4,437	\$4,920
EXPENSES:				
Natural gas	1,103	1,035	2,884	3,228
Operation and maintenance	325	340	638	671
Depreciation and amortization	136	153	266	293
Taxes other than income taxes	92	95	187	202
Total	1,656	1,623	3,975	4,394
OPERATING INCOME	186	220	462	526
OTHER INCOME (EXPENSE):				
Gain (loss) on Time Warner investment	(18)	11	(59)	(3)
Gain (loss) on indexed debt securities	24	(11)	63	(1)
Interest and other finance charges	(180)	(118)	(353)	(233)
Interest on transition bonds	(9)	(33)	(18)	(66)
Return on true-up balance	35	--	69	--
Other, net	7	9	11	15
Total	(141)	(142)	(287)	(288)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM ..	45	78	175	238
Income tax (expense) benefit	(18)	116	(81)	44
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM	27	194	94	282
DISCONTINUED OPERATIONS:				
Income (Loss) from Texas Genco, net of tax	(3)	--	11	--
Loss on Disposal of Texas Genco, net of tax	--	--	(14)	--
Total	(3)	--	(3)	--
INCOME BEFORE EXTRAORDINARY ITEM	24	194	91	282
EXTRAORDINARY ITEM, NET OF TAX	30	--	30	--
NET INCOME	\$ 54	\$ 194	\$ 121	\$ 282
BASIC EARNINGS PER SHARE:				
Income from Continuing Operations	\$ 0.09	\$ 0.62	\$ 0.30	\$ 0.91
Discontinued Operations, net of tax	(0.01)	--	(0.01)	--
Extraordinary Item, net of tax	0.10	--	0.10	--
Net Income	\$ 0.18	\$ 0.62	\$ 0.39	\$ 0.91
DILUTED EARNINGS PER SHARE:				
Income from Continuing Operations	\$ 0.09	\$ 0.61	\$ 0.28	\$ 0.89
Discontinued Operations, net of tax	(0.01)	--	(0.01)	--
Extraordinary Item, net of tax	0.08	--	0.08	--
Net Income	\$ 0.16	\$ 0.61	\$ 0.35	\$ 0.89

See Notes to the Company's Interim Condensed Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(MILLIONS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 31, 2005	JUNE 30, 2006
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 74	\$ 397
Investment in Time Warner common stock	377	374
Accounts receivable, net	1,098	765
Accrued unbilled revenues	608	217
Natural gas inventory	294	205
Materials and supplies	88	93
Non-trading derivative assets	131	107
Taxes receivable	53	--
Prepaid expenses and other current assets	168	239
	-----	-----
Total current assets	2,891	2,397
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	11,558	11,862
Less accumulated depreciation and amortization ..	(3,066)	(3,187)
	-----	-----
Property, plant and equipment, net	8,492	8,675
	-----	-----
OTHER ASSETS:		
Goodwill	1,709	1,709
Other intangibles, net	56	55
Regulatory assets	2,955	2,890
Non-trading derivative assets	104	79
Other	909	904
	-----	-----
Total other assets	5,733	5,637
	-----	-----
TOTAL ASSETS	\$17,116	\$16,709
	=====	=====

See Notes to the Company's Interim Condensed Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - (CONTINUED)
(MILLIONS OF DOLLARS)
(UNAUDITED)

LIABILITIES AND SHAREHOLDERS' EQUITY

	DECEMBER 31, 2005	JUNE 30, 2006
	-----	-----
CURRENT LIABILITIES:		
Current portion of transition bond long-term debt	\$ 73	\$ 126
Current portion of other long-term debt	266	519
Indexed debt securities derivative	292	294
Accounts payable	1,161	466
Taxes accrued	167	149
Interest accrued	122	176
Non-trading derivative liabilities	43	103
Accumulated deferred income taxes, net	385	373
Other	505	370
	-----	-----
Total current liabilities	3,014	2,576
	-----	-----
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,474	2,400
Unamortized investment tax credits	46	42
Non-trading derivative liabilities	35	89
Benefit obligations	475	455
Regulatory liabilities	728	822
Other	480	266
	-----	-----
Total other liabilities	4,238	4,074
	-----	-----
LONG-TERM DEBT:		
Transition bonds	2,407	2,335
Other	6,161	6,220
	-----	-----
Total long-term debt	8,568	8,555
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
SHAREHOLDERS' EQUITY:		
Common stock (310,324,739 shares and 311,630,055 shares outstanding at December 31, 2005 and June 30, 2006, respectively)	3	3
Additional paid-in capital	2,931	2,949
Accumulated deficit	(1,600)	(1,411)
Accumulated other comprehensive loss	(38)	(37)
	-----	-----
Total shareholders' equity	1,296	1,504
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$17,116	\$16,709
	=====	=====

See Notes to the Company's Interim Condensed Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(MILLIONS OF DOLLARS)
(UNAUDITED)

SIX MONTHS ENDED JUNE 30,

	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 121	\$ 282
Discontinued operations, net of tax	3	--
Extraordinary item, net of tax	(30)	--
	-----	-----
Income from continuing operations	94	282
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	266	293
Amortization of deferred financing costs	40	28
Deferred income taxes	48	(105)
Tax and interest reserves reductions related to ZENS and ACES	--	(119)
Investment tax credit	(4)	(4)
Unrealized loss on Time Warner investment	59	3
Unrealized loss (gain) on indexed debt securities	(63)	1
Write-down of natural gas inventory	--	30
Changes in other assets and liabilities:		
Accounts receivable and unbilled revenues, net	559	743
Inventory	9	62
Taxes receivable	(6)	53
Accounts payable	(305)	(697)
Fuel cost over (under) recovery/surcharge	(47)	76
Non-trading derivatives, net	1	13
Margin deposits, net	7	(113)
Interest and taxes accrued	(483)	36
Net regulatory assets and liabilities	(133)	54
Other current assets	5	(86)
Other current liabilities	(18)	(34)
Other assets	2	--
Other liabilities	18	(14)
Other, net	5	15
	-----	-----
Net cash provided by operating activities of continuing operations ..	54	517
Net cash used in operating activities of discontinued operations	(38)	--
	-----	-----
Net cash provided by operating activities	16	517
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(310)	(381)
Proceeds from sale of Texas Genco	700	--
Decrease in restricted cash of Texas Genco	383	--
Purchase of minority interest in Texas Genco	(383)	--
Decrease in cash of Texas Genco	23	--
Increase in restricted cash of transition bond companies	--	(6)
Other, net	(1)	(9)
	-----	-----
Net cash provided by (used in) investing activities	412	(396)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term borrowings, net	75	--
Proceeds from issuance of long-term debt	--	324
Long-term revolving credit facilities, net	(119)	(3)
Payments of long-term debt	(61)	(28)
Debt issuance costs	(6)	(4)
Payment of common stock dividends	(83)	(93)
Proceeds from issuance of common stock, net	8	6
Other	1	--
	-----	-----
Net cash provided by (used in) financing activities	(185)	202
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	243	323
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	165	74
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 408	\$ 397
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest, net of capitalized interest	\$ 329	\$ 226
Income taxes	457	112

See Notes to the Company's Interim Condensed Financial Statements

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, Inc. are the condensed consolidated interim financial statements and notes (Interim Condensed Financial Statements) of CenterPoint Energy, Inc. and its subsidiaries (collectively, CenterPoint Energy, 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 Energy for the year ended December 31, 2005 (CenterPoint Energy Form 10-K).

Background. CenterPoint Energy is 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 the Company 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, the Company filed with the FERC the required notification of its status as a public utility holding company. On April 24, 2006, the FERC proposed 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 the Company provides services to its subsidiaries through a service company, CenterPoint Energy Service Company, LLC, its service company would not be subject to the service company rules.

The Company's operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities, interstate pipelines and natural gas gathering, processing and treating facilities. As of June 30, 2006, the Company's indirect wholly owned subsidiaries included:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in the electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston; and
- CenterPoint Energy Resources Corp. (CERC Corp., and, together with its subsidiaries, CERC), which owns gas distribution systems. The operations of its local distribution companies are conducted through two unincorporated divisions: Minnesota Gas and Southern Gas Operations. Through wholly owned subsidiaries, CERC owns two interstate natural gas pipelines and gas gathering systems, provides various ancillary services, and offers variable and fixed-price physical natural gas supplies primarily to commercial and industrial customers and electric and gas utilities.

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 and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other

interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's presentation of financial statements in the current year. These reclassifications relate to a new reportable business segment discussed in Note 13 and do not affect net income.

(2) DISCONTINUED OPERATIONS

In July 2004, the Company announced its agreement to sell its majority owned subsidiary, Texas Genco Holdings, Inc. (Texas Genco), to Texas Genco LLC. On December 15, 2004, Texas Genco completed the sale of its fossil generation assets (coal, lignite and gas-fired plants) to Texas Genco LLC for \$2.813 billion in cash. Following the sale, Texas Genco distributed \$2.231 billion in cash to the Company. Following that sale, Texas Genco's principal remaining asset was its ownership interest in a nuclear generating facility. The final step of the transaction, the merger of Texas Genco with a subsidiary of Texas Genco LLC in exchange for an additional cash payment to the Company of \$700 million, was completed on April 13, 2005, following receipt of approval from the Nuclear Regulatory Commission (NRC).

The Company recorded an after-tax loss of \$3 million for each of the three and six month periods ended June 30, 2005 related to the operations of Texas Genco. General corporate overhead, previously allocated to Texas Genco from the Company, was less than \$1 million for each of the three and six month periods ended June 30, 2005. These amounts were not eliminated by the sale of Texas Genco and have been excluded from income from discontinued operations and reflected as general corporate overhead of the Company in income from continuing operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). The Interim Condensed Financial Statements present these operations as discontinued operations in accordance with SFAS No. 144.

Revenues related to Texas Genco included in discontinued operations for the three and six months ended June 30, 2005 were \$5 million and \$62 million, respectively. Income from these discontinued operations for the three and six months ended June 30, 2005 is reported net of income tax (benefit) expense of \$(2) million and \$4 million, respectively.

(3) EMPLOYEE BENEFIT PLANS

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

	THREE MONTHS ENDED JUNE 30,			
	2005		2006	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)			
Service cost	\$ 8	\$--	\$ 9	\$--
Interest cost	25	7	24	7
Expected return on plan assets	(35)	(3)	(36)	(3)
Amortization of prior service cost	(1)	1	(2)	1
Amortization of net loss	10	--	13	--
Amortization of transition obligation ..	--	2	--	2
Net periodic cost	\$ 7	\$ 7	\$ 8	\$ 7
	====	===	====	===

	SIX MONTHS ENDED JUNE 30,			
	2005		2006	
	PENSION BENEFITS	POSTRETIREMENT BENEFITS	PENSION BENEFITS	POSTRETIREMENT BENEFITS
	(IN MILLIONS)			
Service cost	\$ 17	\$ 1	\$ 18	\$ 1
Interest cost	48	14	48	13
Expected return on plan assets	(69)	(6)	(71)	(6)
Amortization of prior service cost	(3)	1	(4)	1
Amortization of net loss	22	--	24	--
Amortization of transition obligation ..	--	4	--	4
Benefit enhancement	--	--	8	1
Net periodic cost	\$ 15	\$14	\$ 23	\$14
	====	===	====	===

The Company expects to contribute approximately \$26 million to its postretirement benefits plan in 2006, of which \$13 million had been contributed as of June 30, 2006.

Contributions to the pension plan are not required in 2006. In addition to the Company's non-contributory pension plan, the Company maintains a non-qualified benefit restoration plan. The net periodic cost associated with this plan for the three-month periods ended June 30, 2005 and 2006 was \$2 million and \$1 million, respectively, and \$3 million for each of the six-month periods ended June 30, 2005 and 2006.

On January 5, 2006, the Company offered a Voluntary Early Retirement Program (VERP) to approximately 200 employees who were age 55 or older with at least five years of service as of February 28, 2006. The election period was from January 5, 2006 through February 28, 2006. For those electing to accept the VERP, three years of age and service was added to their qualified pension plan benefit and three years of service was added to their postretirement benefit. An additional pension and postretirement expense of approximately \$9 million was recorded in the first quarter of 2006 and is reflected in the table above as a benefit enhancement.

(4) NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (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. The new FASB interpretation 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.

(5) REGULATORY MATTERS

(A) RECOVERY OF TRUE-UP BALANCE

In March 2004, CenterPoint Houston 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 CenterPoint Houston 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. CenterPoint Houston 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 CenterPoint Houston's initial request. CenterPoint Houston and other parties appealed the district court decisions. Briefs have been filed with the 3rd Court of Appeals in Austin, and oral argument has been scheduled for September 27, 2006. No amounts related to the district court's judgment have been recorded in the consolidated financial statements.

Among the issues raised in CenterPoint Houston's appeal of the True-Up Order is the Texas Utility Commission's reduction of CenterPoint Houston'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 issued to a Texas utility on facts similar to CenterPoint Houston'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. Based on that ruling and the proposed regulations, 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 the Company to pay an amount equal to CenterPoint Houston's 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 CenterPoint Houston the ability to elect accelerated tax depreciation benefits. 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 and CenterPoint Houston are 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 CenterPoint Houston 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 all respects in August 2005 by the same Travis County District Court considering the appeal of the True-Up Order, in December 2005, a subsidiary of CenterPoint Houston 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, CenterPoint Houston 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, CenterPoint Houston received an order from the Texas Utility Commission allowing it to implement a CTC which will collect approximately \$596 million over 14 years plus interest at an annual rate of 11.075 percent (CTC Order). The CTC Order authorizes CenterPoint Houston 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 CenterPoint Houston to collect approximately \$24 million of rate case expenses over three years without a return through a separate tariff rider (Rider RCE). CenterPoint Houston 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 CenterPoint Houston's tariff-based revenues. During the three and six months ended June 30, 2006, CenterPoint Houston recognized approximately \$18 million and \$35 million, respectively, in CTC operating income. As of June 30, 2006, the Company had not recorded an allowed equity return of \$241 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 an order 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 CenterPoint Houston 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 Houston disagree with the district court's conclusions and in May 2006 appealed this decision to the court of appeals and, if required, plans to seek further review from the Texas Supreme Court. CenterPoint Houston's brief is due to be filed in the court of appeals in August 2006. 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 Houston's financial condition, results of operations or cash flows.

In January 2006, the Texas Utility Commission staff (Staff) proposed that the Texas Utility Commission adopt new rules governing the carrying charges on unrecovered true-up balances. In June 2006, the Texas Utility Commission adopted the revised rule as recommended by the Staff. The rule, which applies to CenterPoint Houston, 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 expected to be approximately \$18 million per year for the first year with lesser impacts in subsequent years. On July 17, 2006, CenterPoint Houston made a compliance filing necessary to implement the rule changes effective August 1, 2006 per the settlement agreement discussed in Note 5(d) below.

(B) FINAL FUEL RECONCILIATION

The results of the Texas Utility Commission's final decision related to CenterPoint Houston's final fuel reconciliation are a component of the True-Up Order. CenterPoint Houston 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. A judgment was entered by a Travis County court in May 2005 affirming the Texas Utility Commission's decision. CenterPoint Houston filed an appeal to the 3rd Court of Appeals in Austin in June 2005, and in April 2006, the 3rd Court of Appeals issued an order affirming the Texas Utility Commission's decision. CenterPoint Houston has until August 16, 2006 to file an appeal with the Texas Supreme Court.

(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 CenterPoint Houston'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 CenterPoint Houston's rates. In the settlement of the CenterPoint Houston rate proceeding described in Note 5(d) below, the parties to the remand proceeding have agreed to settle all issues that could be raised in the remand. Under the terms of that settlement, CenterPoint Houston will add 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. CenterPoint Houston reduced revenues and established a corresponding regulatory liability for \$32 million in the second quarter of 2006 to reflect this obligation.

(D) RATE CASES

NATURAL GAS DISTRIBUTION

SOUTHERN GAS OPERATIONS

Mississippi. In February 2006, the Mississippi Public Service Commission (MPSC) approved a \$1 million annual increase in miscellaneous service charges for Southern Gas Operations, and in March 2006, the MPSC approved a Rate Regulation Adjustment resulting in a \$2 million annual increase in general service rates. In June 2006, the MPSC approved a January 2006 application for a one-time recovery of approximately \$2 million of costs related to Hurricane Katrina.

Texas. In April 2005, the Railroad Commission of Texas (Railroad Commission) established new gas tariffs that increased Southern Gas Operations' base rate and service revenues by a combined \$2 million annually in the unincorporated environs of its Beaumont/East Texas and South Texas Divisions. In June and August 2005, Southern Gas Operations filed requests to implement these same rates within the incorporated cities located in the two

divisions. The proposed rates were approved or became effective by operation of law in all but five of these cities, which cities denied the rate change requests. Southern Gas Operations appealed the actions of these five cities to the Railroad Commission. Additionally, 19 cities where new rates had already gone into effect subsequently challenged the jurisdictional and statutory basis for implementation of those rates. Southern Gas Operations petitioned the Railroad Commission for an order declaring that the new rates had been properly established within these 19 cities.

During the second quarter of 2006, Southern Gas Operations reached settlement agreements with the last of the cities that were parties to the Railroad Commission proceedings.

Once all settlement rates are implemented in all jurisdictions including unincorporated areas, Southern Gas Operations' base rates and miscellaneous service charges are expected to increase by a total of \$17 million annually over the pre-April 2005 levels. Approximately \$4 million of this increase was reflected in the Company's 2005 revenues. The Company expects approximately \$16 million will be reflected in revenues in 2006, and the total \$17 million will be reflected in revenues in 2007. Approximately \$3 million of expenditures related to these rate cases was charged to expense during the second quarter of 2006. The settlements also provide that these new rates will not change over the next three to five years.

MINNESOTA GAS

In April 2006, Minnesota Gas revised its gas cost filing for the twelve months ended June 30, 2005, which had not yet been approved by the Minnesota Public Utilities Commission (MPUC). Minnesota Gas refined its unbilled revenue estimate to more accurately reflect the effect of lost and unaccounted for gas. As a result, Minnesota Gas determined that its gas costs for the years ended June 30, 2001 through June 30, 2005 were understated. Minnesota Gas' revised gas cost filing requested approximately \$9 million in additional recovery for the twelve months ended June 30, 2005. The amended filing also requested recovery of approximately \$13 million related to the period from July 1, 2000 through June 30, 2004 and a waiver from the MPUC rules allowing recovery of such costs, since the gas costs for those years had been previously approved. The filing proposes recovery of the 2001-2004 costs over a 3-year period beginning in 2007.

In November 2005, Minnesota Gas filed a request with the MPUC to increase annual rates by approximately \$41 million. In December 2005, the MPUC approved an interim rate increase of approximately \$35 million that was implemented January 1, 2006. Any excess of amounts collected under the interim rates over the amounts approved in final rates is subject to refund to customers. Hearings were held in April and June 2006 and a decision by the MPUC is expected in late 2006.

In December 2004, the MPUC opened an investigation to determine whether Minnesota Gas' practices regarding restoring natural gas service during the period between October 15 and April 15 (Cold Weather Period) are in compliance with the MPUC's Cold Weather Rule (CWR), which governs disconnection and reconnection of customers during the Cold Weather Period. In June 2005, the Minnesota Office of the Attorney General (OAG) issued its report alleging Minnesota Gas had violated the CWR and recommended a \$5 million penalty. In addition, in June 2005, CERC was named in a suit filed in the United States District Court, District of Minnesota on behalf of a purported class of customers who allege that Minnesota Gas' conduct under the CWR was in violation of the law. On March 28, 2006 the court gave preliminary approval to a \$13.5 million settlement which, if ultimately approved by the court following a hearing, will resolve all but one small claim against Minnesota Gas which have or could have been asserted by residential natural gas customers in the CWR class action. A further hearing by the court to consider approval of this settlement is expected during the third quarter of 2006. If also approved by the MPUC, the settlement will resolve the claims made by the OAG. During the fourth quarter 2005, CERC established a litigation reserve to cover the anticipated settlement costs under the terms of this settlement.

ELECTRIC TRANSMISSION & DISTRIBUTION

The Texas Utility Commission requires each electric utility to file an annual Earnings Report providing certain information to enable the Texas Utility Commission to monitor the electric utilities' earnings and financial condition within the state. In May 2005, CenterPoint Houston filed its Earnings Report for the calendar year ended December 31, 2004. CenterPoint Houston's Earnings Report shows that it earned less than its authorized rate of return on equity in 2004.

In October 2005, the Staff filed a memorandum summarizing its review of the Earnings Reports filed by electric utilities. Based on its review, the Staff concluded that continuation of CenterPoint Houston's rates could result in excess retail transmission and distribution revenues of as much as \$105 million and excess wholesale transmission revenues of as much as \$31 million annually and recommended that the Texas Utility Commission initiate a review of the reasonableness of existing rates.

