

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, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 1-3187

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC**

*(Exact name of registrant as specified in its charter)*

**Texas**

*(State or other jurisdiction of incorporation or organization)*

**22-3865106**

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

**1111 Louisiana**

**Houston, Texas 77002**

*(Address and zip code of principal executive offices)*

**(713) 207-1111**

*(Registrant's telephone number, including area code)*

**CenterPoint Energy Houston Electric, LLC meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
*(Do not check if a smaller reporting company)*

Smaller reporting company

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 July 26, 2010, all 1,000 common shares of CenterPoint Energy Houston Electric, LLC were held by Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy, Inc.

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED JUNE 30, 2010**

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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 resolution of the true-up proceedings, including, in particular, the results of appeals to the Texas Supreme Court regarding rulings obtained to date;
- state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change;
- other state and federal legislative and regulatory actions or developments affecting various aspects of our business, including, among others, energy deregulation or re-regulation, health care reform and financial reform;
- timely and appropriate rate actions and increases, allowing recovery of costs and a reasonable return on investment, including, without limitation, the outcome of the application to change rates we submitted to the Public Utility Commission of Texas in June 2010;
- the timing and outcome of any audits, disputes or other proceedings relating to taxes;
- problems with construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or in cost overruns that cannot be recouped in rates;
- industrial, commercial and residential growth in our service territory and changes in market demand, including the effects of energy efficiency measures, and demographic patterns;
- weather variations and other natural phenomena;
- the impact of unplanned facility outages;
- timely and appropriate regulatory actions allowing securitization or other recovery of costs associated with any future hurricanes or natural disasters;
- changes in interest rates or rates of inflation;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- non-payment for our services due to financial distress of our customers;

- the ability of RRI Energy, Inc. (RRI) (formerly known as Reliant Energy, Inc. and Reliant Resources, Inc.) and its subsidiaries to satisfy their obligations to us, including indemnity obligations;
- the ability of retail electric providers, and particularly our two largest customers, which are subsidiaries of NRG Retail LLC and TXU Energy Retail Company LLC, to satisfy their obligations to us and our subsidiaries;
- the outcome of litigation brought by or against us;
- our ability to control costs;
- the investment performance of CenterPoint Energy Inc.'s pension and postretirement benefit plans;
- our potential business strategies, including restructurings, acquisitions or dispositions of assets or businesses, which we cannot assure will be completed or will have the anticipated benefits to us;
- acquisition and merger activities involving our parent or our competitors; and
- other factors we discuss in "Risk Factors" in Item 1A of Part II of this Quarterly Report on Form 10-Q and other reports we file from time to time with the Securities and Exchange Commission.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES**  
**(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)**  
**CONDENSED STATEMENTS OF CONSOLIDATED INCOME**  
**(Millions of Dollars)**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
<b>Revenues</b>	\$ 521	\$ 562	\$ 933	\$ 1,050
<b>Expenses:</b>				
Operation and maintenance	183	207	372	398
Depreciation and amortization	123	145	223	277
Taxes other than income taxes	53	52	106	104
Total	<u>359</u>	<u>404</u>	<u>701</u>	<u>779</u>
<b>Operating Income</b>	<u>162</u>	<u>158</u>	<u>232</u>	<u>271</u>
<b>Other Income (Expense):</b>				
Interest and other finance charges	(40)	(37)	(79)	(74)
Interest on transition and system restoration bonds	(33)	(36)	(66)	(72)
Other, net	20	9	27	16
Total	<u>(53)</u>	<u>(64)</u>	<u>(118)</u>	<u>(130)</u>
<b>Income Before Income Taxes</b>	109	94	114	141
Income tax expense	(42)	(34)	(45)	(51)
<b>Net Income</b>	<u>\$ 67</u>	<u>\$ 60</u>	<u>\$ 69</u>	<u>\$ 90</u>

See Notes to the Interim Condensed Consolidated Financial Statements

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES**  
**(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Millions of Dollars)  
(Unaudited)