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

On July 31, 2006, CenterPoint Houston entered into a settlement agreement with the parties to the proceeding that would resolve the issues raised in this matter. Under the terms of the agreement, CenterPoint Houston's base rate revenues will be reduced by a net of approximately \$58 million per year. Also, CenterPoint Houston will commit to 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. CenterPoint Houston 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 CenterPoint Houston 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 CenterPoint Houston's final fuel reconciliation, the appeal of the order implementing CenterPoint Houston's CTC or the implementation of transition charges associated with current and future securitizations. In addition, CenterPoint Houston will not be required to file annual earnings reports for the calendar years 2006 through 2008, but will file an earnings report for 2009 no later than March 1, 2010. CenterPoint Houston 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 CenterPoint Houston that such a filing is unnecessary.

The agreement does not provide for an increased storm reserve, but will permit CenterPoint Houston to amortize its expenditures related to Hurricane Rita of approximately \$4 million per year over a seven-year period and to amortize regulatory expenses of approximately \$2 million per year over a four-year period, both beginning in the month following the final order. The agreement will result in a determination that franchise fees payable by CenterPoint Houston under new franchise agreements with the City of Houston and certain other municipalities in CenterPoint Houston's service area are deemed reasonable and necessary, and other revised tariffs proposed in CenterPoint Houston's filing package will go into effect 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 CenterPoint Houston's 2001 UCOS case. See Note 5(c) above.

CenterPoint Houston filed the Stipulation and Agreement with the Texas Utility Commission. Assuming a favorable recommendation on the agreement is issued by the administrative law judges, the agreement is expected to be considered by the Texas Utility Commission later this year.

(E) CITY OF TYLER, TEXAS DISPUTE

In July 2002, the City of Tyler, Texas, asserted that Southern Gas Operations had overcharged residential and small commercial customers in that city for gas costs under supply agreements in effect since 1992. That dispute was referred to the Railroad Commission by agreement of the parties for a determination of whether Southern Gas Operations has properly charged and collected for gas service to its residential and commercial customers in its Tyler distribution system in accordance with lawful filed tariffs during the period beginning November 1, 1992, and ending October 31, 2002. In May 2005, the Railroad Commission issued a final order finding that the Company had complied with its tariffs, acted prudently in entering into its gas supply contracts, and prudently managed those contracts. The City of Tyler appealed this order to a Travis County District Court, but in April 2006, Southern Gas Operations and the City of Tyler reached a settlement regarding the rates in the City of Tyler and other aspects of the dispute between them. As contemplated by that settlement, the City of Tyler's appeal to the district court was dismissed on July 31, 2006, and the Railroad Commission's final order and findings are no longer subject to further review or modification.

(6) DERIVATIVE INSTRUMENTS

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. The Company utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes in its natural gas businesses on its operating results and cash flows.

Cash Flow Hedges. During each of the six month periods ended June 30, 2005 and 2006, hedge ineffectiveness resulted in a gain of less than \$1 million from derivatives that qualify for and are designated as cash flow hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, the Company realizes in net income the deferred gains and losses previously recognized in accumulated other comprehensive loss. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive loss is reclassified and included in the Company's Condensed Statements of Consolidated Income under the "Expenses" caption "Natural gas." Cash flows resulting from these transactions in non-trading energy derivatives are included in the Condensed Statements of Consolidated Cash Flows in the same category as the item being hedged. As of June 30, 2006, the Company expects \$1 million (\$0.6 million after-tax) in accumulated other comprehensive loss to be reclassified as an increase in Natural gas expense during the next twelve months.

The maximum length of time the Company is hedging its exposure to the variability in future cash flows using financial instruments is primarily two years with a limited amount of exposure up to ten years. The Company's policy is not to exceed ten years in hedging its exposure.

Other Derivative Financial Instruments. The Company enters into certain derivative financial instruments to manage physical commodity price risks that do not qualify or are not designated as cash flow or fair value hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). While the Company utilizes these financial instruments to manage physical commodity price risks, it does not engage in proprietary or speculative commodity trading. During the three months ended June 30, 2005 and 2006, the Company recognized net gains of \$4 million and net losses of less than \$1 million, respectively, on these derivative financial instruments which are included in the Condensed Statements of Consolidated Income under the "Expenses" caption "Natural gas." During the six months ended June 30, 2005 and 2006, the Company recognized net gains of \$6 million and net losses of \$8 million, respectively.

Interest Rate Swaps. During 2002, the Company settled forward-starting interest rate swaps having an aggregate notional amount of \$1.5 billion at a cost of \$156 million, which was recorded in other comprehensive loss and is being amortized into interest expense over the five-year life of the designated fixed-rate debt. Amortization of amounts deferred in accumulated other comprehensive loss for each of the six-month periods ended June 30, 2005 and 2006 was \$15 million. As of June 30, 2006, the Company expects \$31 million (\$20 million after-tax) in accumulated other comprehensive loss to be amortized during the next twelve months.

(7) GOODWILL AND INTANGIBLES

Goodwill as of December 31, 2005 and June 30, 2006 by reportable business segment is as follows (in millions):

Natural Gas Distribution.....	\$ 746
Pipelines and Field Services.....	604
Competitive Natural Gas Sales and Services.....	339
Other Operations.....	20

Total.....	\$1,709
	=====

The components of the Company's other intangible assets consist of the following:

	DECEMBER 31, 2005		JUNE 30, 2006	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION

	(IN MILLIONS)			
Land Use Rights.....	\$55	\$(14)	\$55	\$(14)
Other.....	22	(7)	22	(8)
	---	---	---	---
Total.....	\$77	\$(21)	\$77	\$(22)
	===	====	===	=====

Amortization expense for other intangibles during each of the three-month periods ended June 30, 2005 and 2006 was less than \$1 million. Amortization expense for other intangibles during each of the six-month periods ended June 30, 2005 and 2006 was \$1 million. Estimated amortization expense for the remainder of 2006 and the five succeeding fiscal years is as follows (in millions):

2006.....	\$ 1
2007.....	3
2008.....	3
2009.....	3
2010.....	2
2011.....	2

Total.....	\$14
	===

(8) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income (net of tax):

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006

	(IN MILLIONS)			
Net income	\$54	\$194	\$121	\$282
	---	---	---	---
Other comprehensive income:				
Net deferred gain (loss) from cash flow hedges	1	(2)	10	(5)
Reclassification of deferred loss from cash flow hedges realized in net income	2	9	8	6
Other comprehensive income from discontinued operations ..	4	--	4	--
	---	---	---	---
Other comprehensive income	7	7	22	1
	---	---	---	---
Comprehensive income	\$61	\$201	\$143	\$283
	===	====	=====	=====

The following table summarizes the components of accumulated other comprehensive loss:

	DECEMBER 31, 2005	JUNE 30, 2006
	-----	-----
	(IN MILLIONS)	
Minimum pension liability adjustment.....	\$(15)	\$(15)
Net deferred loss from cash flow hedges.....	(23)	(22)
	----	----
Total accumulated other comprehensive loss	\$(38)	\$(37)
	====	====

(9) CAPITAL STOCK

CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, comprised of 1,000,000,000 shares of \$0.01 par value common stock and 20,000,000 shares of \$0.01 par value preferred stock. At December 31, 2005, 310,324,905 shares of CenterPoint Energy common stock were issued and 310,324,739 shares of CenterPoint Energy common stock were outstanding. At June 30, 2006, 311,630,221 shares of CenterPoint Energy common stock were issued and 311,630,055 shares of CenterPoint Energy common stock were outstanding. Outstanding common shares exclude 166 treasury shares at both December 31, 2005 and June 30, 2006.

(10) LONG-TERM DEBT AND RECEIVABLES FACILITY

(A) LONG-TERM DEBT

Senior Notes. In May 2006, CERC Corp. issued \$325 million aggregate principal amount of senior notes due in May 2016 with an interest rate of 6.15%. The proceeds from the sale of the senior notes will be used for general corporate purposes, including repayment or refinancing of debt (including \$145 million of CERC's 8.90% debentures due December 15, 2006), capital expenditures and working capital.

Revolving Credit Facilities. In March 2006, the Company, CenterPoint Houston and CERC Corp., entered into amended and restated bank credit facilities. The Company replaced its \$1 billion five-year revolving credit facility with a \$1.2 billion five-year revolving credit facility. The facility has a first drawn cost of London Interbank Offered Rate (LIBOR) plus 60 basis points based on the Company's current credit ratings, as compared to LIBOR plus 87.5 basis points for borrowings under the facility it replaced. The facility contains covenants, including a debt to earnings before interest, taxes, depreciation and amortization covenant.

CenterPoint Houston 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 LIBOR plus 45 basis points based on CenterPoint Houston'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%.

CERC Corp. replaced its \$400 million five-year revolving credit facility with a \$550 million five-year revolving credit facility. The facility has a first drawn cost of LIBOR plus 45 basis points based on CERC Corp.'s current credit ratings, as compared to LIBOR plus 55 basis points for borrowings under the facility it replaced. The facility contains covenants, including a debt to total capitalization covenant of 65%.

Under each of the credit facilities, 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 borrower's credit rating. Borrowings under each of the facilities are subject to customary terms and conditions. However, there is no requirement that the Company, CenterPoint Houston or CERC Corp. 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 each of the credit facilities are subject to acceleration upon the occurrence of events of default that the Company, CenterPoint Houston or CERC Corp. consider customary.

As of June 30, 2006, the Company had no borrowings and approximately \$28 million of outstanding letters of credit under its \$1.2 billion credit facility, CenterPoint Houston had no borrowings and approximately \$4 million of outstanding letters of credit under its \$300 million credit facility and CERC Corp. had no borrowings under its \$550 million credit facility. Additionally, the Company, CenterPoint Houston and CERC Corp. were in compliance with all covenants as of June 30, 2006.

Convertible Debt. On May 19, 2003, the Company issued \$575 million aggregate principal amount of convertible senior notes due May 15, 2023 with an interest rate of 3.75%. Holders may convert each of their notes into shares of CenterPoint Energy common stock at a conversion rate of 87.4094 shares of common stock per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% or, following May 15, 2008, 110% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. The notes originally had a conversion rate of 86.3558 shares of common stock per \$1,000 principal amount of notes. However, effective February 16, 2006, the conversion rate increased to 87.4094 in accordance with the terms of the notes due to an increase in the amount of the dividend per common share paid by the Company in the first quarter of 2006.

Holders have the right to require the Company to purchase all or any portion of the notes for cash on May 15, 2008, May 15, 2013 and May 15, 2018 for a purchase price equal to 100% of the principal amount of the notes. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after May 15, 2008, in the event that the average trading price of a note for the applicable five-trading-day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. For any six-month period, contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five-trading-day period.

In August 2005, the Company accepted for exchange approximately \$572 million aggregate principal amount of its 3.75% convertible senior notes due 2023 (Old Notes) for an equal amount of its new 3.75% convertible senior notes due 2023 (New Notes). Old Notes of approximately \$3 million remain outstanding. Under the terms of the New Notes, which are substantially similar to the Old Notes, settlement of the principal portion will be made in cash rather than stock.

On December 17, 2003, the Company issued \$255 million aggregate principal amount of convertible senior notes due January 15, 2024 with an interest rate of 2.875%. Holders may convert each of their notes into shares of CenterPoint Energy common stock at a conversion rate of 79.0165 shares of common stock per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's and S&P are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. The notes originally had a conversion rate of 78.0640 shares of common stock per \$1,000 principal amount of notes. However, effective February 16, 2006, the conversion rate increased to 79.0165 in accordance with the terms of the notes due to an increase in the amount of the dividend per common share paid by the Company in the first quarter of 2006.

Under the original terms of these convertible senior notes, CenterPoint Energy could elect to satisfy part or all of its conversion obligation by delivering cash in lieu of shares of CenterPoint Energy. On December 13, 2004, the Company entered into a supplemental indenture with respect to these convertible senior notes in order to eliminate its right to settle the conversion of the notes solely in shares of its common stock. Holders have the right to require the Company to purchase all or any portion of the notes for cash on January 15, 2007, January 15, 2012 and January 15, 2017 for a purchase price equal to 100% of the principal amount of the notes. As of June 30, 2006, these notes were classified as current portion of other long-term debt in the Condensed Consolidated Balance Sheets. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after January 15, 2007, in the event that the average trading price of a note for the applicable five-trading-day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. For any six-month period, contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five-trading-day period.

Junior Subordinated Debentures (Trust Preferred Securities). In February 1997, a Delaware statutory business trust created by CenterPoint Energy (HL&P Capital Trust II) issued to the public \$100 million aggregate amount of capital securities. The trust used the proceeds of the offering to purchase junior subordinated debentures issued by CenterPoint Energy having an interest rate and maturity date that correspond to the distribution rate and the mandatory redemption date of the capital securities. The amount of outstanding junior subordinated debentures discussed above was included in long-term debt as of December 31, 2005 and June 30, 2006.

The junior subordinated debentures are the trust's sole assets and their entire operations. CenterPoint Energy considers its obligations under the Amended and Restated Declaration of Trust, Indenture, Guaranty Agreement and, where applicable, Agreement as to Expenses and Liabilities, relating to the capital securities, taken together, to constitute a full and unconditional guarantee by CenterPoint Energy of the trust's obligations with respect to the capital securities.

The capital securities are mandatorily redeemable upon the repayment of the related series of junior subordinated debentures at their stated maturity or earlier redemption. Subject to some limitations, CenterPoint Energy has the option of deferring payments of interest on the junior subordinated debentures. During any deferral or event of default, CenterPoint Energy may not pay dividends on its capital stock. As of June 30, 2006, no interest payments on the junior subordinated debentures had been deferred.

The outstanding aggregate liquidation amount, distribution rate and mandatory redemption date of the capital securities of the trust described above and the identity and similar terms of the related series of junior subordinated debentures are as follows:

TRUST	AGGREGATE LIQUIDATION AMOUNTS AS OF		DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
	DECEMBER 31, 2005	JUNE 30, 2006			
	(IN MILLIONS)				
HL&P Capital Trust II.....	\$100	\$100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B

(B) RECEIVABLES FACILITY

In January 2006, CERC's \$250 million receivables facility was extended to January 2007. As of June 30, 2006, no amounts were funded under CERC's receivables facility. The facility was temporarily increased to \$375 million for the period from January 2006 to June 2006.

Funding under the receivables facility averaged \$181 million and \$121 million for the six months ended June 30, 2005 and 2006, respectively. Sales of receivables were approximately \$424 million and \$209 million for the three months ended June 30, 2005 and 2006, respectively, and \$944 million and \$555 million for the six months ended June 30, 2005 and 2006, respectively.

(11) COMMITMENTS AND CONTINGENCIES

(A) NATURAL GAS SUPPLY COMMITMENTS

Natural gas supply commitments include natural gas contracts related to the Company's natural gas distribution and competitive natural gas sales and services operations, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities in the Company's Consolidated Balance Sheets as of December 31, 2005 and June 30, 2006 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" or do not meet the definition of a derivative. Natural gas supply commitments also include natural gas transportation contracts which do not meet the definition of a derivative. Minimum payment obligations for natural gas supply contracts are approximately \$367 million for the remaining six months in 2006, \$627 million in 2007, \$174 million in 2008, \$118 million in 2009, \$118 million in 2010 and \$721 million in 2011 and thereafter.

(B) CAPITAL COMMITMENTS

In October 2005, CenterPoint Energy Gas Transmission Company (CEGT), a wholly owned subsidiary of CERC Corp., signed a 10-year firm transportation agreement with XTO Energy (XTO) to transport 600 million cubic feet (MMcf) per day of natural gas from Carthage, Texas to CEGT's Perryville hub in Northeast Louisiana. To accommodate this transaction, CEGT filed a certificate application with the FERC in March 2006 to build a 172 mile, 42-inch diameter pipeline, and related compression facilities at an estimated cost of \$425 million. The capacity of the pipeline under this filing will be 1.275 billion cubic feet (Bcf) per day. CEGT has signed firm contracts for substantially the full capacity of the pipeline. Based on strong interest expressed in an open season earlier this year, and subject to FERC approval, CERC expects to expand capacity of the pipeline to 1.5 Bcf per day. During the four-year period subsequent to the in-service date of the pipeline, XTO can request, and subject to mutual negotiations that meet specific financial parameters, CEGT would construct a 67 mile extension from CEGT's Perryville hub to an interconnect with Texas Eastern Gas Transmission at Union Church, Mississippi.

(C) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

LEGAL MATTERS

RRI Indemnified Litigation

The Company, CenterPoint Houston 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 the Company and Reliant Energy, Inc. (formerly Reliant Resources, Inc.) (RRI), the Company and its subsidiaries are entitled to be indemnified by RRI for any losses, including attorneys' fees and other costs, arising out of the lawsuits described below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. Pursuant to the indemnification obligation, RRI is defending the Company 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. The Company'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.

The Company 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 Houston and Reliant Energy were not participants in the electricity or natural gas markets in California. The Company and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court, and the Company believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from such remaining cases.

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 class action cases are pending. Two parties have appealed the courts' approval of the settlement to the Ninth Circuit 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 in May 2006. That party has filed for review of the FERC's orders in the Ninth Circuit Court of Appeals. The Company 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 the Company was an affiliate of RRI. The terms of the settlement do not require payment by the Company.

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 the Company. Two of the lawsuits were dismissed without prejudice. In the remaining lawsuit, the Company 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 the Company, in violation of the Employee Retirement Income Security Act of 1974 by permitting the plans to purchase or hold securities issued by the Company 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 the Company and the individual defendants. The plaintiffs have filed an appeal of the ruling to the Fifth Circuit Court of Appeals. The Company 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.

Other Legal Matters

Natural Gas Measurement Lawsuits. CERC Corp. and certain of its subsidiaries are defendants in a suit filed in 1997 under the Federal False Claims Act alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the federal district court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case has been consolidated, together with the other similar False Claims Act cases, in the federal district court in Cheyenne, Wyoming.

In addition, CERC Corp. and certain of its subsidiaries are defendants in two mismeasurement lawsuits brought against approximately 245 pipeline companies and their affiliates pending in state court in Stevens County, Kansas. In one case (originally filed in May 1999 and amended four times), the plaintiffs purport to represent a class of royalty owners who allege that the defendants have engaged in systematic mismeasurement of the volume of natural gas for more than 25 years. The plaintiffs amended their petition in this suit in July 2003 in response to an order from the judge denying certification of the plaintiffs' alleged class. In the amendment the plaintiffs dismissed their claims against certain defendants (including two CERC subsidiaries), limited the scope of the class of plaintiffs they purport to represent and eliminated previously asserted claims based on mismeasurement of the Btu content of the gas. The same plaintiffs then filed a second lawsuit, again as representatives of a class of royalty owners, in which they assert their claims that the defendants have engaged in systematic mismeasurement of the Btu content of natural gas for more than 25 years. In both lawsuits, the plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. CERC and its subsidiaries believe that there has been no systematic mismeasurement of gas and that the suits are without merit. CERC does not expect the ultimate outcome to have a material impact on the financial condition, results of operations or cash flows of either the Company or CERC.

Gas Cost Recovery Litigation. In October 2002, a suit was filed in state district court in Wharton County, Texas against the Company, CERC, Entex Gas Marketing Company, and certain non-affiliated companies alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utilities Code, civil conspiracy and violations of the Texas Free Enterprise and Antitrust Act with respect to rates charged to certain consumers of natural gas in the State of Texas. Subsequently, the plaintiffs added as defendants CenterPoint Energy Marketing Inc., CEGT, United Gas, Inc., Louisiana Unit Gas Transmission Company, CenterPoint Energy Pipeline Services, Inc., and CenterPoint Energy Trading and Transportation Group, Inc., all of which are subsidiaries of the Company. The plaintiffs alleged that defendants inflated the prices charged to certain consumers of natural gas. In February 2003, a similar suit was filed in state court in Caddo Parish, Louisiana against CERC with respect to rates charged to a purported class of certain consumers of natural gas and gas service in the State of Louisiana. In February 2004, another suit was filed in state court in Calcasieu Parish, Louisiana against CERC seeking to recover alleged overcharges for gas or gas services allegedly provided by Southern Gas Operations to a purported class of certain consumers of natural gas and gas service without advance approval by the Louisiana Public Service Commission (LPSC). In October 2004, a similar case was filed in district court in Miller County, Arkansas against the Company, CERC, Entex Gas Marketing Company, CEGT, CenterPoint Energy Field Services, CenterPoint Energy Pipeline Services, Inc., CenterPoint Energy - Mississippi River Transmission Corp. (CEMRT) and other non-affiliated companies alleging fraud, unjust enrichment and civil conspiracy with respect to rates charged to certain consumers of natural gas in at least the states of Arkansas, Louisiana, Mississippi, Oklahoma and Texas. Subsequently, the plaintiffs dropped as defendants CEGT and CEMRT. At the time of the filing of each of the Caddo and Calcasieu Parish cases, the plaintiffs in those cases filed petitions with the LPSC relating to the same alleged rate overcharges. The Caddo and Calcasieu Parish cases have been stayed pending the resolution of the respective proceedings by the LPSC. The plaintiffs in the Miller County case seek class certification, but the proposed class has not been certified. In February 2005, the Wharton County case was removed to federal district court in Houston, Texas, and in March 2005, the plaintiffs voluntarily moved to dismiss the case and agreed not to refile the claims asserted unless the Miller County case is not certified as a class action or is later decertified. The range of relief sought by the plaintiffs in these cases includes injunctive and declaratory relief, restitution for the alleged overcharges, exemplary damages or trebling of actual damages, civil penalties and attorney's fees. In these cases, the Company, CERC and their affiliates deny that they have overcharged any of their customers for natural gas and believe that the amounts recovered for purchased gas have been in accordance with what is permitted by state and municipal regulatory authorities. The allegations in these cases are similar to those asserted in the City of Tyler proceeding, as described in Note 5(e). The Company and CERC do not expect the outcome of these matters to have a material impact on the financial condition, results of operations or cash flows of either the Company or CERC.