**ASSETS**

	<b>December 31,</b>	<b>June 30,</b>
	<b>2009</b>	<b>2010</b>
<b>Current Assets:</b>		
Cash and cash equivalents (\$163 related to VIEs at June 30, 2010)	\$ 739	\$ 577
Accounts and notes receivable, net (\$70 related to VIEs at June 30, 2010)	200	284
Accounts and notes receivable – affiliated companies	303	424
Accrued unbilled revenues	63	82
Inventory	69	68
Taxes receivable	54	—
Deferred tax asset	1	2
Other (\$33 related to VIEs at June 30, 2010)	58	42
<b>Total current assets</b>	<b>1,487</b>	<b>1,479</b>
<b>Property, Plant and Equipment:</b>		
Property, plant and equipment	7,325	7,457
Less accumulated depreciation and amortization	2,737	2,797
<b>Property, plant and equipment, net</b>	<b>4,588</b>	<b>4,660</b>
<b>Other Assets:</b>		
Regulatory assets (\$2,752 related to VIEs at June 30, 2010)	2,885	2,768
Notes receivable — affiliated companies	750	750
Other	45	56
<b>Total other assets</b>	<b>3,680</b>	<b>3,574</b>
<b>Total Assets</b>	<b>\$ 9,755</b>	<b>\$ 9,713</b>

See Notes to the Interim Condensed Consolidated Financial Statements

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES**  
**(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)**  
**CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)**  
**(Millions of Dollars)**  
**(Unaudited)**

**LIABILITIES AND MEMBER'S EQUITY**

	<b>December 31, 2009</b>	<b>June 30, 2010</b>
<b>Current Liabilities:</b>		
Current portion of VIE transition and system restoration bonds long-term debt	\$ 241	\$ 274
Accounts payable	58	63
Accounts and notes payable — affiliated companies	29	28
Taxes accrued	89	64
Interest accrued	100	118
Other	61	53
Total current liabilities	<u>578</u>	<u>600</u>
<b>Other Liabilities:</b>		
Accumulated deferred income taxes, net	1,469	1,425
Unamortized investment tax credits	14	11
Benefit obligations	195	194
Regulatory liabilities	382	404
Notes payable — affiliated companies	151	151
Other	221	233
Total other liabilities	<u>2,432</u>	<u>2,418</u>
<b>Long-term Debt:</b>		
VIE transition and system restoration bonds	2,805	2,665
Other	2,092	2,092
Total long-term debt	<u>4,897</u>	<u>4,757</u>
<b>Commitments and Contingencies (Note 8)</b>		
<b>Member's Equity:</b>		
Common stock	—	—
Paid-in capital	1,230	1,230
Retained earnings	618	708
Total member's equity	<u>1,848</u>	<u>1,938</u>
<b>Total Liabilities and Member's Equity</b>	<u>\$ 9,755</u>	<u>\$ 9,713</u>

See Notes to the Interim Condensed Consolidated Financial Statements

**CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES**  
**(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)**  
**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**  
**(Millions of Dollars)**  
**(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2010</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 69	\$ 90
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	223	277
Amortization of deferred financing costs	13	6
Deferred income taxes	(1)	(46)
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(54)	(92)
Accounts receivable/payable, affiliates	16	(13)
Inventory	2	1
Accounts payable	(74)	(2)
Taxes receivable	8	54
Interest and taxes accrued	6	(7)
Net regulatory assets and liabilities	(18)	(6)
Other current assets	12	14
Other current liabilities	2	(8)
Other assets	—	(2)
Other liabilities	1	(1)
Other, net	—	(1)
Net cash provided by operating activities	<u>205</u>	<u>264</u>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(222)	(242)
Increase in notes receivable from affiliates, net	(157)	(109)
Decrease in restricted cash of transition and system restoration bond companies	6	1
Cash received from DOE grant	—	33
Other, net	(6)	(3)
Net cash used in investing activities	<u>(379)</u>	<u>(320)</u>
<b>Cash Flows from Financing Activities:</b>		
Revolving credit facility, net	(251)	—
Proceeds from long-term debt	500	—
Payments of long-term debt	(104)	(106)
Debt issuance costs	(4)	—
Decrease in short-term notes with affiliates, net	(8)	—
Net cash provided by (used in) financing activities	<u>133</u>	<u>(106)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(41)</b>	<b>(162)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>166</b>	<b>739</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b><u>\$ 125</u></b>	<b><u>\$ 577</u></b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash Payments:		
Interest, net of capitalized interest	\$ 128	\$ 129
Income taxes (refunds), net	(3)	34
Non-cash transactions:		
Accounts payable related to capital expenditures	27	35

See Notes to the Interim Condensed Consolidated Financial Statements

## CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Background and Basis of Presentation

*General.* Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy Houston Electric, LLC are the condensed consolidated interim financial statements and notes (Interim Condensed Financial Statements) of CenterPoint Energy Houston Electric, LLC and its subsidiaries (collectively, CenterPoint Houston). The Interim Condensed Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Annual Report on Form 10-K of CenterPoint Houston for the year ended December 31, 2009.

*Background.* CenterPoint Houston engages in the electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes the city of Houston. CenterPoint Houston is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company. At June 30, 2010, CenterPoint Houston had four subsidiaries, CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC, CenterPoint Energy Transition Bond Company III, LLC and CenterPoint Energy Restoration Bond Company, LLC (collectively, the transition and system restoration bond companies). Each is a special purpose Delaware limited liability company formed for the principal purpose of purchasing and owning transition and system restoration property, issuing transition and system restoration bonds and performing activities incidental thereto. For further discussion of the transition and system restoration bond companies, see Note 4.

*Basis of Presentation.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

CenterPoint Houston'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 CenterPoint Houston's Condensed Statements of Consolidated Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of businesses, assets and other interests.

#### (2) New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance on consolidation of variable interest entities (VIEs) that changes how a reporting entity determines a primary beneficiary that would consolidate the VIE from a quantitative risk and rewards approach to a qualitative approach based on which variable interest holder has the power to direct the economic performance related activities of the VIE as well as the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIE. This new guidance requires the primary beneficiary assessment to be performed on an ongoing basis and also requires enhanced disclosures that will provide more transparency about a company's involvement in a VIE. This new guidance was effective for a reporting entity's first annual reporting period beginning after November 15, 2009. CenterPoint Houston's adoption of this new guidance did not have a material impact on its financial position, results of operations or cash flows. As of June 30, 2010, CenterPoint Houston has four VIEs related to transition and system restoration bond companies (see Note 4) which it consolidates. The consolidated VIEs are wholly-owned bankruptcy remote special purpose entities that were formed specifically for the purpose of securitizing transition and system restoration related property. Creditors of CenterPoint Houston have no recourse to any assets or revenues of the transition and system restoration bond companies. The bonds issued by these VIEs are payable only from and secured by transition and system restoration property and the bond holders have no recourse to the general credit of CenterPoint Houston.

In January 2010, the FASB issued new accounting guidance to require additional fair value related disclosures including transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosure guidance about the level

of disaggregation and about inputs and valuation techniques. This new guidance was effective for the first reporting period beginning after December 15, 2009 except for the requirement to separately disclose purchases, sales, issuances and settlements relating to Level 3 measurements, which is effective for the first reporting period beginning after December 15, 2010. CenterPoint Houston's adoption of this new guidance did not have a material impact on its financial position, results of operations or cash flows. See Note 5 for the required disclosures. CenterPoint Houston expects that the adoption of the Level 3 related gross disclosure requirement, which is effective in 2011, will not have an impact on its financial position, results of operations or cash flows.

Management believes the impact of other recently issued standards, which are not yet effective, will not have a material impact on CenterPoint Houston's consolidated financial position, results of operations or cash flows upon adoption.

### (3) Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
	(in millions)			
Interest cost	\$ 4	\$ 4	\$ 9	\$ 8
Expected return on plan assets	(2)	(3)	(4)	(5)
Amortization of transition obligation	2	2	3	3
Net periodic cost	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 6</u>

CenterPoint Houston expects to contribute approximately \$8 million to its postretirement benefit plan in 2010, of which \$4 million was contributed as of June 30, 2010.

### (4) 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 Choice Plan (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 provided for adjustment of the amount to be recovered to include interest on the balance until recovery, along with the principal portion of additional excess mitigation credits (EMCs) returned to customers after August 31, 2004 and certain other adjustments.

CenterPoint Houston and other parties filed appeals of the True-Up Order to a district court in Travis County, Texas. In August 2005, that court issued its judgment on the various appeals. In its judgment, the district court:

- reversed the Texas Utility Commission's ruling that had denied recovery of a portion of the capacity auction true-up amounts;
- reversed the Texas Utility Commission's ruling that precluded CenterPoint Houston from recovering the interest component of the EMCs paid to retail electric providers (REPs); and
- affirmed the True-Up Order in all other respects.