Pipeline Safety Compliance. Pursuant to an order from the Minnesota Office of Pipeline Safety, CERC substantially completed removal of certain non-code-compliant components from a portion of its distribution system by December 2, 2005. The components were installed by a predecessor company, which was not affiliated with CERC during the period in which the components were installed. In November 2005, Minnesota Gas filed a request with the MPUC to recover the capitalized expenditures (approximately \$39 million) and related expenses, together with a return on the capitalized portion through rates as part of its existing rate case as further discussed in Note 5(d).

Minnesota Cold Weather Rule. For a discussion of this matter, see Note 5(d) above.

ENVIRONMENTAL MATTERS

Hydrocarbon Contamination. CERC Corp. and certain of its subsidiaries are among the defendants in lawsuits filed beginning in August 2001 in Caddo Parish and Bossier Parish, Louisiana. The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility," which was formerly operated by a predecessor in interest of CERC Corp. This facility was purportedly used for gathering natural gas from surrounding wells, separating liquid hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution.

Beginning about 1985, the predecessors of certain CERC Corp. defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they owned or leased. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, including the cost of restoring their property to its original condition and damages for diminution of value of their property. In addition, plaintiffs seek damages for trespass, punitive, and exemplary damages. The Company does not expect the ultimate cost associated with resolving this matter to have a material impact on the financial condition, results of operations or cash flows of either the Company or CERC.

Manufactured Gas Plant Sites. CERC and its predecessors operated manufactured gas plants (MGP) in the past. In Minnesota, CERC has completed remediation on two sites, other than ongoing monitoring and water treatment. There are five remaining sites in CERC's Minnesota service territory. CERC believes that it has no liability with respect to two of these sites.

At June 30, 2006, CERC had accrued \$14 million for remediation of these Minnesota sites. At June 30, 2006, the estimated range of possible remediation costs for these sites was \$4 million to \$35 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. CERC has utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. As of June 30, 2006, CERC has collected \$13 million from insurance companies and rate payers to be used for future environmental remediation.

In addition to the Minnesota sites, the United States Environmental Protection Agency and other regulators have investigated MGP sites that were owned or operated by CERC or may have been owned by one of its former affiliates. CERC has been named as a defendant in two lawsuits, one filed in United States District Court, District of Maine and the other filed in Middle District of Florida, Jacksonville Division, under which contribution is sought by private parties for the cost to remediate former MGP sites based on the previous ownership of such sites by former affiliates of CERC or its divisions. CERC has also been identified as a PRP by the State of Maine for a site that is the subject of one of the lawsuits. In March 2005, the federal district court considering the suit for contribution in Florida granted CERC's motion to dismiss on the grounds that CERC was not an "operator" of the site as had been

alleged. The plaintiff in that case has filed an appeal of the court's dismissal of CERC. In June 2006 the federal district court in Maine that is considering the other suit ruled that the current owner of the site is responsible for site remediation but that an additional evidentiary hearing is required to determine if other potentially responsible parties, including CERC, would have to contribute to that remediation. The Company is investigating details regarding these sites and the range of environmental expenditures for potential remediation. However, CERC believes it is not liable as a former owner or operator of those sites under the Comprehensive Environmental, Response, Compensation and Liability Act of 1980, as amended, and applicable state statutes, and is vigorously contesting those suits and its designation as a PRP.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. The Company has found this type of contamination at some sites in the past, and the Company has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs is not known at this time, based on the Company's experience and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial condition, results of operations or cash flows.

Asbestos. Some facilities owned by the Company contain or have contained asbestos insulation and other asbestos-containing materials. The Company or its subsidiaries 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 the Company, but most existing claims relate to facilities previously owned by the Company or its subsidiaries. The Company anticipates that additional claims like those received may be asserted in the future. In 2004, the Company 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 the Company 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 the Company has agreed to continue to defend such claims to the extent they are covered by insurance maintained by the Company, subject to reimbursement of the costs of such defense from the purchaser. Although their ultimate outcome cannot be predicted at this time, the Company 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 the Company'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 PRP 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.

TAX CONTINGENCIES

CenterPoint Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year.

In the audits of the 1997 through 2003 tax years, the IRS proposed to disallow all deductions for original issue discount (OID) including interest paid relating to the Company's 2.0% Zero Premium Exchangeable Subordinated Notes (ZENS), and the interest paid on the 7% Automatic Common Exchange Securities (ACES), redeemed in 1999. The IRS contended that (1) those instruments, in combination with the Company's long position in TW Common, constituted a straddle under Sections 1092 and 246 of the Internal Revenue Code of 1986, as amended and (2) the indebtedness underlying those instruments was incurred to carry the TW Common.

The Company reached agreement with the IRS on terms of a settlement regarding the tax treatment of the Company's ZENS and its former ACES. On July 17, 2006, the Company signed a Closing Agreement prepared by the IRS and the Company for the tax years 1999 through 2029 with respect to the ZENS issue. The agreement reached with the IRS and the Closing Agreement are subject to approval by the Joint Committee on Taxation of the U.S. Congress. Under the terms of the agreement reached with the IRS, the Company will pay approximately \$64 million in previously accrued taxes associated with the ACES and the ZENS and will reduce its future interest deductions associated with the ZENS. As a result of the agreement reached with the IRS, the Company reduced its previously accrued tax and related interest reserves by approximately \$119 million in the second quarter of 2006, and will no longer accrue a quarterly reserve.

The Company has also established reserves for other significant tax items including issues relating to prior acquisitions and dispositions of business operations, certain positions taken with respect to state tax filings and certain items related to employee benefits. The total amount reserved for the other tax items was approximately \$60 million and \$44 million as of December 31, 2005 and June 30, 2006, respectively.

GUARANTEES

Prior to the Company's distribution of its ownership in RRI to its shareholders, CERC had guaranteed certain contractual obligations of what became RRI's trading subsidiary. Under the terms of the separation agreement between the companies, RRI agreed to extinguish all such guarantee obligations prior to separation, but when separation occurred in September 2002, RRI had been unable to extinguish all obligations. To secure the Company and CERC against obligations under the remaining guarantees, RRI agreed to provide cash or letters of credit for the benefit of CERC and the Company, and agreed to use commercially reasonable efforts to extinguish the remaining guarantees. The Company's current exposure under the remaining guarantees relates to CERC's guarantee of the payment by RRI of demand charges related to transportation contracts with one counterparty. The demand charges are approximately \$53 million per year in 2006 through 2015, \$49 million in 2016, \$38 million in 2017 and \$13 million in 2018. As a result of changes in market conditions, the Company's potential exposure under that guarantee currently exceeds the security provided by RRI. The Company has requested RRI to increase the amount of its existing letters of credit or, in the alternative, to obtain a release of CERC's obligations under the guarantee, and the Company and RRI are pursuing other alternatives. On June 30, 2006, the RRI trading subsidiary and CERC jointly filed a complaint at the FERC against the counterparty on the CERC guarantee. In the complaint, the RRI trading subsidiary seeks a determination by the FERC that the security held by the counterparty exceeds the level permitted by the FERC's policies. The complaint asks the FERC to require the counterparty to release CERC from its guarantee obligation and, in its place accept (i) a guarantee from RRI of the obligations of the RRI trading subsidiary, and (ii) letters of credit equal to (A) one year of demand charges for a transportation agreement related to a 2003 expansion of the counterparty's pipeline, and (B) three months of demand charges for three other transportation agreements held by the RRI trading subsidiary. On July 20, 2006, the counterparty filed its answer to the complaint, arguing that CERC is contractually bound to continue the guarantee and that the amount of the guarantee does not violate the FERC's policies. The complaint is in its beginning stages, and it is presently unknown what action the FERC may take on the complaint. The RRI trading subsidiary continues to meet its obligations under the transportation contracts.

NUCLEAR DECOMMISSIONING FUND COLLECTIONS

Pursuant to regulatory requirements and its tariff, CenterPoint Houston, 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 NRC 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, CenterPoint Houston 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 CenterPoint Houston and an NRG subsidiary to name the NRG subsidiary as the sole fund administrator. As a result, CenterPoint Houston is no longer responsible for administration of decommissioning funds it collects as collection agent.

(12) EARNINGS PER SHARE

The following table reconciles numerators and denominators of the Company's basic and diluted earnings per share calculations:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic earnings per share calculation:				
Income from continuing operations before extraordinary item	\$ 27	\$ 194	\$ 94	\$ 282
Discontinued operations, net of tax	(3)	--	(3)	--
Extraordinary item, net of tax	30	--	30	--
Net income	\$ 54	\$ 194	\$ 121	\$ 282
Weighted average shares outstanding	309,098,000	311,440,000	308,786,000	311,145,000
Basic earnings per share:				
Income from continuing operations before extraordinary item	\$ 0.09	\$ 0.62	\$ 0.30	\$ 0.91
Discontinued operations, net of tax	(0.01)	--	(0.01)	--
Extraordinary item, net of tax	0.10	--	0.10	--
Net income	\$ 0.18	\$ 0.62	\$ 0.39	\$ 0.91
Diluted earnings per share calculation:				
Net income	\$ 54	\$ 194	\$ 121	\$ 282
Plus: Income impact of assumed conversions:				
Interest on 3.75% convertible senior notes	4	--	7	--
Total earnings effect assuming dilution	\$ 58	\$ 194	\$ 128	\$ 282
Weighted average shares outstanding	309,098,000	311,440,000	308,786,000	311,145,000
Plus: Incremental shares from assumed conversions:				
Stock options (1)	1,302,000	1,098,000	1,254,000	1,150,000
Restricted stock	1,365,000	1,160,000	1,365,000	1,160,000
3.75% convertible senior notes	49,655,000	3,118,000	49,655,000	4,289,000
6.25% convertible trust preferred securities	16,000	--	16,000	--
Weighted average shares assuming dilution	361,436,000	316,816,000	361,076,000	317,744,000
Diluted earnings per share:				
Income from continuing operations before extraordinary item	\$ 0.09	\$ 0.61	\$ 0.28	\$ 0.89
Discontinued operations, net of tax	(0.01)	--	(0.01)	--
Extraordinary item, net of tax	0.08	--	0.08	--
Net income	\$ 0.16	\$ 0.61	\$ 0.35	\$ 0.89

(1) Options to purchase 9,356,759 shares were outstanding for both the three months and six months ended June 30, 2005, and options to purchase 7,137,644 shares were outstanding for both the three months and six months ended June 30, 2006, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the respective periods.

In accordance with EITF 04-8, because all of the 2.875% contingently convertible senior notes and approximately \$572 million of the 3.75% contingently convertible senior notes (subsequent to the August 2005 exchange discussed in Note 10) provide for settlement of the principal portion in cash rather than stock, the Company excludes the portion of the conversion value of these notes attributable to their principal amount from its computation of diluted earnings per share from continuing operations. The Company includes the conversion spread in the calculation of diluted earnings per share when the average market price of the Company's common stock in the respective reporting period exceeds the conversion price. The conversion prices for the 2.875% and the 3.75% contingently convertible senior notes are \$12.66 and \$11.44, respectively.

(13) REPORTABLE BUSINESS SEGMENTS

The Company's determination of reportable business segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to business segments. The Company uses operating income as the measure of profit or loss for its business segments.

The Company's reportable business segments include the following: Electric Transmission & Distribution, Natural Gas Distribution, Competitive Natural Gas Sales and Services, Pipelines and Field Services and Other Operations. The electric transmission and distribution function (CenterPoint Houston) is reported in the Electric Transmission & Distribution business segment. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers. The Company reorganized the oversight of its Natural Gas Distribution business segment and, as a result, beginning in the fourth quarter of 2005, the Company established a new reportable business segment, Competitive Natural Gas Sales and Services. Competitive Natural Gas Sales and Services represents the Company's non-rate regulated gas sales and services operations, which consist of three operational functions: wholesale, retail and intrastate pipelines. Pipelines and Field Services includes the interstate natural gas pipeline operations and the natural gas gathering and pipeline services businesses. Other Operations consists primarily of other corporate operations which support all of the Company's business operations. All prior period segment information has been reclassified to conform to the 2006 presentation.

Long-lived assets include net property, plant and equipment, net goodwill and other intangibles and equity investments in unconsolidated subsidiaries. Intersegment sales are eliminated in consolidation.

Financial data for business segments and products and services are as follows (in millions):

	FOR THE THREE MONTHS ENDED JUNE 30, 2005		
	REVENUES FROM EXTERNAL CUSTOMERS	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
Electric Transmission & Distribution	\$ 414(1)	\$ --	\$122
Natural Gas Distribution	538	3	9
Competitive Natural Gas Sales and Services ...	801	44	10
Pipelines and Field Services	87	38	52
Other Operations	2	2	(7)
Eliminations	--	(87)	--
Consolidated	\$1,842	\$ --	\$186

FOR THE THREE MONTHS ENDED JUNE 30, 2006

	REVENUES FROM EXTERNAL CUSTOMERS	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
Electric Transmission & Distribution	\$ 456(1)	\$ --	\$151
Natural Gas Distribution	546	3	(2)
Competitive Natural Gas Sales and Services ...	742	8	7
Pipelines and Field Services	96	39	61
Other Operations	3	2	3
Eliminations	--	(52)	--
Consolidated	<u>\$1,843</u>	<u>\$ --</u>	<u>\$220</u>

FOR THE SIX MONTHS ENDED JUNE 30, 2005

	REVENUES FROM EXTERNAL CUSTOMERS	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS AS OF DECEMBER 31, 2005
Electric Transmission & Distribution	\$ 759(1)	\$ --	\$202	\$ 8,227
Natural Gas Distribution	1,867	3	132	4,612
Competitive Natural Gas Sales and Services ...	1,633	137	26	1,849
Pipelines and Field Services	171	75	116	2,968
Other Operations	7	4	(14)	2,202(2)
Eliminations	--	(219)	--	(2,742)
Consolidated	<u>\$4,437</u>	<u>\$ --</u>	<u>\$462</u>	<u>\$17,116</u>

FOR THE SIX MONTHS ENDED JUNE 30, 2006

	REVENUES FROM EXTERNAL CUSTOMERS	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS AS OF JUNE 30, 2006
Electric Transmission & Distribution	\$ 841(1)	\$ --	\$261	\$ 8,381
Natural Gas Distribution	2,023	6	101	3,959
Competitive Natural Gas Sales and Services ...	1,868	45	32	1,259
Pipelines and Field Services	183	77	134	3,057
Other Operations	5	4	(2)	2,146(2)
Eliminations	--	(132)	--	(2,093)
Consolidated	<u>\$4,920</u>	<u>\$ --</u>	<u>\$526</u>	<u>\$16,709</u>

(1) Sales to subsidiaries of RRI in the three months ended June 30, 2005 and 2006 represented approximately \$183 million and \$182 million, respectively. Sales to subsidiaries of RRI in the six months ended June 30, 2005 and 2006 represented approximately \$366 million and \$344 million, respectively.

(2) Included in total assets of Other Operations as of December 31, 2005 and June 30, 2006 is a pension asset of \$654 million and \$631 million, respectively.

(14) SUBSEQUENT EVENT

On July 27, 2006, the Company's board of directors declared a regular quarterly cash dividend of \$0.15 per share of common stock payable on September 8, 2006, to the shareholders of record as of the close of business on August 16, 2006.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

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

EXECUTIVE SUMMARY

RECENT EVENTS

DEBT FINANCING TRANSACTIONS

In May 2006, CERC Corp. issued \$325 million aggregate principal amount of senior notes due in May 2016 with an interest rate of 6.15%. The proceeds from the sale of the senior notes will be used for general corporate purposes, including repayment or refinancing of debt (including \$145 million of CERC's 8.90% debentures due December 15, 2006), capital expenditures and working capital.

AGREEMENT REGARDING TAX SETTLEMENT

During the second quarter of 2006, we reached agreement with the Internal Revenue Service (IRS) on terms of a settlement regarding the tax treatment of our Zero Premium Exchangeable Subordinated Notes (ZENS) and our former Automatic Common Exchange Securities (ACES). On July 17, 2006, we signed a Closing Agreement prepared by the IRS and us for the tax years 1999 through 2029 with respect to the ZENS issue. The agreement reached with the IRS and the Closing Agreement are subject to approval by the Joint Committee on Taxation of the U.S. Congress. Under the terms of the agreement reached with the IRS, we will pay approximately \$64 million in previously accrued taxes associated with the ACES and the ZENS and will reduce our future interest deductions associated with the ZENS. As a result of the agreement reached with the IRS, we reduced our previously accrued tax and related interest reserves by approximately \$119 million in the second quarter of 2006, and will no longer accrue a quarterly reserve.

AGREEMENT REGARDING SETTLEMENT OF THE ELECTRIC TRANSMISSION & DISTRIBUTION RATE CASE AND THE 2001 UNBUNDLED COST OF SERVICE (UCOS) REMAND

On July 31, 2006, CenterPoint Houston entered into a settlement agreement with the parties to the proceeding that would resolve the issues raised in its pending rate case. Under the terms of the agreement, CenterPoint Houston's base rate revenues will be reduced by approximately \$58 million per year. Also, CenterPoint Houston will commit to 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. CenterPoint Houston 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 CenterPoint Houston will not seek to increase its base rates and the other parties will not petition to decrease those rates.

The agreement also resolves all issues that could be raised in the Public Utility Commission of Texas' (Texas Utility Commission) proceeding to review its decision in CenterPoint Houston's 2001 UCOS case. Under the terms of the agreement, CenterPoint Houston will add 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. CenterPoint Houston reduced revenues and established a corresponding regulatory liability for \$32 million in the second quarter of 2006 to reflect this obligation.

COMPETITION TRANSITION CHARGE (CTC) INTEREST RATE REDUCTION

In January 2006, the Texas Utility Commission staff (Staff) proposed that the Texas Utility Commission adopt new rules governing the carrying charges on unrecovered true-up balances. In June 2006, the Texas Utility Commission adopted the revised rule as recommended by the Staff. The rule, which applies to CenterPoint Houston, 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 expected to be approximately \$18 million per year for the first year with lesser impacts in subsequent years. In accordance with the agreement discussed above, CenterPoint Houston implemented the rule change effective August 1, 2006.

CONSOLIDATED RESULTS OF OPERATIONS

All dollar amounts in the tables that follow are in millions, except for per share amounts.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
Revenues	\$1,842	\$1,843	\$4,437	\$4,920
Expenses	1,656	1,623	3,975	4,394
Operating Income	186	220	462	526
Interest and Other Finance Charges	(189)	(151)	(371)	(299)
Other Income, net	48	9	84	11
Income From Continuing Operations Before Income Taxes and Extraordinary Item	45	78	175	238
Income Tax (Expense) Benefit	(18)	116	(81)	44
Income From Continuing Operations Before Extraordinary Item	27	194	94	282
Discontinued Operations, net of tax	(3)	--	(3)	--
Income Before Extraordinary Item	24	194	91	282
Extraordinary Item, net of tax	30	--	30	--
Net Income	\$ 54	\$ 194	\$ 121	\$ 282
BASIC EARNINGS PER SHARE:				
Income From Continuing Operations	\$ 0.09	\$ 0.62	\$ 0.30	\$ 0.91
Discontinued Operations, net of tax	(0.01)	--	(0.01)	--
Extraordinary Item, net of tax	0.10	--	0.10	--
Net Income	\$ 0.18	\$ 0.62	\$ 0.39	\$ 0.91
DILUTED EARNINGS PER SHARE:				
Income From Continuing Operations	\$ 0.09	\$ 0.61	\$ 0.28	\$ 0.89
Discontinued Operations, net of tax	(0.01)	--	(0.01)	--
Extraordinary Item, net of tax	0.08	--	0.08	--
Net Income	\$ 0.16	\$ 0.61	\$ 0.35	\$ 0.89

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

Income from Continuing Operations. We reported income from continuing operations of \$194 million (\$0.61 per diluted share) for the three months ended June 30, 2006 as compared to \$27 million (\$0.09 per diluted share) for the same period in 2005. As discussed below, the increase in income from continuing operations of \$167 million was primarily due to:

- a \$119 million reduction to previously accrued tax and related interest reserves related to our ZENS and ACES as a result of an agreement reached with the IRS discussed above;
- a \$62 million decrease in interest expense, excluding transition bond-related interest expense, due to lower borrowing costs and borrowing levels;
- a \$9 million increase in operating income from our Pipelines and Field Services business segment; and
- a \$6 million increase in operating income from the regulated utility operations of our Electric Transmission & Distribution business segment.