The district court's decision would have had 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's judgment to the Texas Third Court of Appeals, which issued its decision in December 2007. In its decision, the court of appeals:

- reversed the district court’s judgment to the extent it restored the capacity auction true-up amounts;
- reversed the district court’s judgment to the extent it upheld the Texas Utility Commission’s decision to allow CenterPoint Houston to recover EMCs paid to RRI Energy, Inc. (RRI) (formerly known as Reliant Energy, Inc. and Reliant Resources, Inc.);
- ordered that the tax normalization issue described below be remanded to the Texas Utility Commission as requested by the Texas Utility Commission; and
- affirmed the district court’s judgment in all other respects.

In April 2008, the court of appeals denied all motions for rehearing and reissued substantially the same opinion as it had rendered in December 2007.

In June 2008, CenterPoint Houston petitioned the Texas Supreme Court for review of the court of appeals decision. In its petition, CenterPoint Houston seeks reversal of the parts of the court of appeals decision that (i) denied recovery of EMCs paid to RRI, (ii) denied recovery of the capacity auction true-up amounts allowed by the district court, (iii) affirmed the Texas Utility Commission’s rulings that denied recovery of approximately \$378 million related to depreciation and (iv) affirmed the Texas Utility Commission’s refusal to permit CenterPoint Houston to utilize the partial stock valuation methodology for determining the market value of its former generation assets. Two other petitions for review were filed with the Texas Supreme Court by other parties to the appeal. In those petitions parties contend that (i) the Texas Utility Commission was without authority to fashion the methodology it used for valuing the former generation assets after it had determined that CenterPoint Houston could not use the partial stock valuation method, (ii) in fashioning the method it used for valuing the former generating assets, the Texas Utility Commission deprived parties of their due process rights and an opportunity to be heard, (iii) the net book value of the generating assets should have been adjusted downward due to the impact of a purchase option that had been granted to RRI, (iv) CenterPoint Houston should not have been permitted to recover construction work in progress balances without proving those amounts in the manner required by law and (v) the Texas Utility Commission was without authority to award interest on the capacity auction true-up award.

In June 2009, the Texas Supreme Court granted the petitions for review of the court of appeals decision. Oral argument before the court was held in October 2009, and the parties have filed post-submission briefs to the court. Although CenterPoint Houston believes that its true-up request is consistent with applicable statutes and regulations and, accordingly, that it is reasonably possible that it will be successful in its appeal to the Texas Supreme Court, CenterPoint Houston can provide no assurance as to the ultimate court rulings on the issues to be considered in the appeal or with respect to the ultimate decision by the Texas Utility Commission on the tax normalization issue described below.

To reflect the impact of the True-Up Order, in 2004 and 2005, CenterPoint Houston recorded a net after-tax extraordinary loss of \$947 million. No amounts related to the district court’s judgment or the decision of the court of appeals have been recorded in CenterPoint Houston’s consolidated financial statements. However, if the court of appeals decision is not reversed or modified as a result of further review by the Texas Supreme Court, CenterPoint Houston anticipates that it would be required to record an additional loss to reflect the court of appeals decision. The amount of that loss would depend on several factors, including ultimate resolution of the tax normalization issue described below and the calculation of interest on any amounts CenterPoint Houston ultimately is authorized to recover or is required to refund beyond the amounts recorded based on the True-Up Order, but could range from \$180 million to \$410 million (pre-tax) plus interest subsequent to December 31, 2009.

In the True-Up Order, the Texas Utility Commission reduced CenterPoint Houston’s stranded cost recovery by approximately \$146 million, which was included in the extraordinary loss discussed above, for the present value of certain deferred tax benefits associated with its former electric generation assets. CenterPoint Houston believes that the Texas Utility Commission based its order on proposed regulations issued by the Internal Revenue Service (IRS) in March 2003 that 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, the IRS subsequently withdrew those proposed normalization regulations and, in March 2008, adopted final regulations that would not permit utilities like CenterPoint Houston to pass the tax benefits back to customers without creating normalization violations. In

addition, CenterPoint Energy received a Private Letter Ruling (PLR) from the IRS in August 2007, prior to adoption of the final regulations, that confirmed that the Texas Utility Commission's order reducing CenterPoint Houston's stranded cost recovery by \$146 million for ADITC and EDFIT would cause normalization violations with respect to the ADITC and EDFIT.

If the Texas Utility Commission's order relating to the ADITC reduction is not reversed or otherwise modified on remand so as to eliminate the normalization violation, the IRS could require CenterPoint Energy to pay an amount equal to CenterPoint Houston's unamortized ADITC balance as of the date that the normalization violation is deemed to have occurred. In addition, the IRS could deny CenterPoint Houston the ability to elect accelerated tax depreciation benefits beginning in the taxable year that the normalization violation is deemed to have occurred. Such treatment, if required by the IRS, could have a material adverse impact on CenterPoint Houston's results of operations, financial condition and cash flows in addition to any potential loss resulting from final resolution of the True-Up Order. In its opinion, the court of appeals ordered that this issue be remanded to the Texas Utility Commission, as that commission requested. No party has challenged that order by the court of appeals although the Texas Supreme Court has the authority to consider all aspects of the rulings above, not just those challenged specifically by the appellants. CenterPoint Energy and CenterPoint Houston will continue to pursue a favorable resolution of this issue through the appellate and administrative process. Although the Texas Utility Commission has not previously required a company subject to its jurisdiction to take action that would result in a normalization violation, no prediction can be made as to the ultimate action the Texas Utility Commission may take on this issue on remand.

The Texas electric restructuring law allowed the amounts awarded to CenterPoint Houston in the Texas Utility Commission's True-Up Order to be recovered either through securitization or through implementation of a competition transition charge (CTC) or both. Pursuant to a financing order issued by the Texas Utility Commission in March 2005 and affirmed by a Travis County district court, in December 2005, a new special purpose subsidiary of CenterPoint Houston issued \$1.85 billion in transition bonds with interest rates ranging from 4.84% to 5.30% 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 designed to collect the remaining \$596 million from the True-Up Order over 14 years plus interest at an annual rate of 11.075% (CTC Order). The CTC Order authorized CenterPoint Houston to impose a charge on REPs to recover the portion of the true-up balance not recovered through a financing order. The CTC Order also allowed 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. The return on the CTC portion of the true-up balance was included in CenterPoint Houston's tariff-based revenues beginning September 13, 2005. Effective August 1, 2006, the interest rate on the unrecovered balance of the CTC was reduced from 11.075% to 8.06% pursuant to a revised rule adopted by the Texas Utility Commission in June 2006. Recovery of rate case expenses under Rider RCE was completed in September 2008.

Certain parties appealed the CTC Order to a district court in Travis County. In May 2006, the district court issued a judgment reversing the CTC Order in three respects. First, the court ruled that the Texas Utility Commission had improperly relied on provisions of its rule dealing with the interest rate applicable to CTC amounts. The district court reached that conclusion based on its belief that the Texas Supreme Court had previously invalidated that entire section of the rule. The 11.075% 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 revised rule discussed above. Second, the district court reversed the Texas Utility Commission's ruling that allows CenterPoint Houston to recover through Rider RCE the costs (approximately \$5 million) for a panel appointed by the Texas Utility Commission in connection with the valuation of electric generation assets. Finally, the district court accepted the contention of one party that the CTC should not be allocated to retail customers that have switched to new on-site generation. The Texas Utility Commission and CenterPoint Houston appealed the district court's judgment to the Texas Third Court of Appeals, and in July 2008, the court of appeals reversed the district court's judgment in all respects and affirmed the Texas Utility Commission's order. Two parties appealed the court of appeals decision to the Texas Supreme Court which heard oral argument in October 2009. The ultimate outcome of this matter cannot be predicted at this time.

However, CenterPoint Houston does not expect the disposition of this matter to have a material adverse effect on CenterPoint Energy's or CenterPoint Houston's financial condition, results of operations or cash flows.

During the 2007 legislative session, the Texas legislature amended statutes prescribing the types of true-up balances that can be securitized by utilities and authorized the issuance of transition bonds to recover the balance of the CTC. In June 2007, CenterPoint Houston filed a request with the Texas Utility Commission for a financing order that would allow the securitization of the remaining balance of the CTC, adjusted to refund certain unspent environmental retrofit costs and to recover the amount of the final fuel reconciliation settlement. CenterPoint Houston reached substantial agreement with other parties to this proceeding, and a financing order was approved by the Texas Utility Commission in September 2007. In February 2008, pursuant to the financing order, a new special purpose subsidiary of CenterPoint Houston issued approximately \$488 million of transition bonds in two tranches with interest rates of 4.192% and 5.234% and final maturity dates of February 2020 and February 2023, respectively. Contemporaneously with the issuance of those bonds, the CTC was terminated and a transition charge was implemented.