These increases in income from continuing operations were partially offset by:

- a \$35 million decrease in other income related to a return on the true-up balance of our Electric Transmission & Distribution business segment recorded in the second quarter of 2005;
- an \$11 million decrease in operating income from our Natural Gas Distribution business segment; and

- a \$3 million decrease in operating income from our Competitive Natural Gas Sales and Services business segment.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Income from Continuing Operations. We reported income from continuing operations of \$282 million (\$0.89 per diluted share) for the six months ended June 30, 2006 as compared to \$94 million (\$0.28 per diluted share) for the same period in 2005. As discussed below, the increase in income from continuing operations of \$188 million was primarily due to:

- a \$120 million decrease in interest expense, excluding transition bond-related interest expense, due to lower borrowing costs and borrowing levels;
- a \$119 million reduction to previously accrued tax and related interest reserves related to our ZENS and ACES as discussed above;
- a \$18 million increase in operating income from our Pipelines and Field Services business segment;
- a \$13 million increase in operating income from the regulated utility operations of our Electric Transmission & Distribution business segment; and
- a \$6 million increase in operating income from our Competitive Natural Gas Sales and Services business segment.

These increases in income from continuing operations were partially offset by:

- a \$69 million decrease in other income related to a return on the true-up balance of our Electric Transmission & Distribution business segment recorded in the first six months of 2005; and
- a \$31 million decrease in operating income from our Natural Gas Distribution business segment.

INCOME TAX EXPENSE

During the three months and six months ended June 30, 2005, our effective tax rate was 39.3% and 46.2%, respectively. The most significant item affecting our effective tax rates was an addition to the tax reserve relating to the ZENS and ACES of approximately \$12 million and \$22 million, respectively, during the three months and six months ended June 30, 2005. As discussed above, we reached an agreement with the IRS in July 2006 and have reduced our previously accrued tax and related interest reserves related to the ZENS and ACES by approximately \$119 million as of June 30, 2006. Settlement of other tax issues during the three months and six months ended June 30, 2006 reduced income tax expense by approximately \$21 million. The effective tax rate for the three months and six months ended June 30, 2006 was a net benefit as a result of these matters.

EXTRAORDINARY ITEM AND LOSS ON DISPOSAL OF TEXAS GENCO

Net income for both the three months and six months ended June 30, 2005 included an after-tax extraordinary gain of \$30 million (\$0.08 per diluted share) 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.

Net income for both the three months and six months ended June 30, 2005 included a net after-tax loss from discontinued operations of Texas Genco of \$3 million (\$0.01 per diluted share).

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income (loss) for each of our business segments for the three and six months ended June 30, 2005 and 2006. Some amounts from the previous year have been reclassified to conform to the 2006 presentation of the financial statements. These reclassifications do not affect consolidated net income.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
	(IN MILLIONS)			
Electric Transmission & Distribution	\$122	\$151	\$202	\$261
Natural Gas Distribution	9	(2)	132	101
Competitive Natural Gas Sales and Services ..	10	7	26	32
Pipelines and Field Services	52	61	116	134
Other Operations	(7)	3	(14)	(2)
Total Consolidated Operating Income	\$186	\$220	\$462	\$526

ELECTRIC TRANSMISSION & DISTRIBUTION

For information regarding factors that may affect the future results of operations of our Electric Transmission & Distribution business segment, please read "Risk Factors -- Risk Factors Affecting Our Electric Transmission & Distribution Business," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Risks Common to Our Business and Other Risks" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K).

The following tables provide summary data of our Electric Transmission & Distribution business segment for the three and six months ended June 30, 2005 and 2006 (in millions, except throughput and customer data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
Revenues:				
Electric transmission and distribution utility	\$ 388	\$ 386	\$ 711	\$ 717
Transition bond companies	26	70	48	124
Total revenues	414	456	759	841
Expenses:				
Operation and maintenance	153	147	291	281
Depreciation and amortization	64	61	128	124
Taxes other than income taxes	58	59	108	115
Transition bond companies	17	38	30	60
Total expenses	292	305	557	580
Operating Income	\$ 122	\$ 151	\$ 202	\$ 261
Operating Income - Electric transmission and distribution utility ..	\$ 113	\$ 119	\$ 184	\$ 197
Operating Income - Transition bond companies (1)	9	32	18	64
Total segment operating income	\$ 122	\$ 151	\$ 202	\$ 261
Throughput (in gigawatt-hours (GWh)):				
Residential	6,594	6,808	10,736	10,794
Total	18,956	20,422	34,783	36,409
Average number of metered customers:				
Residential	1,675,573	1,730,130	1,668,447	1,723,983
Total	1,904,090	1,965,180	1,895,556	1,958,005

(1) Represents the amount necessary to pay interest on the transition bonds.

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

Our Electric Transmission & Distribution business segment reported operating income of \$151 million for the three months ended June 30, 2006, consisting of \$119 million for the regulated electric transmission and distribution utility and \$32 million related to the transition bonds. For the three months ended June 30, 2005, operating income totaled \$122 million, consisting of \$113 million for the regulated electric transmission and distribution utility and \$9 million related to the transition bonds. Revenues for the regulated electric transmission and distribution utility continue to benefit from solid customer growth, with nearly 60,000 metered customers added since June 2005 (\$10

million), recovery of our 2004 true-up balance through the CTC, which was implemented in September 2005 (\$12 million) as well as favorable weather and increased usage (\$6 million). This increase in revenues was more than offset by the impact related to the resolution of the 2001 UCOS order, which reduced revenues by \$32 million. Operation and maintenance expense decreased primarily due to lower employee benefit expenses (\$4 million).

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Our Electric Transmission & Distribution business segment reported operating income of \$261 million for the six months ended June 30, 2006, consisting of \$197 million for the regulated electric transmission and distribution utility and \$64 million related to the transition bonds. For the six months ended June 30, 2005, operating income totaled \$202 million, consisting of \$184 million for the regulated electric transmission and distribution utility and \$18 million related to the transition bonds. Revenues for the regulated electric transmission and distribution utility increased due to continued customer growth, with nearly 60,000 metered customers added since June 2005 (\$18 million), recovery of our 2004 true-up balance through the CTC (\$26 million) and favorable weather (\$2 million), partially offset by decreased usage (\$8 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 expenses (\$5 million), which was partially offset by higher transmission costs (\$5 million) and severance costs associated with staff reductions (\$4 million). Additionally, taxes other than income taxes increased primarily due to higher franchise fees (\$7 million).

NATURAL GAS DISTRIBUTION

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Risk Factors -- Risk Factors Affecting Our Natural Gas Distribution, Competitive Natural Gas Sales and Services and Pipelines and Field Services Businesses," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Risks Common to Our Business and Other Risks" in Item 1A of Part I of our 2005 Form 10-K.

The following table provides summary data of our Natural Gas Distribution business segment for the three and six months ended June 30, 2005 and 2006 (in millions, except throughput and customer data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
Revenues	\$ 541	\$ 549	\$ 1,870	\$ 2,029
Expenses:				
Natural gas	341	343	1,338	1,489
Operation and maintenance	126	142	261	292
Depreciation and amortization	39	37	76	75
Taxes other than income taxes	26	29	63	72
Total expenses	532	551	1,738	1,928
Operating Income (Loss)	\$ 9	\$ (2)	\$ 132	\$ 101
Throughput (in billion cubic feet (Bcf)):				
Residential	21	17	98	84
Commercial and industrial	43	44	120	116
Total Throughput	64	61	218	200
Average number of customers:				
Residential	2,833,773	2,860,802	2,842,645	2,872,978
Commercial and industrial	246,032	253,725	247,429	253,505
Total	3,079,805	3,114,527	3,090,074	3,126,483

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

Our Natural Gas Distribution business segment reported an operating loss of \$2 million for the three months ended June 30, 2006 as compared to operating income of \$9 million for the three months ended June 30, 2005.

Increases in operating margins (revenues less natural gas costs) from rate increases and rate design changes, along with the addition of nearly 32,000 customers since June 2005 (\$6 million) and increased gross receipts taxes resulting from higher revenues (\$3 million), were partially offset by decreased customer usage and unfavorable weather (\$5 million). Operation and maintenance expenses increased primarily due to costs associated with staff reductions (\$5 million), increased bad debt expense due to high natural gas prices (\$3 million) and a write-off of certain rate case expenses (\$3 million). Additionally, taxes other than income taxes increased \$3 million primarily due to higher gross receipts taxes, which offset the corresponding increase in revenues discussed above.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Our Natural Gas Distribution business segment reported operating income of \$101 million for the six months ended June 30, 2006 as compared to \$132 million for the six months ended June 30, 2005. Increases in operating margins from rate increases and rate design changes, along with the addition of nearly 32,000 customers since June 2005 (\$20 million) and increased gross receipts taxes resulting from higher revenues (\$9 million), were partially offset by decreased customer usage and unfavorable weather (\$21 million). Operation and maintenance expenses increased primarily due to costs associated with staff reductions (\$11 million), increased bad debt expense due to high natural gas prices (\$6 million), increased contracts and services expenses and corporate services (\$8 million) and a write-off of certain rate case expenses (\$3 million). Additionally, taxes other than income taxes increased \$9 million primarily due to higher gross receipts taxes, which offset the corresponding increase in revenues discussed above.

COMPETITIVE NATURAL GAS SALES AND SERVICES

For information regarding factors that may affect the future results of operations of our Competitive Natural Gas Sales and Services business segment, please read "Risk Factors -- Risk Factors Affecting Our Natural Gas Distribution, Competitive Natural Gas Sales and Services and Pipelines and Field Services Business," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Risks Common to Our Business and Other Risks" in Item 1A of Part I of our 2005 Form 10-K.

The following table provides summary data of our Competitive Natural Gas Sales and Services business segment for the three and six months ended June 30, 2005 and 2006 (in millions, except throughput and customer data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
Revenues	\$ 845	\$ 750	\$1,770	\$1,913
Expenses:				
Natural gas	828	735	1,730	1,864
Operation and maintenance	7	7	12	15
Depreciation and amortization ..	--	1	1	1
Taxes other than income taxes ..	--	--	1	1
Total expenses	835	743	1,744	1,881
Operating Income	\$ 10	\$ 7	\$ 26	\$ 32
Throughput (in Bcf):				
Wholesale - third parties	72	72	154	161
Wholesale - affiliates	21	8	35	19
Retail	34	31	81	79
Pipeline	12	10	31	20
Total Throughput	139	121	301	279
Average number of customers:				
Wholesale	135	132	130	138
Retail	6,237	6,468	6,207	6,501
Pipeline	145	136	151	138
Total	6,517	6,736	6,488	6,777

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

Our Competitive Natural Gas Sales and Services business segment reported operating income of \$7 million for the three months ended June 30, 2006 as compared to \$10 million for the three months ended June 30, 2005. Increased operating income from higher sales to utilities and favorable basis differentials across the pipeline capacity that we control (\$12 million) was more than offset by a charge of \$17 million to reflect the write-down of natural gas inventory to the lower of average cost or market. Our Competitive Natural Gas Sales and Services business segment purchases and stores natural gas to meet future sales requirements and enters into derivative contracts to hedge the economic value of the future sales. Therefore, operating income in future periods when these sales occur is expected to be higher as a result of the inventory write-down taken in this quarter.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Our Competitive Natural Gas Sales and Services business segment reported operating income of \$32 million for the six months ended June 30, 2006 as compared to \$26 million for the six months ended June 30, 2005. Increased operating income from higher sales to utilities and favorable basis differentials across the pipeline capacity that we control (\$35 million) was partially offset by a charge of \$30 million to reflect the write-downs of natural gas inventory to the lower of average cost or market. Therefore, operating income in future periods when these sales occur is expected to be higher as a result of the inventory write-downs taken in the first two quarters of this year.

PIPELINES AND FIELD SERVICES

For information regarding factors that may affect the future results of operations of our Pipelines and Field Services business segment, please read "Risk Factors -- Risk Factors Affecting Our Natural Gas Distribution, Competitive Natural Gas Sales and Services and Pipelines and Field Services Businesses," " -- Risk Factors Associated with Our Consolidated Financial Condition" and "-- Risks Common to Our Business and Other Risks" in Item 1A of Part I of our 2005 Form 10-K.

The following table provides summary data of our Pipelines and Field Services business segment for the three and six months ended June 30, 2005 and 2006 (in millions, except throughput data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
Revenues	\$125	\$135	\$246	\$260
Expenses:				
Natural gas	18	7	25	3
Operation and maintenance	40	50	74	89
Depreciation and amortization	11	12	22	24
Taxes other than income taxes	4	5	9	10
Total expenses	73	74	130	126
Operating Income	\$ 52	\$ 61	\$116	\$134
Operating Income - Pipeline business	\$ 35	\$ 40	\$ 83	\$ 89
Operating Income - Field Services business ..	17	21	33	45
Total segment operating income	\$ 52	\$ 61	\$116	\$134
Throughput (in Bcf):				
Natural Gas Sales	3	2	4	2
Transportation	230	240	501	514
Gathering	87	94	170	182
Elimination (1)	(2)	(1)	(3)	(1)
Total Throughput	318	335	672	697

(1) Elimination of volumes both transported and sold.

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

Our Pipelines and Field Services business segment reported operating income of \$61 million for the three months ended June 30, 2006 as compared to \$52 million for the three months ended June 30, 2005. This segment's businesses continue to benefit from favorable dynamics in the markets for natural gas gathering and transportation services in the Gulf Coast and Mid-Continent regions where they operate. Within this segment, the pipeline business achieved higher operating income of \$40 million for the three months ended June 30, 2006 as compared to \$35 million for the same period in 2005 resulting from increased demand for transportation due to favorable basis differentials across the system (\$5 million), higher demand for ancillary services (\$3 million) and increased project-related revenues (\$5 million), offset by a corresponding increase in project-related expenses (\$5 million) and higher operation and maintenance expenses (\$3 million). The field services business achieved higher operating income of \$21 million for the three months ended June 30, 2006 as compared to \$17 million for the same period in 2005 driven by increased throughput (\$3 million) and higher commodity prices (\$2 million).

Additionally, this business segment recorded equity income of \$1 million and \$2 million for the three months ended June 30, 2005 and 2006, respectively, from its 50 percent interest in a jointly-owned gas processing plant. These amounts are included in Other - net under the Other Income (Expense) caption in our Consolidated Statements of Consolidated Income.

SIX MONTHS ENDED JUNE 30, 2006 COMPARED TO SIX MONTHS ENDED JUNE 30, 2005

Our Pipelines and Field Services business segment reported operating income of \$134 million for the six months ended June 30, 2006 as compared to \$116 million for the six months ended June 30, 2005. The pipeline business achieved operating income of \$89 million for the six months ended June 30, 2006 as compared to \$83 million for the same period in 2005 resulting from increased demand for transportation due to favorable basis differentials across the system (\$11 million), higher demand for ancillary services (\$4 million) and increased project-related revenues (\$6 million), partially offset by a corresponding increase in project-related expenses (\$5 million) and increased operation and maintenance expenses (\$6 million). The field services business achieved operating income of \$45 million for the six months ended June 30, 2006 as compared to \$33 million for the same period in 2005 driven by increased throughput (\$7 million), higher commodity prices (\$7 million) and higher demand for ancillary services (\$2 million), partially offset by increased operation and maintenance expenses (\$4 million).

In addition, this business segment recorded equity income of \$3 million and \$5 million for the six months ended June 30, 2005 and 2006, respectively, from its 50 percent interest in a jointly-owned gas processing plant as discussed above.

OTHER OPERATIONS

The following table shows the operating loss of our Other Operations business segment for the three and six months ended June 30, 2005 and 2006 (in millions):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2006	2005	2006
Revenues	\$ 4	\$5	\$ 11	\$ 9
Expenses	11	2	25	11
Operating Income (Loss) ..	\$(7)	\$3	\$(14)	\$(2)
	===	==	====	===

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of Part II and "Risk Factors" in Item 1A of Part I of our 2005 Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the six months ended June 30, 2005 and 2006 (in millions):

	SIX MONTHS ENDED JUNE 30,	
	2005	2006
Cash provided by (used in):		
Operating activities	\$ 16	\$ 517
Investing activities	412	(396)
Financing activities	(185)	202

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities in the first six months of 2006 increased \$533 million compared to the same period in 2005 primarily due to decreased tax payments of \$345 million, the majority of which related to the tax payment in the first quarter of 2005 associated with the sale of our former electric generation business (Texas Genco), decreases in net regulatory assets/liabilities (\$187 million), primarily due to the termination of excess mitigation credits effective April 29, 2005, decreased gas storage inventory (\$53 million) and fuel under-recovery (\$123 million) primarily related to declining gas prices during the first six months of 2006 and decreased cash used in the operations of Texas Genco (\$38 million). These increases in cash provided by operating activities were partially offset by decreased net accounts receivable/payable (\$208 million) primarily due to decreased gas prices in the first two quarters of 2006 as compared to the same period in 2005 and decreases in the amount of advances for the purchase of receivables under CERC Corp.'s receivables facility. Additionally, customer margin deposit requirements decreased (\$88 million) primarily due to the decline in natural gas prices from December 2005 to June 2006 and our margin deposits increased (\$32 million).

CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

Net cash used in investing activities increased \$808 million in the first six months of 2006 as compared to the same period in 2005 primarily due to increased capital expenditures of \$49 million primarily related to our Electric Transmission & Distribution and Pipelines and Field Services business segments and the absence of \$700 million in proceeds received in the second quarter of 2005 from the sale of our remaining interest in Texas Genco and cash of Texas Genco of \$23 million.

CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

Net cash provided by financing activities in the first six months of 2006 increased \$387 million compared to the same period in 2005 primarily due to net proceeds from the issuance of long-term debt (\$324 million), decreased payments under our revolving credit facility (\$116 million) and decreased payments of long-term debt (\$33 million), partially offset by the absence of borrowings under Texas Genco's revolving credit facility (\$75 million) due to the sale of Texas Genco and increased dividend payments of \$10 million.

FUTURE SOURCES AND USES OF CASH

Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, tax payments, working capital needs, various regulatory actions and appeals relating to such regulatory actions. Our principal cash requirements for the remaining six months of 2006 include the following:

- approximately \$700 million of capital expenditures;
- dividend payments on CenterPoint Energy common stock and debt service payments; and
- long-term debt payments of \$199 million, including \$54 million of transition bonds.

We expect that borrowings under our credit facilities, liquidation of temporary investments and anticipated cash flows from operations will be sufficient to meet our cash needs for the next twelve months. Cash needs may also be met by issuing securities in the capital markets.

Contractual Obligations. We negotiated new natural gas transportation contracts during the second quarter of 2006 which was the primary reason for an \$809 million increase in the amount of other commodity commitments from the contractual obligations reported in our 2005 Form 10-K. Minimum payment obligations for natural gas supply and related transportation contracts are approximately \$367 million for the remaining six months in 2006, \$627 million in 2007, \$174 million in 2008, \$118 million in 2009, \$118 million in 2010 and \$721 million in 2011 and thereafter.

Off-Balance Sheet Arrangements. Other than operating leases and the guarantees described below, we have no off-balance sheet arrangements. However, we do participate in a receivables factoring arrangement. CERC Corp. has a bankruptcy remote subsidiary, which we consolidate, which was formed for the sole purpose of buying receivables created by CERC and selling those receivables to an unrelated third-party. This transaction is accounted for as a sale of receivables under the provisions of Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and, as a result, the related receivables are excluded from the Condensed Consolidated Balance Sheet. In January 2006, our \$250 million facility was extended to January 2007. As of June 30, 2006, no amounts were funded under our receivables facility. The facility was temporarily increased to \$375 million for the period from January 2006 to June 2006.

Prior to the CenterPoint Energy's distribution of its ownership in RRI to its shareholders, CERC had guaranteed certain contractual obligations of what became RRI's trading subsidiary. Under the terms of the separation agreement between the companies, RRI agreed to extinguish all such guarantee obligations prior to separation, but when separation occurred in September 2002, RRI had been unable to extinguish all obligations. To secure the CenterPoint Energy and CERC against obligations under the remaining guarantees, RRI agreed to provide cash or letters of credit for the benefit of CERC and CenterPoint Energy, and agreed to use commercially reasonable efforts to extinguish the remaining guarantees. CenterPoint Energy's current exposure under the remaining guarantees relates to CERC's guarantee of the payment by RRI of demand charges related to transportation contracts with one counterparty. The demand charges are approximately \$53 million per year in 2006 through 2015, \$49 million in 2016, \$38 million in 2017 and \$13 million in 2018. As a result of changes in market conditions, the Company's potential exposure under that guarantee currently exceeds the security provided by RRI. CenterPoint Energy has requested RRI to increase the amount of its existing letters of credit or, in the alternative, to obtain a release of CERC's obligations under the guarantee, and CenterPoint Energy and RRI are pursuing other alternatives. On June 30, 2006, the RRI trading subsidiary and CERC jointly filed a complaint at the FERC against the counterparty on the CERC guarantee. In the complaint, the RRI trading subsidiary seeks a determination by the FERC that the security held by the counterparty exceeds the level permitted by the FERC's policies. The complaint asks the FERC to require the counterparty to release CERC from its guarantee obligation and, in its place accept (i) a guarantee from RRI of the obligations of the RRI trading subsidiary, and (ii) letters of credit equal to (A) one year of demand charges for a transportation agreement related to a 2003 expansion of the counterparty's pipeline, and (B) three months of demand charges for three other transportation agreements held by the RRI trading subsidiary. On July 20, 2006, the counterparty filed its answer to the complaint, arguing that CERC is contractually bound to continue the guarantee and that the amount of the guarantee does not violate the FERC's policies. The complaint is in its beginning stages, and it is presently unknown what action the FERC may take on the complaint. The RRI trading subsidiary continues to meet its obligations under the transportation contracts.