As of June 30, 2010, CenterPoint Houston has not recognized an allowed equity return of \$186 million on its true-up balance because such return will be recognized as it is recovered in rates. During both the three months ended June 30, 2009 and 2010, CenterPoint Houston recognized approximately \$4 million of the allowed equity return not previously recognized. During the six months ended June 30, 2009 and 2010, CenterPoint Houston recognized approximately \$6 million and \$7 million, respectively, of the allowed equity return not previously recognized.

**(b) Rate Proceedings**

*Texas - June 2010 Rate Filing.* As required under the final order in its 2006 rate proceeding, in June 2010 CenterPoint Houston filed an application to change rates with the Texas Utility Commission and the cities in its service area, including cost data and other information that support a retail base rate increase of at least \$76 million for delivery charges to the REPs that sell electricity to end-use customers in CenterPoint Houston's service territory. The rate filing package also supports an increase of \$18 million for wholesale transmission customers.

In the filing, CenterPoint Houston is also requesting to reconcile its current Advanced Metering System (AMS) costs incurred as of March 31, 2010, and to revise the estimated costs to complete the AMS project to reflect \$150 million in funds from the \$200 million Department of Energy (DOE) stimulus grant awarded to CenterPoint Houston and updated cost information. The reconciliation plan also requests that the duration of the residential AMS surcharge be shortened by six years from the original 12-year plan.

In its filing, CenterPoint Houston proposed that the Texas Utility Commission approve an alternative ratemaking mechanism that would allow for the adjustment of rates to reflect changes in certain costs and consumer usage on an annual basis. In an interim order in the rate proceeding, the Texas Utility Commission ruled that that proposal should instead be considered in its now-pending rulemaking regarding alternative ratemaking and will not be addressed in the rate proceeding.

CenterPoint Houston's filing seeks a return on equity of 11.25% and proposes that rates be based on a capital structure of 50% equity and 50% long-term debt.

Based on the statutory timeline prescribed for action on rate case filings, CenterPoint Energy expects that a decision could be rendered by the Texas Utility Commission as early as late 2010.

*Texas - Other.* In May 2009, CenterPoint Houston filed an application at the Texas Utility Commission seeking approval of certain estimated 2010 energy efficiency program costs, an energy efficiency performance bonus for 2008 programs, and carrying costs totaling approximately \$10 million. The application sought to begin recovery of these costs through a surcharge effective July 1, 2010. In October 2009, the Texas Utility Commission issued its order approving recovery of the 2010 energy efficiency program costs and a partial performance bonus, plus carrying costs, but refused to permit CenterPoint Houston to recover a performance bonus of \$2 million on approximately \$10 million in 2008 energy efficiency costs expended pursuant to the terms of a settlement agreement reached in CenterPoint Houston's 2006 rate proceeding. CenterPoint Houston has appealed the denial of the full

2008 performance bonus to the 98th district court in Travis County, Texas, where the case remains pending. CenterPoint Houston began collecting the approved amounts in July 2010.

In April 2010, CenterPoint Houston filed an application with the Texas Utility Commission to recover a total of approximately \$14.4 million in costs related to its energy efficiency programs. The filing seeks authorization to recover certain projected costs for its 2011 energy efficiency programs, an energy efficiency performance bonus for 2009 programs, and revenue losses related to the implementation of the 2009 energy efficiency program. The application seeks to begin recovery of these costs through a surcharge beginning in January 2011. In preliminary orders in this proceeding, the Texas Utility Commission has excluded approximately \$2.1 million of the requested performance bonus for the 2009 programs and has concluded that it does not have the statutory authority to permit recovery of the requested \$1.4 million of lost revenues associated with the 2009 programs. A final order is not expected until later this year.

**(c) Regulatory Accounting**

CenterPoint Houston's actuarially determined pension expense for 2010 in excess of the 2007 base year amount is being deferred for rate-making purposes until its next general rate case pursuant to Texas law. CenterPoint Houston deferred as a regulatory asset \$9 million and \$6 million, respectively, in pension expense during the three months ended June 30, 2009 and 2010, and \$13 million and \$12 million, respectively, in pension expense during the six months ended June 30, 2009 and 2010.

As discussed in Note 9, CenterPoint Houston recorded a regulatory asset of \$11 million related to a reduction in deferred tax assets as a result of the enactment in March 2010 of the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act of 2010.

**(5) Fair Value Measurements**

Assets and liabilities are recorded at fair value in the Condensed Consolidated Balance Sheets and are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in this guidance and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value are investments listed in active markets. At both December 31, 2009 and June 30, 2010, CenterPoint Houston held Level 1 investments of \$31 million, which were primarily money market funds.

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. CenterPoint Houston had no Level 2 assets or liabilities at both December 31, 2009 and June 30, 2010.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. These inputs reflect management's best estimate of the assumptions market participants would use in determining fair value. CenterPoint Houston had no Level 3 assets or liabilities at both December 31, 2009 and June 30, 2010.

CenterPoint Houston determines the appropriate level for each financial asset and liability on a quarterly basis and recognizes any transfers at the end of the reporting period. For the quarter ended June 30, 2010, there were no transfers between levels.

**(6) Related Party Transactions and Major Customers**

*Related Party Transactions.* CenterPoint Houston participates in a money pool through which it can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings under CenterPoint Energy's revolving credit facility or the sale of CenterPoint Energy's commercial paper. CenterPoint Houston had investments in the money pool of \$289 million and \$398 million at December 31, 2009 and June 30,

2010, respectively, which are included in accounts and notes receivable-affiliated companies in the Condensed Consolidated Balance Sheets.

At December 31, 2009 and June 30, 2010, CenterPoint Houston had a \$750 million note receivable from its parent.

CenterPoint Houston had net interest income related to affiliate borrowings of \$5 million and \$4 million, respectively, for the three months ended June 30, 2009 and 2010 and \$10 million and \$9 million, respectively, for the six months ended June 30, 2009 and 2010, included in Other Income.

CenterPoint Energy provides some corporate services to CenterPoint Houston. The costs of services have been charged directly to CenterPoint Houston using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment and proportionate corporate formulas based on operating expenses, assets, gross margin, employees and a composite of assets, gross margin and employees. These charges are not necessarily indicative of what would have been incurred had CenterPoint Houston not been an affiliate. Amounts charged to CenterPoint Houston for these services were \$30 million and \$33 million for the three months ended June 30, 2009 and 2010, respectively, and \$62 million and \$64 million for the six months ended June 30, 2009 and 2010, respectively, and are included primarily in operation and maintenance expenses.

*Major Customers.* Sales to subsidiaries of NRG Retail LLC, the successor to RRI's Texas retail business, in the three months ended June 30, 2009 and 2010 represented approximately \$151 million and \$132 million, respectively, of CenterPoint Houston's transmission and distribution revenues. Sales to subsidiaries of TXU Energy Retail Company LLC in both the three months ended June 30, 2009 and 2010 represented approximately \$42 million of CenterPoint Houston's transmission and distribution revenues. Sales to subsidiaries of NRG Retail LLC in the six months ended June 30, 2009 and 2010 represented approximately \$293 million and \$267 million, respectively, of CenterPoint Houston's transmission and distribution revenues. Sales to subsidiaries of TXU Energy Retail Company LLC in the six months ended June 30, 2009 and 2010 represented approximately \$79 million and \$84 million, respectively, of CenterPoint Houston's transmission and distribution revenues.

## **(7) Long-term Debt**

*Revolving Credit Facility.* CenterPoint Houston's \$289 million credit facility's first drawn cost is the London Interbank Offered Rate (LIBOR) plus 45 basis points based on CenterPoint Houston's current credit ratings. The facility contains a debt (excluding transition and system restoration bonds) to total capitalization covenant. Under the credit facility, an additional utilization fee of 5 basis points applies to borrowings any time more than 50% of the facility is utilized. The spread to LIBOR and the utilization fee fluctuate based on the borrower's credit rating.

As of December 31, 2009 and June 30, 2010, CenterPoint Houston had no borrowings under this credit facility. As of both December 31, 2009 and June 30, 2010, CenterPoint Houston had approximately \$4 million of outstanding letters of credit under this credit facility. CenterPoint Houston was in compliance with all debt covenants as of June 30, 2010.

*Other.* At both December 31, 2009 and June 30, 2010, CenterPoint Houston had issued \$151 million of first mortgage bonds and \$527 million of general mortgage bonds as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected in the consolidated financial statements because of the contingent nature of the obligations.