Senior Notes. In May 2006, CERC Corp. issued \$325 million aggregate principal amount of senior notes due in May 2016 with an interest rate of 6.15%. The proceeds from the sale of the senior notes will be used for general corporate purposes, including repayment or refinancing of debt (including \$145 million of CERC's 8.90% debentures due December 15, 2006), capital expenditures and working capital.

Credit Facilities. In March 2006, we, CenterPoint Houston and CERC Corp., entered into amended and restated bank credit facilities. We replaced our \$1 billion five-year revolving credit facility with a \$1.2 billion five-year revolving credit facility. The facility has a first drawn cost of LIBOR plus 60 basis points based on our current credit ratings, as compared to LIBOR plus 87.5 basis points for borrowings under the facility it replaced. The facility contains covenants, including a debt to earnings before interest, taxes, depreciation and amortization (EBITDA) covenant.

CenterPoint Houston 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 LIBOR plus 45 basis points based on CenterPoint Houston'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%.

CERC Corp. replaced its \$400 million five-year revolving credit facility with a \$550 million five-year revolving credit facility. The facility has a first drawn cost of LIBOR plus 45 basis points based on CERC Corp.'s current credit ratings, as compared to LIBOR plus 55 basis points for borrowings under the facility it replaced. The facility contains covenants, including a debt to total capitalization covenant of 65%.

Under each of the credit facilities, 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 borrower's credit rating. Borrowings under each of the facilities are subject to customary terms and conditions. However, there is no requirement that we, CenterPoint Houston or CERC Corp. 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 each of the credit facilities are subject to acceleration upon the occurrence of events of default that we, CenterPoint Houston or CERC Corp. consider customary.

We, CenterPoint Houston and CERC Corp. are currently in compliance with the various business and financial covenants contained in the respective credit facilities.

As of August 1, 2006, we had the following credit facilities (in millions):

DATE EXECUTED	COMPANY	SIZE OF FACILITY	AMOUNT UTILIZED AT AUGUST 1, 2006	TERMINATION DATE
March 31, 2006	CenterPoint Energy	\$1,200	\$28(1)	March 31, 2011
March 31, 2006	CenterPoint Houston	300	4(1)	March 31, 2011
March 31, 2006	CERC Corp.	550	--	March 31, 2011

(1) Represents outstanding letters of credit.

The \$1.2 billion CenterPoint Energy credit facility backstops a \$1.0 billion commercial paper program under which CenterPoint Energy began issuing commercial paper in June 2005. As of June 30, 2006, there was no commercial paper outstanding. The commercial paper is rated "Not Prime" by Moody's Investors Service, Inc. (Moody's), "A-3" by Standard & Poor's Rating Services (S&P), a division of The McGraw-Hill Companies, and "F3" by Fitch, Inc. (Fitch) and, as a result, we do not expect to be able to rely on the sale of commercial paper to fund all of our short-term borrowing requirements. We cannot assure you that these ratings, or the credit ratings set forth below in "-- Impact on Liquidity of a Downgrade in Credit Ratings," will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities 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.

Securities Registered with the SEC. At June 30, 2006, CenterPoint Energy had a shelf registration statement covering senior debt securities, preferred stock and common stock aggregating \$1 billion. After giving effect to CERC Corp.'s issuance of \$325 million aggregate principal amount of senior notes due in May 2016, as discussed above under "--Senior Notes," at June 30, 2006, CERC Corp. had a shelf registration statement covering \$175 million principal amount of debt securities.

Temporary Investments. As of June 30, 2006, we had external temporary investments of \$290 million. As of August 1, 2006, we had external temporary investments of \$381 million.

Money Pool. We have a "money pool" through which the holding company and participating subsidiaries 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.

Impact on Liquidity of a Downgrade in Credit Ratings. As of August 1, 2006, Moody's, S&P, and Fitch had assigned the following credit ratings to senior debt of CenterPoint Energy and certain subsidiaries:

COMPANY/INSTRUMENT	MOODY'S		S&P		FITCH	
	RATING	OUTLOOK(1)	RATING	OUTLOOK(2)	RATING	OUTLOOK(3)
CenterPoint Energy Senior Unsecured Debt.....	Ba1	Stable	BBB-	Stable	BBB-	Stable
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds).....	Baa2	Stable	BBB	Stable	A-	Stable
CERC Corp. Senior Unsecured Debt.....	Baa3	Stable	BBB	Stable	BBB	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.

A decline in credit ratings could increase borrowing costs under our \$1.2 billion credit facility, CenterPoint Houston's \$300 million credit facility and CERC's \$550 million revolving 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. Additionally, a decline in credit ratings could increase cash collateral requirements and reduce margins of our Natural Gas Distribution and Competitive Natural Gas Sales and Services business segments.

In September 1999, we issued 2.0% ZENS having an original principal amount of \$1.0 billion of which \$840 million remain outstanding. Each ZENS note is exchangeable at the holder's option at any time for an amount of cash equal to 95% of the market value of the reference shares of TW Common attributable to each ZENS note. If our creditworthiness were to drop such that ZENS note holders thought our liquidity was adversely affected or the market for the ZENS notes were to become illiquid, some ZENS note holders might decide to exchange their ZENS notes for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the shares of TW Common that we own or from other sources. We own shares of TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS note exchanges result in a cash outflow because deferred tax liabilities related to the ZENS notes and TW Common shares become current tax obligations when ZENS notes are exchanged and TW Common shares are sold.

CenterPoint Energy Services, Inc. (CES), a wholly owned subsidiary of CERC Corp. operating in our Competitive Natural Gas Sales and Services business segment, provides comprehensive natural gas sales and services primarily to commercial and industrial customers and electric and gas utilities throughout the central and eastern United States. In order to hedge its exposure to natural gas prices, CES uses financial derivatives with provisions standard for the industry that establish credit thresholds and require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case) falls below those levels. We estimate that as of June 30, 2006, unsecured credit limits extended to CES by counterparties aggregate \$133 million; however, utilized credit capacity is significantly lower. In addition, CERC and its subsidiaries purchase natural gas under supply agreements that contain an aggregate credit threshold of \$100 million based on CERC's S&P Senior Unsecured Long-Term Debt rating of BBB. Upgrades and downgrades from this BBB rating will increase and decrease the aggregate credit threshold accordingly.

Cross Defaults. Under our revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding \$50 million by us or any of our significant subsidiaries will cause a default. Pursuant to the indenture governing our senior notes, a payment default by us, CERC Corp. or CenterPoint Houston 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 August 1, 2006, we 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 subsidiaries' 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:

- cash collateral requirements that could exist in connection with certain contracts, including gas purchases, gas price hedging and gas storage activities of our Natural Gas Distribution and Competitive Natural Gas Sales and Services business segments, particularly given gas price levels and volatility;
- acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of suppliers;
- increased costs related to the acquisition of gas;
- increases in interest expense in connection with debt refinancings and borrowings under credit facilities;
- various regulatory actions;
- the ability of RRI and its subsidiaries to satisfy their obligations as the principal customers of CenterPoint Houston and in respect of RRI's indemnity obligations to us and our subsidiaries or in connection with the contractual arrangement pursuant to which CERC is a guarantor;
- slower customer payments and increased write-offs of receivables due to higher gas prices;
- cash payments in connection with the exercise of contingent conversion rights of holders of convertible debt;
- the outcome of litigation brought by or against us;
- contributions to benefit plans;
- 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 our 2005 Form 10-K.

Certain Contractual Limits on Our Ability to Issue Securities, Borrow Money and Pay Dividends on Our Common Stock. CenterPoint Houston's credit facility limits CenterPoint Houston's debt, excluding transition bonds, as a percentage of its total capitalization to 65 percent. CERC Corp.'s bank facility and its receivables facility limit CERC's debt as a percentage of its total capitalization to 65 percent. Our \$1.2 billion credit facility contains a debt to EBITDA covenant. Additionally, in connection with the issuance of a certain series of general mortgage bonds, CenterPoint Houston agreed not to issue, subject to certain exceptions, additional first mortgage bonds.

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 our 2005 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.

ACCOUNTING FOR RATE REGULATION

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. Application of SFAS No. 71 to the electric generation portion of our business was discontinued as of June 30, 1999. Our Electric Transmission & Distribution business continues to apply SFAS No. 71 which results in our accounting for the regulatory effects of recovery of stranded costs and other regulatory assets resulting from the unbundling of the transmission and distribution business from our electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Significant accounting estimates embedded within the application of SFAS No. 71 with respect to our Electric Transmission & Distribution business segment relate to \$321 million of recoverable electric generation-related regulatory assets as of June 30, 2006. These costs are recoverable under the provisions of the 1999 Texas Electric Choice Plan. Based on our analysis of the final order issued by the Public Utility Commission of Texas (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 was reflected as an extraordinary loss. 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. Appeals of the district court's judgment are still pending. Oral arguments have been scheduled for September 27, 2006. No amounts related to the district court's judgment have been recorded in our consolidated financial statements.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

We review the carrying value of our long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable, and at least annually for goodwill as required by SFAS No. 142, "Goodwill and Other Intangible Assets." 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 3.0%. Similarly, an increase in the discount rate by 25 basis points would decrease asset retirement obligations by approximately the same percentage. At June 30, 2006, our estimated cost of retiring these assets is approximately \$77 million.

UNBILLED ENERGY REVENUES

Revenues related to the sale and/or delivery of electricity or natural gas (energy) are generally recorded when energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of energy 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. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. 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.

PENSION AND OTHER RETIREMENT PLANS

We sponsor pension and other retirement plans in various forms covering all employees who meet eligibility requirements. We use several statistical and other factors which attempt to anticipate future events in calculating the expense and liability related to our plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as estimated by management, within certain guidelines. In addition, our actuarial consultants use subjective factors such as withdrawal and mortality rates. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension expense recorded. Please read "-- Other Significant Matters -- Pension Plan" for further discussion. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations-- Other Significant Matters -- Pension Plan" in Item 7 of our 2005 Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 4 to the Interim Condensed Financial Statements for a discussion of new accounting pronouncements that affect us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK FROM NON-TRADING ACTIVITIES

We measure the commodity risk of our non-trading derivatives (Non-Trading Energy Derivatives) using a sensitivity analysis.

The sensitivity analysis performed on our Non-Trading Energy Derivatives measures the potential loss based on a hypothetical 10% movement in energy prices. At June 30, 2006, the recorded fair value of our Non-Trading Energy Derivatives was a net liability of \$6 million. A decrease of 10% in the market prices of energy commodities from their June 30, 2006 levels would have decreased the fair value of our Non-Trading Energy Derivatives from their levels on that date by \$108 million.

The above analysis of the Non-Trading Energy Derivatives utilized for price risk management purposes does not include the favorable impact that the same hypothetical price movement would have on our physical purchases and sales of natural gas to which the hedges relate. Furthermore, the Non-Trading Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Non-Trading Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above is expected to be substantially offset by a favorable impact on the underlying hedged physical transactions.

INTEREST RATE RISK

We have outstanding long-term debt, bank loans, mandatory redeemable preferred securities of subsidiary trusts holding solely our junior subordinated debentures (trust preferred securities), some lease obligations and our obligations under the ZENS that subject us to the risk of loss associated with movements in market interest rates.

We had no floating-rate obligations at June 30, 2006.

At June 30, 2006, we had outstanding fixed-rate debt (excluding indexed debt securities) and trust preferred securities aggregating \$9.1 billion in principal amount and having a fair value of \$9.2 billion. These instruments are fixed-rate and, therefore, do not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of these instruments would increase by approximately \$389 million if interest rates were to decline by 10% from their levels at June 30, 2006. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

Upon adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component. The debt component of \$110 million at June 30, 2006 is a fixed-rate obligation and, therefore, does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately \$18 million if interest rates were to decline by 10% from levels at June 30, 2006. Changes in the fair value of the derivative component will be recorded in our Condensed Statements of Consolidated Income and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from June 30, 2006 levels, the fair value of the derivative component would increase by approximately \$6 million, which would be recorded as a loss in our Condensed Statements of Consolidated Income.

EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of 21.6 million shares of TW Common, which we hold to facilitate our ability to meet our obligations under the ZENS. A decrease of 10% from the June 30,

2006 market value of TW Common would result in a net loss of approximately \$4 million, which would be recorded as a loss in our Condensed Statements of Consolidated Income.

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 June 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 June 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 description of certain legal and regulatory proceedings affecting CenterPoint Energy, please read Notes 5 and 11 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 our 2005 Form 10-K.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our 2005 Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of our shareholders held on May 25, 2006, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to such matters (including a separate tabulation with respect to each nominee for office), were as stated below:

The following nominees for Class I Directors were elected to serve three-year terms expiring at the 2009 annual meeting of shareholders (there were no broker non-votes):

Nominees	For	Withheld
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Derrill Cody	261,674,008	11,221,695
David M. McClanahan	263,381,498	9,514,205
Robert T. O'Connell	261,474,445	11,421,258

Donald R. Campbell, Milton Carroll, John T. Cater, Michael E. Shannon, O. Holcombe Crosswell, Janiece M. Longoria, Thomas F. Madison and Peter S. Wareing all continue as directors of CenterPoint Energy.

The appointment of Deloitte & Touche LLP as independent accountants and auditors for CenterPoint Energy for 2006 was ratified with 255,050,291 votes for, 15,113,470 votes against and 2,731,940 abstentions.

The material terms of the performance goals under the Company's Short Term Incentive Plan were reapproved, permitting certain awards to continue to qualify as performance-based compensation deductible under Section 162(m) of the Code, with 254,598,317 votes for, 14,236,776 votes against and 4,060,608 abstentions.

The material terms of the performance goals under the Company's Long-Term Incentive Plan were reapproved, permitting certain awards to continue to qualify as performance-based compensation deductible under Section 162(m) of the Code with 252,407,921 votes for, 16,236,795 votes against and 4,250,985 abstentions.

The shareholder proposal regarding the future elections of directors annually and not by classes did not receive the required affirmative vote of a majority of the shares of common stock represented at the meeting. The proposal received 127,569,119 votes for, 73,718,809 votes against, 3,824,715 abstentions and 67,783,059 broker non-votes.

ITEM 5. OTHER INFORMATION

The ratio of earnings to fixed charges for the six months ended June 30, 2005 and 2006 was 1.46 and 1.76, respectively. We do not believe that the ratios for these six month periods are necessarily indicators of the ratios for the twelve month period 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 Energy, Inc.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
3.1.1	-- Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Registration Statement on Form S-4	3-69502	3.1
3.1.2	-- Articles of Amendment to Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.1.1
3.2	-- Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.2
3.3	-- Statement of Resolution Establishing Series of Shares designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.3
4.1	-- Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1
4.2	-- Rights Agreement dated January 1, 2002, between CenterPoint Energy and JPMorgan Chase Bank, as Rights Agent	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	4.2
4.3	-- \$1,200,000,000 Amended and Restated Credit Agreement dated as of March 31, 2006, among CenterPoint Energy, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated March 31, 2006	1-31447	4.1
4.4	-- \$300,000,000 Amended and Restated Credit Agreement dated as of March 31, 2006, among CenterPoint Houston, as Borrower, and the Initial Lenders named therein, as Initial Lenders	CenterPoint Energy's Form 8-K dated March 31, 2006	1-31447	4.2
4.5	-- \$550,000,000 Amended and Restated Credit Agreement dated as of March 31, 2006 among CERC Corp., as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated March 31, 2006	1-31447	4.3

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.6	-- Indenture, dated as of February 1, 1998, between CERC Corp. (formerly NorAm Energy Corp.) and JPMorgan Chase Bank, National Association (successor to Chase Bank of Texas, National Association), as trustee (the "Indenture")	CERC Corp.'s Form 8-K dated February 5, 1998	1-13265	4.1
+4.7	-- Supplemental Indenture No. 9 to the Indenture, dated as of May 18, 2006, providing for the issuance of CERC Corp.'s 6.15% Senior Notes due 2016			
+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	-- First Amendment to CenterPoint Energy Savings Plan dated June 26, 2006			
+99.2	-- Items incorporated by reference from the CenterPoint Energy 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, INC.

By: /s/ James S. Brian

James S. Brian
Senior Vice President and Chief
Accounting Officer

Date: August 3, 2006

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
3.1.1	-- Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Registration Statement on Form S-4	3-69502	3.1
3.1.2	-- Articles of Amendment to Amended and Restated Articles of Incorporation of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.1.1
3.2	-- Amended and Restated Bylaws of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.2
3.3	-- Statement of Resolution Establishing Series of Shares designated Series A Preferred Stock of CenterPoint Energy	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	3.3
4.1	-- Form of CenterPoint Energy Stock Certificate	CenterPoint Energy's Registration Statement on Form S-4	3-69502	4.1
4.2	-- Rights Agreement dated January 1, 2002, between CenterPoint Energy and JPMorgan Chase Bank, as Rights Agent	CenterPoint Energy's Form 10-K for the year ended December 31, 2001	1-31447	4.2
4.3	-- \$1,200,000,000 Amended and Restated Credit Agreement dated as of March 31, 2006, among CenterPoint Energy, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated March 31, 2006	1-31447	4.1
4.4	-- \$300,000,000 Amended and Restated Credit Agreement dated as of March 31, 2006, among CenterPoint Houston, as Borrower, and the Initial Lenders named therein, as Initial Lenders	CenterPoint Energy's Form 8-K dated March 31, 2006	1-31447	4.2
4.5	-- \$550,000,000 Amended and Restated Credit Agreement dated as of March 31, 2006 among CERC Corp., as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated March 31, 2006	1-31447	4.3

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4.6	-- Indenture, dated as of February 1, 1998, between CERC Corp. (formerly NorAm Energy Corp.) and JPMorgan Chase Bank, National Association (successor to Chase Bank of Texas, National Association), as trustee (the "Indenture")	CERC Corp.'s Form 8-K dated February 5, 1998	1-13265	4.1
+4.7	-- Supplemental Indenture No. 9 to the Indenture, dated as of May 18, 2006, providing for the issuance of CERC Corp.'s 6.15% Senior Notes due 2016			
+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	-- First Amendment to CenterPoint Energy Savings Plan dated June 26, 2006			
+99.2	-- Items incorporated by reference from the CenterPoint Energy Form 10-K. Item 1A "Risk Factors"			

CENTERPOINT ENERGY RESOURCES CORP.
(formerly known as NorAm Energy Corp.)

To

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
(successor to Chase Bank of Texas, National Association),
Trustee

SUPPLEMENTAL INDENTURE NO. 9

Dated as of May 18, 2006

\$325,000,000

6.15% Senior Notes due 2016

CENTERPOINT ENERGY RESOURCES CORP.

(formerly known as NorAm Energy Corp.)

SUPPLEMENTAL INDENTURE NO. 9

\$325,000,000

6.15% Senior Notes due 2016

SUPPLEMENTAL INDENTURE No. 9, dated as of May 18, 2006, between CENTERPOINT ENERGY RESOURCES CORP., a Delaware corporation formerly known as NorAm Energy Corp. (the "Company"), and JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (successor to Chase Bank of Texas, National Association), as Trustee (the "Trustee").

RECITALS

The Company has heretofore executed and delivered to the Trustee an Indenture, dated as of February 1, 1998 (the "Original Indenture" and, as previously and hereby supplemented and amended, the "Indenture"), providing for the issuance from time to time of one or more series of the Company's Securities.

The Company has changed its name from "NorAm Energy Corp." to "CenterPoint Energy Resources Corp." and all references in the Indenture to the "Company" or "NorAm Energy Corp." shall be deemed to refer to CenterPoint Energy Resources Corp.

Pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of Securities to be designated as the "6.15% Senior Notes due 2016" (the "Notes"), the form and substance of such Notes and the terms, provisions and conditions thereof to be set forth as provided in the Original Indenture and this Supplemental Indenture No. 9.

Section 301 of the Original Indenture provides that various matters with respect to any series of Securities issued under the Indenture may be established in an indenture supplemental to the Indenture.

Subparagraph (7) of Section 901 of the Original Indenture provides that the Company and the Trustee may enter into an indenture supplemental to the Indenture to establish the form or terms of Securities of any series as permitted by Sections 201 and 301 of the Original Indenture.

For and in consideration of the premises and the issuance of the series of Securities provided for herein, it is mutually covenanted and agreed, for the equal and proportionate benefit

of the Holders of the Securities of such series, as follows:

ARTICLE ONE

Relation to Indenture; Additional Definitions

Section 101. Relation to Indenture. This Supplemental Indenture No. 9 constitutes an integral part of the Original Indenture.

Section 102. Additional Definitions. For all purposes of this Supplemental Indenture No. 9:

Capitalized terms used herein shall have the meaning specified herein or in the Original Indenture, as the case may be;

"Acquired Entity" has the meaning set forth in Section 303(k) hereof;

"Capital Lease" means a lease that, in accordance with accounting principles generally accepted in the United States of America, would be recorded as a capital lease on the balance sheet of the lessee;

"Comparable Treasury Yield" has the meaning set forth in Section 402(a) hereof;

"Consolidated Net Tangible Assets" means the total amount of assets of the Company and its Subsidiaries less, without duplication: (a) total current liabilities (excluding indebtedness due within 12 months); (b) all reserves for depreciation and other asset valuation reserves, but excluding reserves for deferred federal income taxes; (c) all intangible assets such as goodwill, trademarks, trade names, patents and unamortized debt discount and expense carried as an asset; and (d) all appropriate adjustments on account of minority interests of other Persons holding common stock of any Subsidiary, all as reflected in the Company's most recent audited consolidated balance sheet preceding the date of such determination;

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, as follows: (a) for payment, registration and transfer of the Securities: 2001 Bryan Street, 9th Floor, Dallas, Texas 75201, Attention: Bondholder Communications; telephone (214) 672-5125 or (800) 275-2048; telecopy: (214) 672-5873; and (b) for all other communications relating to the Securities: 600 Travis Street, Suite 1150, Houston, Texas 77002, Attention: Institutional Trust Services; telephone: (713) 216-6815; telecopy: (713) 216-6590.

"Equity Interests" means any capital stock, partnership, joint venture, member or limited liability or unlimited liability company interest, beneficial interest in a trust or similar entity or other equity interest or investment of whatever nature;

"H.15 Statistical Release" has the meaning set forth in Section 402(b) hereof;

The term "indebtedness," as applied to the Company or any Subsidiary, means bonds, debentures, notes and other instruments or arrangements representing obligations created or assumed by any such corporation, including any and all: (i) obligations for money borrowed (other than unamortized debt discount or premium); (ii) obligations evidenced by a note or similar instrument given in connection with the acquisition of any business, properties or assets of any kind; (iii) obligations as lessee under a Capital Lease; and (iv) any amendments, renewals, extensions, modifications and refundings of any such indebtedness or obligation listed in clause (i), (ii) or (iii) above. All indebtedness secured by a lien upon property owned by the Company or any Subsidiary and upon which indebtedness any such corporation customarily pays interest, although any such corporation has not assumed or become liable for the payment of such indebtedness, shall for all purposes hereof be deemed to be indebtedness of any such corporation. All indebtedness for borrowed money incurred by other Persons which is directly guaranteed as to payment of principal by the Company or any Subsidiary shall for all purposes hereof be deemed to be indebtedness of any such corporation, but no other contingent obligation of any such corporation in respect of indebtedness incurred by other Persons shall for any purpose be deemed to be indebtedness of such corporation;

"Independent Investment Banker" has the meaning set forth in Section 401(c) hereof;

"Interest Payment Date" has the meaning set forth in Section 204(a) hereof;

"Issue Date" has the meaning set forth in Section 204(a) hereof;

"lien" or "liens" have the meanings set forth in Section 303 hereof;

"Long-Term Indebtedness" means, collectively, the Company's outstanding: (a) 7.875% Senior Notes due 2013, (b) 5.95% Senior Notes due 2014, and (c) any long-term indebtedness (but excluding for this purpose any long-term indebtedness, if any, incurred pursuant to any revolving credit facility, letter of credit facility or other similar bank credit facility) of the Company issued subsequent to the issuance of the Notes and prior to the Termination Date containing covenants substantially similar to the covenants set forth in Sections 303 and 304 hereof, or an event of default substantially similar to the event of default set forth in Section 501(a) hereof, but not containing a provision substantially similar to the provision set forth in Section 305 hereof;

"Make-Whole Premium" has the meaning set forth in Section 401(b) hereof;

"Maturity Date" has the meaning set forth in Section 203 hereof;

"Non-Recourse Debt" means (i) any indebtedness for borrowed money incurred by any Project Finance Subsidiary to finance the acquisition, improvement, installation, design, engineering, construction, development, completion, maintenance or operation of, or otherwise to pay costs and expenses relating to or providing financing for, any project, which indebtedness for borrowed money does not provide for recourse against the Company or any Subsidiary of the Company (other than a Project Finance Subsidiary and such recourse as exists under a Performance Guaranty) or any property or asset of the

Company or any Subsidiary of the Company (other than Equity Interests in, or the property or assets of, a Project Finance Subsidiary and such recourse as exists under a Performance Guaranty) and (ii) any refinancing of such indebtedness for borrowed money that does not increase the outstanding principal amount thereof (other than to pay costs incurred in connection therewith and the capitalization of any interest or fees) at the time of the refinancing or increase the property subject to any lien securing such indebtedness for borrowed money or otherwise add additional security or support for such indebtedness for borrowed money.

"Notes" has the meaning set forth in the third paragraph of the Recitals hereof;

"Original Indenture" has the meaning set forth in the first paragraph of the Recitals hereof;

"Performance Guaranty" means any guaranty issued in connection with any Non-Recourse Debt that (i) if secured, is secured only by assets of or Equity Interests in a Project Finance Subsidiary, and (ii) guarantees to the provider of such Non-Recourse Debt or any other person (a) performance of the improvement, installation, design, engineering, construction, acquisition, development, completion, maintenance or operation of, or otherwise affects any such act in respect of, all or any portion of the project that is financed by such Non-Recourse Debt, (b) completion of the minimum agreed equity or other contributions or support to the relevant Project Finance Subsidiary, or (c) performance by a Project Finance Subsidiary of obligations to persons other than the provider of such Non-Recourse Debt.

"Principal Property" means any natural gas distribution property, natural gas pipeline or gas processing plant located in the United States, except any such property that in the opinion of the Board of Directors is not of material importance to the total business conducted by the Company and its consolidated Subsidiaries. "Principal Property" shall not include any oil or gas property or the production or proceeds of production from an oil or gas producing property or the production or any proceeds of production of gas processing plants or oil or gas or petroleum products in any pipeline or storage field;

"Project Finance Subsidiary" means any Subsidiary designated by the Company whose principal purpose is to incur Non-Recourse Debt and/or construct, lease, own or operate the assets financed thereby, or to become a direct or indirect partner, member or other equity participant or owner in a Person created for such purpose, and substantially all the assets of which Subsidiary or Person are limited to (x) those assets being financed (or to be financed), or the operation of which is being financed (or to be financed), in whole or in part by Non-Recourse Debt, or (y) Equity Interests in, or indebtedness or other obligations of, one or more other such Subsidiaries or Persons, or (z) indebtedness or other obligations of the Company or any Subsidiary or other Persons. At the time of designation of any Project Finance Subsidiary, the sum of the net book value of the assets of such Subsidiary and the net book value of the assets of all other Project Finance Subsidiaries then existing shall not in the aggregate exceed 10 percent of Consolidated Net Tangible Assets.

"Redemption Price" has the meaning set forth in Section 401(a) hereof;

"Regular Record Date" has the meaning set forth in Section 204(b) hereof;

"Remaining Term" has the meaning set forth in Section 402(a) hereof;

"Sale and Leaseback Transaction" means any arrangement entered into by the Company or any Subsidiary with any Person providing for the leasing to the Company or any Subsidiary of any Principal Property (except for temporary leases for a term, including any renewal thereof, of not more than three years and except for leases between the Company and a Subsidiary or between Subsidiaries), which Principal Property has been or is to be sold or transferred by the Company or such Subsidiary to such Person;

"Significant Subsidiary" means any Subsidiary of the Company, other than a Project Finance Subsidiary, that is a "significant subsidiary" as defined in Rule 1-02 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934, as such regulation is in effect on the date of issuance of the Notes.

"Subsidiary" of any entity means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (i) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (ii) the interest in the capital or profits of such limited liability company, partnership, joint venture or other entity or (iii) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such entity, by such entity and one or more of its other subsidiaries or by one or more of such entity's other subsidiaries.

"Termination Date" has the meaning set forth in Section 305.

"Value" with respect to a Sale and Leaseback Transaction has the meaning set forth in Section 303 hereof;

All references herein to Articles and Sections, unless otherwise specified, refer to the corresponding Articles and Sections of this Supplemental Indenture No. 9; and

The terms "herein," "hereof," "hereunder" and other words of similar import refer to this Supplemental Indenture No. 9.

ARTICLE TWO

The Series of Securities

Section 201. Title of the Securities. The Notes shall be designated as the "6.15% Senior Notes due 2016."

Section 202. Limitation on Aggregate Principal Amount. The Trustee shall authenticate and deliver the Notes for original issue on the Issue Date in the aggregate principal amount of \$325,000,000 upon a Company Order for the authentication and delivery thereof and satisfaction of Sections 301 and 303 of the Original Indenture. Such order shall specify the amount of the Notes to be authenticated, the date on which the original issue of Notes is to be authenticated and the name or names of the initial Holder or Holders. The aggregate principal amount of Notes that may initially be outstanding shall not exceed \$325,000,000; provided, however, that the authorized aggregate principal amount of the Notes may be increased above such amount by a Board Resolution to such effect.

Section 203. Stated Maturity. The Stated Maturity of the Notes shall be May 1, 2016 (the "Maturity Date").

Section 204. Interest and Interest Rates.

(a) The Notes shall bear interest at the rate of 6.15% per annum, from and including May 18, 2006 (the "Issue Date") to, but excluding, the Maturity Date. Such interest shall be payable semiannually in arrears, on May 1 and November 1, of each year (each such date, an "Interest Payment Date"), commencing November 1, 2006.

(b) The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Persons in whose names the Notes (or one or more Predecessor Securities) are registered at the close of business on the immediately preceding April 15 and October 15, respectively, whether or not such day is a Business Day (each such date, a "Regular Record Date"). Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and shall either (i) be paid to the Person in whose name such Note (or one or more Predecessor Securities) is registered at the close of business on the Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of the Notes not less than 10 days prior to such Special Record Date, or (ii) be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Notes may be listed or traded, and upon such notice as may be required by such exchange or automated quotation system, all as more fully provided in the Indenture.

(c) The amount of interest payable for any period shall be computed on the basis of a 360-day year of twelve 30-day months. The amount of interest payable for any partial period shall be computed on the basis of a 360-day year of twelve 30-day months and the days elapsed in any partial month. In the event that any date on which interest is payable on a Note is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of

any such delay) with the same force and effect as if made on the date the payment was originally payable.

(d) Any principal and premium, if any, and any installment of interest, which is overdue shall bear interest at the rate of 6.15% per annum (to the extent permitted by law), from the dates such amounts are due until they are paid or made available for payment, and such interest shall be payable on demand.

Section 205. Place of Payment. The Trustee shall initially serve as the Paying Agent for the Notes. The Place of Payment where the Notes may be presented or surrendered for payment shall be the Corporate Trust Office of the Trustee.

Section 206. Place of Registration or Exchange; Notices and Demands With Respect to the Notes. The place where the Holders of the Notes may present the Notes for registration of transfer or exchange and may make notices and demands to or upon the Company in respect of the Notes shall be the Corporate Trust Office of the Trustee.

Section 207. Percentage of Principal Amount. The Notes shall be initially issued at 99.644% of their principal amount plus accrued interest, if any, from May 18, 2006.

Section 208. Global Securities. The Notes shall be issuable in whole or in part in the form of one or more Global Securities. Such Global Securities shall be deposited with, or on behalf of, The Depository Trust Company, New York, New York, which shall act as Depository with respect to the Notes. Such Global Securities shall bear the legends set forth in the form of Security attached as Exhibit A hereto.

Section 209. Form of Securities. The Notes shall be substantially in the form attached as Exhibit A hereto.

Section 210. Securities Registrar. The Trustee shall initially serve as the Security Registrar for the Notes.

Section 211. Defeasance and Discharge; Covenant Defeasance.

(a) Article Fourteen of the Original Indenture, including without limitation, Sections 1402 and 1403 (as modified by Section 211(b) hereof) thereof, shall apply to the Notes.

(b) Solely with respect to the Notes issued hereby, the first sentence of Section 1403 of the Original Indenture is hereby deleted in its entirety, and the following is substituted in lieu thereof:

"Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company shall be released from its obligations under Article Eight and under any covenants provided pursuant to Section 301(20), 901(2) or 901(7) for the benefit of the Holders of such Securities, including, without limitation, the covenants provided for in Article Three of Supplemental Indenture No. 9 to the Indenture, and (2) the occurrence of any event

specified in Sections 501(4) (with respect to Article Eight and to any such covenants provided pursuant to Section 301(20), 901(2) or 901(7)) and 501(7) shall be deemed not to be or result in an Event of Default, in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1404 are satisfied (hereinafter called "Covenant Defeasance")."

Section 212. Sinking Fund Obligations. The Company shall have no obligation to redeem or purchase any Notes pursuant to any sinking fund or analogous requirement or upon the happening of a specified event or at the option of a Holder thereof.

ARTICLE THREE

Additional Covenants

Section 301. Maintenance of Properties. The Company shall cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary.

Section 302. Payment of Taxes and Other Claims. The Company shall pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 303. Restrictions on Liens. The Company shall not pledge, mortgage or hypothecate, or permit to exist, and shall not cause, suffer or permit any Subsidiary to pledge, mortgage or hypothecate, or permit to exist, except in favor of the Company or any Subsidiary, any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, charge, security interest, encumbrance or lien of any kind whatsoever (including any Capital Lease) (collectively, a "lien" or "liens") upon, any Principal Property or any Equity Interest in any Significant Subsidiary owning any Principal Property, at any time owned by it or a Subsidiary, to secure any indebtedness, without making effective provisions whereby the Notes shall be equally and ratably secured with or prior to any and all such indebtedness and any other indebtedness similarly entitled to be equally and ratably secured; provided, however, that this provision shall not apply to or prevent the creation or existence of:

(a) undetermined or inchoate liens and charges incidental to construction, maintenance, development or operation;

(b) the lien of taxes and assessments for the then current year;

(c) the lien of taxes and assessments not at the time delinquent;

(d) the lien of specified taxes and assessments which are delinquent but the validity of which is being contested at the time by the Company or such Subsidiary in good faith and by appropriate proceedings;

(e) any obligations or duties, affecting the property of the Company or such Subsidiary, to any municipality or public authority with respect to any franchise, grant, license, permit or similar arrangement;

(f) the liens of any judgments or attachment in an aggregate amount not in excess of \$10,000,000, or the lien of any judgment or attachment the execution or enforcement of which has been stayed or which has been appealed and secured, if necessary, by the filing of an appeal bond;

(g) any lien on any property held or used by the Company or a Subsidiary in connection with the exploration for, development of or production of oil, gas, natural gas (including liquefied gas and storage gas), other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels, such properties to include, but not be limited to, the Company's or a Subsidiary's interest in any mineral fee interests, oil, gas or other mineral leases, royalty, overriding royalty or net profits interests, production payments and other similar interests, wellhead production equipment, tanks, field gathering lines, leasehold or field separation and processing facilities, compression facilities and other similar personal property and fixtures;

(h) any lien on oil, gas, natural gas (including liquefied gas and storage gas), and other hydrocarbons, helium, coal, metals, minerals, steam, timber, geothermal or other natural resources or synthetic fuels produced or recovered from any property, an interest in which is owned or leased by the Company or a Subsidiary;

(i) liens upon any property heretofore or hereafter acquired, constructed or improved, created at the later of the time of acquisition or commercial operation thereof, or within one year thereafter (and accessions and proceeds thereof), to secure all or a portion of the purchase price thereof or the cost of such construction or improvement, or existing thereon at the date of acquisition, whether or not assumed by the Company or a Subsidiary, provided that every such lien shall apply only to the property so acquired or constructed and fixed improvements thereon (and accessions and proceeds thereof);

(j) any extension, renewal or refunding, in whole or in part, of any lien permitted by subparagraph (i) above, if limited to the same property or any portion thereof subject to, and securing not more than the amount secured by, the lien extended, renewed or refunded;

(k) liens upon any property of any entity heretofore or hereafter acquired by any entity that is or becomes a Subsidiary after the date hereof ("Acquired Entity") provided that every such lien (1) shall either (A) exist prior to the time the Acquired Entity becomes a Subsidiary or (B) be created at the time the Acquired Entity becomes a Subsidiary or within one year thereafter to secure all or a portion of the acquisition price thereof and (2) shall only apply to those properties owned by the Acquired Entity at the time it becomes a Subsidiary or thereafter acquired by it from sources other than the Company or any other Subsidiary;

(l) the pledge of current assets, in the ordinary course of business, to secure current liabilities;

(m) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time in connection with the financing of the acquisition or construction of property to be used in the business of the Company or a Subsidiary or as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Company or a Subsidiary to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements; the lien reserved in leases for rent and for compliance with the terms of the lease in the case of leasehold estates; mechanics' or materialmen's liens, any liens or charges arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure duties or public or statutory obligations, deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or similar charges;

(n) any lien of or upon any office equipment, data processing equipment (including, without limitation, computer and computer peripheral equipment), or transportation equipment (including, without limitation, motor vehicles, tractors, trailers, marine vessels, barges, towboats, rolling stock and aircraft);

(o) any lien created or assumed by the Company or a Subsidiary in connection with the issuance of debt securities the interest on which is excludable from gross income of the holder of such security pursuant to the Internal Revenue Code, as amended, for the purposes of financing, in whole or in part, the acquisition or construction of property to be used by the Company or a Subsidiary; or

(p) the pledge or assignment of accounts receivable, or the pledge or assignment of conditional sales contracts or chattel mortgages and evidences of indebtedness secured thereby, received in connection with the sale by the Company or such Subsidiary or others of goods or merchandise to customers of the Company or such Subsidiary.

In case the Company or any Subsidiary shall propose to pledge, mortgage, or hypothecate any Principal Property at any time owned by it to secure any indebtedness, other than as permitted by paragraphs (a) to (p), inclusive, of this Section 303, the Company shall prior thereto

give written notice thereof to the Trustee, and the Company shall or shall cause such Subsidiary to, prior to or simultaneously with such pledge, mortgage or hypothecation, by supplemental indenture executed and delivered to the Trustee (or to the extent legally necessary to another trustee or additional or separate trustee), in form satisfactory to the Trustee, effectively secure all the Notes equally and ratably with, or prior to, such indebtedness.

Notwithstanding the foregoing provisions of this Section 303, the Company or a Subsidiary may issue, assume or guarantee indebtedness secured by a mortgage which would otherwise be subject to the foregoing restrictions in an aggregate amount which, together with all other indebtedness of the Company or a Subsidiary secured by a mortgage which (if originally issued, assumed or guaranteed at such time) would otherwise be subject to the foregoing restrictions (not including indebtedness permitted to be secured under subdivisions (a) through (p) above) and the Value of all Sale and Leaseback Transactions in existence at such time (other than any Sale and Leaseback Transaction which, if such Sale and Leaseback Transaction had been a lien, would have been permitted by paragraph (i), (j) or (k) of this Section 303 and other than Sale and Leaseback Transactions as to which application of amounts have been made in accordance with Section 304) does not at the time of incurrence of such indebtedness exceed 5% of Consolidated Net Tangible Assets. "Value" means, with respect to a Sale and Leaseback Transaction, as of any particular time, the amount equal to the greater of (1) the net proceeds from the sale or transfer of the property leased pursuant to such Sale and Leaseback Transaction or (2) the fair value, in the opinion of the Board of Directors, of such property at the time of entering into such Sale and Leaseback Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

For purposes of this Section 303, "Subsidiary" does not include a Project Finance Subsidiary.

Section 304. Restrictions on Sale and Leaseback Transactions. The Company shall not, nor shall it permit any Subsidiary to, enter into any Sale and Leaseback Transaction unless the net proceeds of such sale are at least equal to the fair value (as determined by the Board of Directors) of such Principal Property and either (a) the Company or such Subsidiary would be entitled, pursuant to the provisions of (1) paragraph (i) or (j) of Section 303 or (2) paragraph (k) of Section 303, to incur indebtedness secured by a lien on the Principal Property to be leased without equally and ratably securing the Notes, or (b) the Company shall, and in any such case the Company covenants that it will, within 120 days of the effective date of any such arrangement, apply an amount not less than the fair value (as so determined) of such Principal Property (i) to the payment or other retirement of Funded Debt incurred or assumed by the Company which ranks senior to or pari passu with the Notes or of Funded Debt incurred or assumed by any Subsidiary (other than, in either case, Funded Debt owned by the Company or any Subsidiary), or (ii) to the purchase at not more than fair value (as so determined) of Principal Property (other than the Principal Property involved in such sale). For this purpose, "Funded Debt" means any indebtedness which by its terms matures at or is extendable or renewable at the sole option of the obligor thereon without requiring the consent of the obligee to a date more than 12 months after the date of the creation of such indebtedness.

For purposes of this Section 304, "Subsidiary" does not include a Project Finance Subsidiary.

Section 305. Expiration of Restrictions on Liens and Restrictions on Sale and Leaseback Transactions. Notwithstanding anything to the contrary herein, on the date (the "Termination Date") (and continuing thereafter) on which there remains outstanding, in the aggregate, no more than \$200,000,000 in principal amount of Long-Term Indebtedness, the covenants of the Company set forth in Sections 303 and 304 hereof shall terminate and the Company shall no longer be subject to the covenants set forth in such Sections.

ARTICLE FOUR

Optional Redemption of the Notes

Section 401. Redemption Price.

(a) The Company shall have the right to redeem the Notes, in whole or in part, at its option at any time from time to time at a price equal to (i) 100% of the principal amount thereof plus (ii) accrued and unpaid interest thereon, if any, to but excluding the Redemption Date plus (iii) the Make-Whole Premium, if any (collectively, the "Redemption Price").

(b) The amount of the Make-Whole Premium with respect to any Note (or portion thereof) to be redeemed will be equal to the excess, if any, of: (i) the sum of the present values, calculated as of the Redemption Date, of: (A) each interest payment that, but for such redemption, would have been payable on the Note (or portion thereof) being redeemed on each Interest Payment Date occurring after the Redemption Date (excluding any accrued and unpaid interest for the period prior to the Redemption Date); and (B) the principal amount that, but for such redemption, would have been payable on the Note (or portion thereof) being redeemed at the Maturity Date; over (ii) the principal amount of the Note (or portion thereof) being redeemed. The present values of interest and principal payments referred to in clause (i) above will be determined in accordance with generally accepted principles of financial analysis. Such present values will be calculated by discounting the amount of each payment of interest or principal from the date that each such payment would have been payable, but for the redemption, to the Redemption Date at a discount rate equal to the Comparable Treasury Yield (as defined below) plus 20 basis points.

(c) The Make-Whole Premium shall be calculated by an independent investment banking institution of national standing appointed by the Company; provided, that if the Company fails to make such appointment at least 45 days prior to the Redemption Date, or if the institution so appointed is unwilling or unable to make such calculation, such calculation shall be made by Barclays Capital Inc., LaSalle Financial Services, Inc. or Scotia Capital (USA) Inc., or, if such firms are unwilling or unable to make such calculation, by an independent investment banking institution of national standing appointed by the Company (in any such case, an "Independent Investment Banker").

Section 402. Make-Whole Premium Calculation.

(a) For purposes of determining the Make-Whole Premium, "Comparable Treasury Yield" means a rate of interest per annum equal to the weekly average yield to maturity of United States Treasury securities that have a constant maturity that corresponds to the remaining term to maturity of the Notes, calculated to the nearest 1/12th of a year (the "Remaining Term"). The Comparable Treasury Yield shall be determined as of the third Business Day immediately preceding the applicable Redemption Date.

(b) The weekly average yields of United States Treasury securities shall be determined by reference to the most recent statistical release published by the Federal Reserve Bank of New York and designated "H.15 (519) Selected Interest Rates" or any successor release (the "H.15 Statistical Release"). If the H.15 Statistical Release sets forth a weekly average yield for United States Treasury securities having a constant maturity that is the same as the Remaining Term, then the Comparable Treasury Yield shall be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield shall be calculated by interpolation, on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity closest to and greater than the Remaining Term and the United States Treasury securities that have a constant maturity closest to and less than the Remaining Term (in each case as set forth in the H.15 Statistical Release). Any weekly average yields so calculated by interpolation shall be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If weekly average yields for United States Treasury securities are not available in the H.15 Statistical Release or otherwise, then the Comparable Treasury Yield shall be calculated by interpolation of comparable rates selected by the Independent Investment Banker.

Section 403. Partial Redemption. If the Company redeems the Notes in part pursuant to this Article Four, the Trustee shall select the Notes to be redeemed on a pro rata basis or by lot or by such other method that the Trustee in its sole discretion deems fair and appropriate. The Company shall redeem Notes pursuant to this Article Four in multiples of \$1,000 in original principal amount. A new Note in principal amount equal to the unredeemed portion of the original Note shall be issued upon cancellation of the original Note.

Section 404. Notice of Optional Redemption. If the Company elects to exercise its right to redeem all or some of the Notes pursuant to this Article Four, the Company or the Trustee shall mail a notice of such redemption to each Holder of a Note that is to be redeemed not less than 30 days and not more than 60 days before the Redemption Date. If any Note is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount to be redeemed.

ARTICLE FIVE

REMEDIES

Section 501. Additional Events of Default; Acceleration of Maturity.

(a) Solely with respect to the Notes issued hereby, Section 501(7) of the Original Indenture is hereby deleted in its entirety, and the following is substituted in lieu thereof as an

"Event of Default" in addition to the other events set forth in Section 501 of the Original Indenture:

"(7) the default by the Company or any Subsidiary, other than a Project Finance Subsidiary, in the payment, when due, after the expiration of any applicable grace period, of principal of indebtedness for money borrowed, other than Non-Recourse Debt, in the aggregate principal amount then outstanding of \$50 million or more, or acceleration of any indebtedness for money borrowed in such aggregate principal amount so that it becomes due and payable prior to the date on which it would otherwise have become due and payable and such acceleration is not rescinded or such default is not cured within 30 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in principal amount of Notes written notice specifying such default and requiring the Company to cause such acceleration to be rescinded or such default to be cured and stating that such notice is a "Notice of Default" under the Indenture;"

(b) Solely with respect to the Notes issued hereby, the first paragraph of Section 502 of the Original Indenture is hereby deleted in its entirety, and the following is substituted in lieu thereof:

"If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) with respect to the Notes at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Notes Outstanding may declare the principal amount of all the Notes to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in Section 501(5) or 501(6) with respect to the Notes at the time Outstanding occurs and is continuing, the principal amount of all the Notes shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable."

Section 502. Expiration of Additional Events of Default. Notwithstanding anything to the contrary herein, on the Termination Date (and continuing thereafter), the event of default of the Company set forth in Section 501(a) hereof shall terminate and the Company shall no longer be subject to such event of default.

ARTICLE SIX

Miscellaneous Provisions

Section 601. The Indenture, as supplemented and amended by this Supplemental Indenture No. 9, is in all respects hereby adopted, ratified and confirmed.

Section 602. This Supplemental Indenture No. 9 may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 603. THIS SUPPLEMENTAL INDENTURE NO. 9 AND EACH NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THEREOF.

Section 604. If any provision in this Supplemental Indenture No. 9 limits, qualifies or conflicts with another provision hereof which is required to be included herein by any provisions of the Trust Indenture Act, such required provision shall control.

Section 605. In case any provision in this Supplemental Indenture No. 9 or the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 606. The recitals contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the proper authorization or due execution hereof or of the Notes by the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 9 to be duly executed, as of the day and year first written above.

CENTERPOINT ENERGY RESOURCES CORP.

By: /s/ David M. McClanahan

Name: David M. McClanahan
Title: President and Chief Executive Officer

Attest:

/s/ Richard B. Dauphin

Name: Richard B. Dauphin
Title: Assistant Corporate Secretary

(SEAL)

JPMORGAN CHASE BANK,
NATIONAL ASSOCIATION, as Trustee

By: /s/ Carol Logan

Name: Carol Logan
Title: Vice President and Trust Officer

(SEAL)

Exhibit A

[FORM OF FACE OF SECURITY]

[IF THIS SECURITY IS TO BE A GLOBAL SECURITY -] THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY.

[For as long as this Global Security is deposited with or on behalf of The Depository Trust Company it shall bear the following legend.] Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to CenterPoint Energy Resources Corp. or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

CENTERPOINT ENERGY RESOURCES CORP.

6.15% Senior Notes due 2016

No. _____

\$ _____
CUSIP No. _____

CENTERPOINT ENERGY RESOURCES CORP., a corporation duly organized and existing under the laws of the State of Delaware formerly known as NorAm Energy Corp. (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on May 1, 2016, and to pay interest thereon from May 18, 2006 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on May 1 and November 1 in each year, commencing November 1, 2006, at the rate of 6.15% per annum, until the principal hereof is paid or made available for payment, provided that any principal and premium, and any such installment of interest, which is overdue shall bear interest at the rate of 6.15% per annum (to the extent permitted by applicable law), from the dates such amounts are due until they are paid or made available for payment, and such interest shall be payable on demand. The amount of

interest payable for any period shall be computed on the basis of twelve 30-day months and a 360-day year. The amount of interest payable for any partial period shall be computed on the basis of a 360-day year of twelve 30-day months and the days elapsed in any partial month. In the event that any date on which interest is payable on this Security is not a Business Day, then a payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay) with the same force and effect as if made on the date the payment was originally payable. A "Business Day" shall mean, when used with respect to any Place of Payment, each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the April 15 or October 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and shall either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Securities of this series may be listed or traded, and upon such notice as may be required by such exchange or automated quotation system, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any such interest on this Security will be made at the Corporate Trust Office of the Trustee, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made (i) by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register or (ii) by wire transfer in immediately available funds at such place and to such account as may be designated in writing by the Person entitled thereto as specified in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated: May 18, 2006

CENTERPOINT ENERGY RESOURCES CORP.

By: _____

Name: David M. McClanahan

Title: President and Chief Executive Officer

(SEAL)

Attest:

Name: Richard B. Dauphin
Title: Assistant Corporate Secretary

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

JPMORGAN CHASE BANK,
NATIONAL ASSOCIATION
As Trustee

Date of Authentication: _____

By: _____

Authorized Signatory

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6.15% SENIOR NOTES DUE 2016

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of February 1, 1998 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and JPMorgan Chase Bank, National Association (successor to Chase Bank of Texas, National Association), as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, initially limited in aggregate principal amount to \$325,000,000; provided, however, that the authorized aggregate principal amount of the Securities may be increased above such amount by a Board Resolution to such effect.

The Company shall have the right to redeem the Securities of this series, in whole or in part, at its option at any time from time to time at a price equal to (i) 100% of the principal amount thereof plus (ii) accrued and unpaid interest thereon, if any, to (but excluding) the Redemption Date plus (iii) the Make-Whole Premium, if any.

The amount of the Make-Whole Premium with respect to any Security of this Series (or portion thereof) to be redeemed will be equal to the excess, if any, of: (i) the sum of the present values, calculated as of the Redemption Date, of: (A) each interest payment that, but for such redemption, would have been payable on the Security of this series (or portion thereof) being redeemed on each Interest Payment Date occurring after the Redemption Date (excluding any accrued and unpaid interest for the period prior to the Redemption Date); and (B) the principal amount that, but for such redemption, would have been payable on the Security of this series (or portion thereof) being redeemed at May 1, 2016; over (ii) the principal amount of the Security of this series (or portion thereof) being redeemed. The present values of interest and principal payments referred to in clause (i) above will be determined in accordance with generally accepted principles of financial analysis. Such present values will be calculated by discounting the amount of each payment of interest or principal from the date that each such payment would have been payable, but for the redemption, to the Redemption Date at a discount rate equal to the Comparable Treasury Yield (as defined below) plus 20 basis points.

For purposes of determining the Make-Whole Premium, "Comparable Treasury Yield" means a rate of interest per annum equal to the weekly average yield to maturity of United States Treasury securities that have a constant maturity that corresponds to the remaining term to maturity of the Securities of this series, calculated to the nearest 1/12th of a year (the "Remaining Term"). The Comparable Treasury Yield shall be determined as of the third Business Day immediately preceding the Redemption Date.

The weekly average yields of United States Treasury securities shall be determined by

reference to the most recent statistical release published by the Federal Reserve Bank of New York and designated "H.15 (519) Selected Interest Rates" or any successor release (the "H.15 Statistical Release"). If the H.15 Statistical Release sets forth a weekly average yield for United States Treasury securities having a constant maturity that is the same as the Remaining Term, then the Comparable Treasury Yield shall be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield shall be calculated by interpolation, on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity closest to and greater than the Remaining Term and the United States Treasury securities that have a constant maturity closest to and less than the Remaining Term (in each case as set forth in the H.15 Statistical Release). Any weekly average yields so calculated by interpolation shall be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If weekly average yields for United States Treasury securities are not available in the H.15 Statistical Release or otherwise, then the Comparable Treasury Yield shall be calculated by interpolation of comparable rates selected by the Independent Investment Banker.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Securities of this series are not entitled to the benefit of any sinking fund.

The Indenture contains provisions for satisfaction and discharge of the entire indebtedness of this Security upon compliance by the Company with certain conditions set forth in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees. No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Securities of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THE INDENTURE AND THIS SECURITY SHALL BE GOVERNED BY AND

CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO
CONFLICTS OF LAWS PRINCIPLES THEREOF.

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CENTERPOINT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	SIX MONTHS ENDED JUNE 30,	
	2005	2006
Income from continuing operations.....	\$ 94	\$ 282
Income taxes for continuing operations.....	81	(44)
Capitalized interest.....	(2)	(3)
	-----	-----
	173	235
	-----	-----
Fixed charges, as defined:		
Interest.....	371	299
Capitalized interest.....	2	3
Interest component of rentals charged to operating income...	7	8
	-----	-----
Total fixed charges.....	380	310
	-----	-----
Earnings, as defined.....	\$ 553	\$ 545
	=====	=====
Ratio of earnings to fixed charges.....	1.46	1.76
	=====	=====

CERTIFICATIONS

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) 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
- (d) 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: August 3, 2006

/s/ David M. McClanahan

 David M. McClanahan
 President and Chief Executive Officer

CERTIFICATIONS

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy, Inc.;

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) 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
- (d) 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: August 3, 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, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Chief 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
President and Chief Executive Officer
August 3, 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, Inc. (the "Company") on Form 10-Q for the period ended June 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
August 3, 2006

CENTERPOINT ENERGY SAVINGS PLAN

(As Amended and Restated Effective January 1, 2005)

First Amendment

WHEREAS, CenterPoint Energy, Inc., a Texas corporation (the "Company"), having reserved the right under Section 10.3 of the CenterPoint Energy Savings Plan, as amended and restated effective as of January 1, 2005 (the "Plan"), to amend the Plan, does hereby amend the Plan, effective as of the dates set forth herein, as follows:

1. Effective as of December 29, 2006, the last sentence in the definition of "Investment Fund" in Article I of the Plan is hereby amended to read as follows:

"The foregoing notwithstanding, the term 'Investment Fund' shall not include, or refer to, the ESOP Company Stock Fund."

2. Effective as of December 29, 2006, the definition of "REI Stock" in Article I of the Plan is hereby deleted and all affected provisions of the Plan are hereby amended accordingly.

3. Effective as of December 29, 2006, the definition of "REI Stock Fund" in Article I of the Plan is hereby deleted and all affected provisions of the Plan are hereby amended accordingly.

4. Effective as of December 29, 2006, the definition of "Stock Funds" in Article I of the Plan is hereby deleted and all affected references in the Plan are hereby amended accordingly.

5. Effective as of January 1, 2006, Section 2.7(j) of the Plan is hereby amended to read as follows:

"(j) In the event of any share split, share dividend or combination of outstanding shares of Company Stock or REI Stock, as applicable, to determine the appropriate allocation of shares of each such stock to the portion of the Accounts

maintained for the Participants that are invested in such stock, pursuant to the applicable stock fund, and to determine the appropriate number of shares distributable to a Participant under Section 6.5 hereof immediately following such share split, share dividend or combination so as to effectuate the intent and purpose of the Plan; provided, however, that:

(1) the Committee shall not be authorized or otherwise able to (A) amend, modify, restrict, suspend or limit investment in, or terminate, the ESOP Company Stock Fund or REI Stock Fund or (B) amend, modify or terminate any provision of the Plan or Trust related to the administration or availability for investment of the Stock Funds; and

(2) on December 29, 2006, the REI Stock Fund shall be terminated, and all assets therein liquidated, in accordance with the directions of the Committee, and, to the extent a Participant has not timely directed how any amounts in his Account invested in the REI Stock Fund on December 29, 2006, are to be invested, then the proceeds from such liquidation shall be invested in the Stable Value Fund or such other Investment Fund as determined by the Committee (subject to the Participant's subsequent investment direction pursuant to Section 8.1 with respect to such proceeds);"

6. Effective as of December 29, 2006, Section 2.7(j) of the Plan is hereby amended to read as follows:

"(j) In the event of any share split, share dividend or combination of outstanding shares of Company Stock, to determine the appropriate allocation of shares of such stock to the portion of the Accounts maintained for the Participants that are invested in such stock, pursuant to the ESOP Company Stock Fund, and to determine the appropriate number of shares distributable to a Participant under Section 6.5 hereof immediately following such share split, share dividend or combination so as to effectuate the intent and purpose of the Plan; provided, however, that the Committee shall not be authorized or otherwise able to (1) amend, modify, restrict, suspend or limit investment in, or terminate, the ESOP Company Stock Fund or (2) amend, modify or terminate any provision of the Plan or Trust related to the administration or availability for investment of the ESOP Company Stock Fund;"

7. Effective as of December 29, 2006, Section 5.1(a) of the Plan is hereby amended to read as follows:

"(a) Accounts for Participants. Accounts shall be maintained for a Participant as may be appropriate from time to time to reflect his interest in the ESOP Company Stock Fund and the Investment Funds in which he may be participating at any time, as provided under Section 8.1. The interest in the

Investment Funds and the ESOP Company Stock Fund attributable to the Pre-Tax Contributions, After-Tax Contributions, Employer Matching Contributions and Rollover Contributions made by or on behalf of a Participant under the Plan and Prior Plan shall be reflected in a Pre-Tax Contribution Account, After-Tax Contribution Account, Employer Matching Account and Rollover Account for the Participant, respectively. A Prior Plan Account shall be maintained for a Participant, as applicable, as may be appropriate from time to time to reflect his interest in the ESOP Company Stock Fund and the Investment Funds in which he may be participating at any time, as provided under Section 8.1."

8. Effective as of December 29, 2006, the second sentence in Section 5.2 of the Plan is hereby amended to read as follows:

"For the purposes of each such valuation, the assets of each Investment Fund and the ESOP Company Stock Fund shall be valued at their respective current market values, and the amount of any obligations for which the Investment Fund or ESOP Company Stock Fund may be liable, as shown on the books of the Trustee, shall be deducted from the total value of the assets."

9. Effective as of December 29, 2006, Section 5.3(d)(i) of the Plan is hereby amended to read as follows:

"(i) Earnings of the Investment Funds and ESOP Company Stock Fund: The earnings (or loss) of each Investment Fund and the ESOP Company Stock Fund since the preceding Valuation Date (including the appreciation or depreciation in value of the assets of the fund) shall be allocated to the Accounts of Participants (other than a terminated Participant's Accounts which have become current obligations of the Investment Fund) in proportion to the balances in such Accounts invested in such Investment Fund or ESOP Company Stock Fund on the preceding Valuation Date, but after first reducing each such Account balance by any distribution from such Accounts since the preceding Valuation Date."

10. Effective as of December 29, 2006, the second paragraph of Section 6.5 of the Plan is hereby amended to read as follows:

"In the case of a distribution under Section 6.3 on account of the Participant's death, the Committee shall pay the entire vested amount in the Participant's Accounts to the party or parties entitled thereto under Section 6.3 no later than December 31 of the calendar year that contains the fifth anniversary of the Participant's date of death in a lump sum distribution (i) in cash or (ii) if timely elected by such party or parties, all or a portion in kind in the shares of Company Stock held in an Account invested in the ESOP Company Stock Fund."

11. Effective as of December 29, 2006, Section 6.5(c) of the Plan is hereby amended to read as follows:

"(c) In Kind Distributions: As a distribution in kind of the shares of Company Stock held in Accounts invested in the ESOP Company Stock Fund. A Participant may elect to receive any whole percentage, up to 100%, of his Accounts invested in the ESOP Company Stock Fund in whole shares of Company Stock as either: (1) a lump sum distribution in whole shares, with any remaining balances in the ESOP Company Stock Fund and the Investment Fund balances distributed in cash as a lump sum distribution; or (2) Installment Payments in whole shares, with any remaining balances in the ESOP Company Stock Fund and the Investment Fund balances distributed in cash as Installment Payments. If a Participant elects to receive his entire Account balances in the ESOP Company Stock Fund in whole shares of Company Stock, such Participant shall be entitled to receive a number of whole shares of Company Stock, plus the cash value of any partial shares of Company Stock, necessary to equal the sum of the value in the ESOP Company Stock Fund held in his Accounts as of such Valuation Date. If a Participant elects to receive a percentage which is less than 100% of his Account balances in the ESOP Company Stock Fund in whole shares of Company Stock, then the result obtained from the preceding formula shall be multiplied by such percentage to obtain the number of whole shares of Company Stock, and cash for partial shares of Company Stock to be distributed to such Participant. The foregoing notwithstanding, an in-kind distribution may not be paid to the Participant unless he has elected such distribution in the form and manner prescribed by the Committee."

12. Effective as of December 29, 2006, the last paragraph in Section 6.5 of the Plan is hereby amended to delete all reference to "Stock Fund(s)" and replace in lieu thereof with "ESOP Company Stock Fund" in each case.

13. Effective as of April 14, 2006, Article VII of the Plan is hereby amended by adding the following new Section 7.6 thereto, as follows:

"7.6 Hurricane Distributions:

(a) Qualified Hurricane Distributions: Pursuant to the applicable provisions of the Katrina Emergency Tax Relief Act of 2005 ('KETRA') and the Gulf Opportunity Zone Act of 2005 ('GOZA'), with advanced notice given in the form and manner prescribed by the Committee and subject to the conditions of this Section 7.6, a Participant who meets the requirements of a Qualified Hurricane Katrina Individual, a Qualified Hurricane Rita Individual, or a Qualified Hurricane Wilma Individual (collectively, a 'Qualified Hurricane Individual') may direct the Committee (or its delegate) to designate and treat a withdrawal under

Section 7.1, 7.2 or 7.3 (at the time such withdrawal is requested) that is distributed after April 14, 2006, but prior to January 1, 2007, as a 'Qualified Hurricane Distribution,' as defined in Section 201 of GOZA; provided, however, that the total amount of all of a Participant's Qualified Hurricane Distributions for any and all Plan Years shall not exceed \$100,000, taking into account all such distributions from the Plan and any other plan maintained by the Company or any Affiliate. A Qualified Hurricane Distribution shall neither be an Eligible Rollover Distribution (as defined in Section 6.6 hereof), and thus shall not be subject to the 20% mandatory federal income tax withholding requirement, nor, in the case of a Qualified Hurricane Individual who is not age 59 1/2 or older at the date of the withdrawal, shall it be reported as an early distribution for purposes of Section 72(t) of the Code, and thus shall not be subject to the 10% early distribution tax. Except as otherwise expressly provided in this Section 7.6, the conditions and limitations in Section 7.4, shall apply with respect to any Qualified Hurricane Distribution.

(b) Recontributions of Qualified Hurricane Distributions: A Participant who is a Qualified Hurricane Individual may retribute to the Plan, in the form and manner prescribed by the Committee, all or any portion of a (i) withdrawal designated as a Qualified Hurricane Distribution pursuant to this Section 7.6 and (ii) withdrawal or distribution from the Plan that the Participant designated and treated for federal income tax purposes as a Qualified Hurricane Distribution, during the three-year period commencing on the day after the date a distribution described in (i) or (ii) was received by the Participant; provided, however, that such amount was an Eligible Rollover Distribution as of the date distributed. Any such recontributed amount shall be treated as a Rollover Contribution and subject to the conditions of Section 4.7 hereof. The total amount that may be recontributed pursuant to this Section 7.6(b) shall not exceed \$100,000 and shall be in accordance with, and subject to, the applicable provisions of KETRA, GOZA, Internal Revenue Service Notice 2005-92, and such other related guidance, notices, and regulations issued by the Internal Revenue Service.

(c) Committee Reliance: The Committee may rely upon the reasonable representations from a Qualified Hurricane Individual with respect to such Participant's principal place of abode on (i) August 28, 2005, in the case a Qualified Hurricane Katrina Individual, (ii) September 23, 2005, in the case of a Qualified Hurricane Rita Individual, and (iii) October 23, 2005, in the case of a Qualified Hurricane Wilma Individual, and whether such Participant suffered an economic loss by reason of Hurricane Katrina, Hurricane Rita or Hurricane Wilma, as applicable, unless the Committee has actual knowledge to the contrary.

(d) Definitions: The terms used in this Section shall have the following meanings:

(i) Qualified Hurricane Katrina Individual: An individual whose principal place of abode on August 28, 2005, is located in a county or parish in the Hurricane Katrina disaster area designated for individual assistance by FEMA and who has sustained economic loss by reason of Hurricane Katrina.

(ii) Qualified Hurricane Rita Individual: An individual (other than a Qualified Hurricane Katrina Individual) whose principal place of abode on September 23, 2005, is located in a county or parish in the Hurricane Rita disaster area designated for individual assistance by FEMA and who has sustained economic loss by reason of Hurricane Rita.

(iii) Qualified Hurricane Wilma Individual: An individual (other than a Qualified Hurricane Katrina Individual or a Qualified Hurricane Rita Individual) whose principal place of abode on October 23, 2005, is located in a county in the Hurricane Wilma disaster area designated for individual assistance by FEMA and who has sustained economic loss by reason of Hurricane Wilma."

14. Effective as of January 1, 2006, the second paragraph of Section 8.1 of the Plan is hereby amended to add the following sentence to the end thereof:

"Notwithstanding the foregoing or any other provision of this Plan to the contrary, on December 29, 2006, the REI Stock Fund shall be terminated, and all assets therein liquidated, in accordance with the directions of the Committee, and, to the extent Participants have not timely directed how any amounts in their Account invested in the REI Stock Fund on December 29, 2006, are to be invested, then the proceeds from such liquidation shall be invested in the Stable Value Fund or such other Investment Fund as determined by the Committee (subject to the Participant's subsequent investment direction pursuant to Section 8.1 with respect to such proceeds)."

15. Effective as of December 29, 2006, Section 8.1 of the Plan is hereby amended to read as follows:

"8.1 Investment of Trust Fund: Except as provided in Article VII with respect to Plan loans and as otherwise provided below, the Trustee shall divide the Trust Fund into the ESOP Company Stock Fund and the Investment Funds as may be selected from time to time by the Committee, in accordance with the directions of the Participant and following such rules and procedures prescribed by the Committee. The Committee from time to time may revise the number and type of Investment Funds. The ESOP Company Stock Fund may not be revised or terminated, nor may investment in either fund be restricted, suspended or limited in

any manner, except by the Board, in its sole discretion, in its settlor capacity pursuant to Section 10.3 hereof.

Subject to such rules and procedures adopted by the Committee, each Participant shall have the right, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee, subject to any restrictions or conditions that may be established by the Committee, to direct the Committee, or any agent appointed by the Committee to administer the investment of the Trust Fund, to instruct the Trustee to invest the amounts in his Pre-Tax Contribution Account, After-Tax Contribution Account, Employer Matching Account, Prior Plan Account, and Rollover Account, in any whole percentages totaling 100% among the Investment Funds and the ESOP Company Stock Fund.

To the extent applicable, each Participant may, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee and subject to any restrictions or conditions (including, but not limited to, trading frequency restrictions and redemption fees) that may be established by the Committee from time to time and communicated to each Participant, direct (1) the investment of his future After-Tax Contributions, Pre-Tax Contributions, Employer Matching Contributions and Rollover Contributions; and (2) the transfer of the current values in his After-Tax Contribution Account, Pre-Tax Contribution Account, Prior Plan Account, Employer Matching Account, and Rollover Account among the various Investment Funds and the ESOP Company Stock Fund in any whole percentages totaling 100%. Any such change in the Investment Funds and/or ESOP Company Stock Fund shall be effective as soon as reasonably practicable following receipt of the election directing such change, but in no event shall such change be effective earlier than the close of business on the Valuation Date on which such change is received. If a Participant fails to make a proper designation, then his Account shall be invested as soon as administratively feasible in the Stable Value Fund. Notwithstanding any provision of this Section 8.1 or any other provision of the Plan to the contrary, investment in the ESOP Company Stock Fund shall not be restricted, suspended or limited in any manner by the Committee.

Except as otherwise expressly provided herein and subject to Section 6.5, interest, dividends and other income and all profits and gains produced by each Investment Fund and ESOP Company Stock Fund shall be paid in such Investment Fund and ESOP Company Stock Fund, as applicable, and such interest, dividends and other income, and profits or gains without distinction between principal and income, shall be invested and reinvested, but only in property of the class hereinabove specified for the particular Investment Fund or the ESOP Company Stock Fund, as applicable. All purchases of Company Stock under the ESOP Company Stock Fund shall be made at prices which, in the judgment of the Trustee, do not exceed the fair market value of such Company Stock. Pending such investment or application of cash, the Trustee may retain cash uninvested without liability for interest if it is prudent to do so, or may invest all or any part thereof in Treasury Bills, commercial paper, or like holdings.

It is hereby explicitly provided and expressly acknowledged that up to 100% of the assets of the Plan held in the Trust Fund may be invested in Company Stock, as contemplated by the exception provided in Section 407(b) of ERISA. Moreover, it is intended that the Plan meet the requirements of Section 404(c) of ERISA."

16. Effective as of December 29, 2006, the second sentence in Section 10.3 of the Plan is hereby amended to read as follows:

"The Board alone shall have the sole and exclusive right and power to (i) amend, modify, restrict, suspend or limit investment in, or terminate the ESOP Company Stock Fund and (ii) amend, modify or terminate any provision of the Plan or Trust Agreement related to the administration or availability for investment of the ESOP Company Stock Fund."

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, on this 26th day of June 2006, but effective as of the dates set forth herein.

CENTERPOINT ENERGY, INC.

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Executive
Officer

ATTEST:

/s/ Richard Dauphin

Richard Dauphin
Assistant Secretary

ITEM 1A. RISK FACTORS

We are a holding company that conducts all of our business operations through subsidiaries, primarily CenterPoint Houston and CERC. The following summarizes the principal risk factors associated with the businesses conducted by each of these subsidiaries:

RISK FACTORS AFFECTING OUR ELECTRIC TRANSMISSION & DISTRIBUTION BUSINESS

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

In March 2004, CenterPoint Houston filed its 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 CenterPoint Houston 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. CenterPoint Houston 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 CenterPoint Houston's initial request. First, the court reversed the Texas Utility Commission's decision to prohibit CenterPoint Houston from recovering \$180 million in credits through August 2004 that CenterPoint Houston was 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. CenterPoint Houston 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, CenterPoint Houston would be required to refund the over recovery to its 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 CenterPoint Houston's 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 CenterPoint Houston 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.

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

CenterPoint Houston's receivables from the distribution of electricity are collected from retail electric providers that supply the electricity CenterPoint Houston distributes to their customers. Currently, CenterPoint Houston does 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 CenterPoint Houston's services or could cause them to delay such payments. CenterPoint Houston depends 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. RRI, through its subsidiaries, is CenterPoint Houston's largest customer. Approximately 56% of CenterPoint Houston's \$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 CenterPoint Houston's cash flows, financial condition and results of operations.

RATE REGULATION OF CENTERPOINT HOUSTON'S BUSINESS MAY DELAY OR DENY CENTERPOINT HOUSTON'S ABILITY TO EARN A REASONABLE RETURN AND FULLY RECOVER ITS COSTS.

CenterPoint Houston's rates are regulated by certain municipalities and the Texas Utility Commission based on an analysis of its invested capital and its expenses in a test year. Thus, the rates that CenterPoint Houston is allowed to charge may not match its 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 CenterPoint Houston's costs and enable CenterPoint Houston to earn a reasonable return on its invested capital.

DISRUPTIONS AT POWER GENERATION FACILITIES OWNED BY THIRD PARTIES COULD INTERRUPT CENTERPOINT HOUSTON'S SALES OF TRANSMISSION AND DISTRIBUTION SERVICES.

CenterPoint Houston transmits and distributes to customers of retail electric providers electric power that the retail electric providers obtain from power generation facilities owned by third parties. CenterPoint Houston does not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, CenterPoint Houston's sales of transmission and distribution services may be diminished or interrupted, and its results of operations, financial condition and cash flows may be adversely affected.

CENTERPOINT HOUSTON'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A significant portion of CenterPoint Houston's revenues is derived from rates that it collects from each retail electric provider based on the amount of electricity it distributes on behalf of such retail electric provider. Thus, CenterPoint Houston's 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 AFFECTING OUR NATURAL GAS DISTRIBUTION, COMPETITIVE NATURAL GAS SALES AND SERVICES AND PIPELINES AND FIELD SERVICES BUSINESSES

RATE REGULATION OF CERC'S BUSINESS MAY DELAY OR DENY CERC'S ABILITY TO EARN A REASONABLE RETURN AND FULLY RECOVER ITS COSTS.

CERC's rates for its local distribution companies are regulated by certain municipalities and state commissions, and for its interstate pipelines by the FERC, based on an analysis of its invested capital and its expenses in a test year. Thus, the rates that CERC is allowed to charge may not match its expenses at any given time. The regulatory process in which rates are determined may not always result in rates that will produce full recovery of CERC's costs and enable CERC to earn a reasonable return on its invested capital.

CERC'S BUSINESSES MUST COMPETE WITH ALTERNATIVE ENERGY SOURCES, WHICH COULD LEAD TO LESS NATURAL GAS BEING MARKETED, AND ITS PIPELINES AND FIELD SERVICES BUSINESSES MUST COMPETE DIRECTLY WITH OTHERS IN THE TRANSPORTATION, STORAGE, GATHERING, TREATING AND PROCESSING OF NATURAL GAS, WHICH COULD LEAD TO LOWER PRICES, EITHER OF WHICH COULD HAVE AN ADVERSE IMPACT ON CERC'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

CERC competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other natural gas distributors and marketers also compete directly with CERC for natural gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass CERC's facilities and market, sell and/or transport natural gas directly to commercial and industrial customers. Any reduction in the amount of natural gas marketed, sold or transported by CERC as a result of competition may have an adverse impact on CERC's results of operations, financial condition and cash flows.

CERC's two interstate pipelines and its gathering systems compete with other interstate and intrastate pipelines and gathering systems in the transportation and storage of natural gas. The principal elements of competition are rates, terms of service, and flexibility and reliability of service. They also compete indirectly with other forms of energy, including electricity, coal and fuel oils. The primary competitive factor is price. The actions of CERC's competitors could lead to lower prices, which may have an adverse impact on CERC's results of operations, financial condition and cash flows.

CERC'S NATURAL GAS DISTRIBUTION AND COMPETITIVE NATURAL GAS SALES AND SERVICES BUSINESSES ARE SUBJECT TO FLUCTUATIONS IN NATURAL GAS PRICING LEVELS, WHICH COULD AFFECT THE ABILITY OF CERC'S SUPPLIERS AND CUSTOMERS TO MEET THEIR OBLIGATIONS OR OTHERWISE ADVERSELY AFFECT CERC'S LIQUIDITY.

CERC is subject to risk associated with increases in the price of natural gas, which has been the trend in recent years. Increases in natural gas prices might affect CERC's ability to collect balances due from its customers and, on the regulated side, could create the potential for uncollectible accounts expense to exceed the recoverable levels built into CERC's tariff rates. In addition, a sustained period of high natural gas prices could apply downward demand pressure on natural gas consumption in the areas in which CERC operates and increase the risk that CERC's suppliers or customers fail or are unable to meet their obligations. Additionally, increasing gas prices could create the need for CERC to provide collateral in order to purchase gas.

IF CERC WERE TO FAIL TO EXTEND A CONTRACT WITH ONE OF ITS SIGNIFICANT PIPELINE CUSTOMERS, THERE COULD BE AN ADVERSE IMPACT ON ITS OPERATIONS.

CERC's contract with Laclede Gas Company, one of its pipeline's customers, is currently scheduled to expire in 2007. To the extent the pipeline is unable to extend this contract or the contract is renegotiated at rates substantially less than the rates provided in the current contract, there could be an adverse effect on CERC's results of operations, financial condition and cash flows.

A DECLINE IN CERC'S CREDIT RATING COULD RESULT IN CERC'S HAVING TO PROVIDE COLLATERAL IN ORDER TO PURCHASE GAS.

If CERC's credit rating were to decline, it might be required to post cash collateral in order to purchase natural gas. If a credit rating downgrade and the resultant cash collateral requirement were to occur at a time when CERC was experiencing significant working capital requirements or otherwise lacked liquidity, CERC might be unable to obtain the necessary natural gas to meet its obligations to customers, and its results of operations, financial condition and cash flows would be adversely affected.

CERC'S PIPELINES' AND FIELD SERVICES' BUSINESS REVENUES AND RESULTS OF OPERATIONS ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

CERC's pipelines and field services business largely relies on gas sourced in the various supply basins located in the Midcontinent region of the United States. To the extent the availability of this supply is substantially reduced, it could have an adverse effect on CERC's results of operations, financial condition and cash flows.

CERC'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A substantial portion of CERC's revenues is derived from natural gas sales and transportation. Thus, CERC's revenues and results of operations are subject to seasonality, weather conditions and other changes in natural gas usage, with revenues being higher during the winter 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 \$8.9 billion of outstanding indebtedness on a consolidated basis, which includes \$2.5 billion of non-recourse transition bonds. As of December 31, 2005, approximately \$665 million principal amount of this debt must be paid through 2008. This amount excludes principal repayments of approximately \$379 million on transition bonds, for which a dedicated revenue stream exists. In addition, we have \$830 million of outstanding convertible notes on which holders could exercise their "put" rights during this period. Our future financing activities may depend, at least in part, on:

- 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;
- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings;
- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to RRI in connection with its indemnification obligations arising in connection with its separation from us; and
- provisions of relevant tax and securities laws.

As of December 31, 2005, CenterPoint Houston 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 CenterPoint Houston is obligated. Additionally, CenterPoint Houston 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. CenterPoint Houston 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, CenterPoint Houston is contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Future Sources and Uses of Cash -- 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.

AS A HOLDING COMPANY WITH NO OPERATIONS OF OUR OWN, WE WILL DEPEND ON DISTRIBUTIONS FROM OUR SUBSIDIARIES TO MEET OUR PAYMENT OBLIGATIONS, AND PROVISIONS OF APPLICABLE LAW OR CONTRACTUAL RESTRICTIONS COULD LIMIT THE AMOUNT OF THOSE DISTRIBUTIONS.

We derive all our operating income from, and hold all our assets through, our subsidiaries. As a result, we will depend on distributions from our subsidiaries in order to meet our payment obligations. In general, these subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. In addition, provisions of applicable law, such as those limiting the legal sources of dividends, limit their ability to make payments or other distributions to us, and they could agree to contractual restrictions on their ability to make distributions.

Our right to receive any assets of any subsidiary, and therefore the right of our creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we were a creditor of any subsidiary, our rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by us.

THE USE OF DERIVATIVE CONTRACTS BY US AND OUR SUBSIDIARIES IN THE NORMAL COURSE OF BUSINESS COULD RESULT IN FINANCIAL LOSSES THAT NEGATIVELY IMPACT OUR RESULTS OF OPERATIONS AND THOSE OF OUR SUBSIDIARIES.

We and our subsidiaries use derivative instruments, such as swaps, options, futures and forwards, to manage our commodity and financial market risks. We and our subsidiaries could recognize financial losses as a result of volatility in the market values of these contracts, or should a counterparty fail to perform. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

RISKS COMMON TO OUR BUSINESSES 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 natural gas pipelines and distribution systems, gas gathering and processing systems, and 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:

- restricting the way we can handle or dispose of our wastes;
- limiting or prohibiting construction activities in sensitive areas such as wetlands, coastal regions, or areas inhabited by endangered species;
- requiring remedial action to mitigate pollution conditions caused by our operations, or attributable to former operations; and
- 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:

- construct or acquire new equipment;
- acquire permits for facility operations;
- modify or replace existing and proposed equipment; and
- clean up or decommission waste disposal areas, fuel storage and management facilities and other locations and facilities.

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.

We currently have general liability and property insurance in place to cover certain of our facilities in amounts that we consider appropriate. Such policies are subject to certain limits and deductibles and do not include business interruption coverage. Insurance coverage may not be available in the future at current costs or on commercially reasonable terms, and the insurance proceeds received for any loss of, or any damage to, any of our facilities may not be sufficient to restore the loss or damage without negative impact on our results of operations, financial condition and cash flows.

In common with other companies in its line of business that serve coastal regions, CenterPoint Houston does not have insurance covering its transmission and distribution system because CenterPoint Houston believes it to be cost prohibitive. If CenterPoint Houston were to sustain any loss of, or damage to, its transmission and distribution properties, it may not be able to recover such loss or damage through a change in its regulated rates, and any such recovery may not be timely granted. Therefore, CenterPoint Houston may not be able to restore any loss of, or damage to, any of its transmission and distribution properties without negative impact on its results of operations, financial condition and cash flows.

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

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

- 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
- 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, us and our subsidiaries, including CenterPoint Houston and CERC, 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, CenterPoint Houston or CERC could be responsible for satisfying the liability.

Prior to CenterPoint Energy's distribution of its ownership in RRI to its shareholders, CERC had guaranteed certain contractual obligations of what became RRI's trading subsidiary. Under the terms of the separation agreement between the companies, RRI agreed to extinguish all such guarantee obligations prior to separation, but when separation occurred in September 2002, RRI had been unable to extinguish all obligations. To secure CenterPoint Energy and CERC against obligations under the remaining guarantees, RRI agreed to provide cash or letters of credit for the benefit of CERC and CenterPoint Energy, and undertook to use commercially reasonable efforts to extinguish the remaining guarantees. Our current exposure under the remaining guarantees relates to CERC's guarantee of the payment by RRI of demand charges related to transportation contracts with one

counterparty. The demand charges are approximately \$53 million per year in 2006 through 2015, \$49 million in 2016, \$38 million in 2017 and \$13 million in 2018. As a result of changes in market conditions, CenterPoint Energy's potential exposure under that guarantee currently exceeds the security provided by RRI. CenterPoint Energy has requested RRI to increase the amount of its existing letters of credit or, in the alternative, to obtain a release of CERC's obligations under the guarantee, and CenterPoint Energy and RRI are pursuing alternatives. RRI continues to meet its obligations under the transportation contracts.

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 or CenterPoint Houston could incur liability if claims in one or more of these lawsuits were successfully asserted against us or CenterPoint Houston 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, us and our subsidiaries, including CenterPoint Houston, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were obligations of CenterPoint Houston and CenterPoint Houston was 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 we 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 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, CenterPoint Houston could be responsible for satisfying the liability.

We or our 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 we own, but most existing claims relate to facilities previously owned by our subsidiaries 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 us 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 our agreement to sell Texas Genco to Texas Genco LLC, we have agreed to continue to defend such claims to the extent they are covered by insurance we maintain, subject to reimbursement of the costs of such defense from Texas Genco LLC.