## **(8) Commitments and Contingencies**

### ***Legal Matters***

*Gas Market Manipulation Cases.* CenterPoint Energy, CenterPoint Houston or their predecessor, Reliant Energy, Incorporated (Reliant Energy), and certain of their former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between CenterPoint Energy and RRI (formerly known as Reliant Resources, Inc. and Reliant Energy, Inc.), CenterPoint Energy and its subsidiaries are entitled to be indemnified by RRI for any losses, including attorneys' fees and other costs, arising out of these lawsuits. Pursuant to the indemnification obligation, RRI is defending CenterPoint Energy and its subsidiaries to the extent

named in these lawsuits. A large number of lawsuits were filed against numerous gas market participants in a number of federal and western state courts in connection with the operation of the natural gas markets in 2000-2002. CenterPoint Energy's former affiliate, RRI, was a participant in gas trading in the California and Western markets. These lawsuits, many of which have been filed as class actions, allege violations of state and federal antitrust laws. Plaintiffs in these lawsuits are seeking a variety of forms of relief, including, among others, recovery of compensatory damages (in some cases in excess of \$1 billion), a trebling of compensatory damages, full consideration damages and attorneys' fees. CenterPoint Energy and/or Reliant Energy were named in approximately 30 of these lawsuits, which were instituted between 2003 and 2009. CenterPoint Energy and its affiliates have been released or dismissed from all but two of such cases. CenterPoint Energy Services, Inc. (CES), an indirect subsidiary of CenterPoint Energy, is a defendant in a case now pending in federal court in Nevada alleging a conspiracy to inflate Wisconsin natural gas prices in 2000-2002. Additionally, CenterPoint Energy was a defendant in a lawsuit filed in state court in Nevada that was dismissed in 2007, but in March 2010 the plaintiffs appealed the dismissal to the Nevada Supreme Court. CenterPoint Energy believes that neither it nor CES is a proper defendant in these remaining cases and will continue to pursue dismissal from those cases. CenterPoint Houston does not expect the ultimate outcome of these remaining matters to have a material impact on its financial condition, results of operations or cash flows.

In May 2009, RRI sold its Texas retail business to NRG Retail LLC, a subsidiary of NRG Energy, Inc. In connection with the sale, RRI changed its name to RRI Energy, Inc. and no longer provides service as a REP in CenterPoint Houston's service territory. In April 2010, RRI announced its plan to merge with Mirant Corporation in an all-stock transaction. Neither the sale of the retail business nor the merger with Mirant Corporation, if ultimately finalized, alters RRI's contractual obligations to indemnify CenterPoint Energy and its subsidiaries, including CenterPoint Houston, for certain liabilities, including their indemnification regarding certain litigation.

### ***Environmental Matters***

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

***Other Environmental.*** From time to time CenterPoint Houston has received notices from regulatory authorities or others regarding its status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, CenterPoint Houston 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, CenterPoint Houston does not expect, based on its experience to date, these matters, either individually or in the aggregate, to have a material adverse effect on its financial condition, results of operations or cash flows.

### ***Other Proceedings***

CenterPoint Houston 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. CenterPoint Houston regularly analyzes current

information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. CenterPoint Houston does not expect the disposition of these matters to have a material adverse effect on its financial condition, results of operations or cash flows.

**(9) Income Taxes**

During the three and six months ended June 30, 2009, the effective tax rate was 39% and 40%, respectively. During both the three and six months ended June 30, 2010, the effective tax rate was 36%. The most significant item affecting the comparability of the effective tax rate for both the three and six months ended June 30, 2009 and 2010 is a \$3 million increase in income tax expense in 2009 due to modified settlement expectations related to an IRS examination of tax years 2004 and 2005.

As a result of the enactment in March 2010 of the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act, a portion of retiree health care costs that are reimbursed by Medicare Part D subsidies will no longer be tax deductible effective for tax years beginning after December 31, 2012. Based upon the actuarially determined net present value of lost future retiree health care deductions related to the subsidies, CenterPoint Houston reduced its deferred tax asset related to future retiree health care deductions by approximately \$7 million in March 2010. The entire reduction in the deferred tax asset has been recorded as an adjustment to regulatory assets because CenterPoint Houston believes it will be recovered through the regulatory process. Additionally, the regulatory assets have been adjusted by approximately \$4 million related to the recovery of CenterPoint Houston's income taxes.

The following table summarizes CenterPoint Houston's unrecognized tax benefits at December 31, 2009 and June 30, 2010:

	<u>December 31, 2009</u>	<u>June 30, 2010</u>
	(in millions)	
Unrecognized tax benefits	\$ 175	\$ 185
Portion of unrecognized tax benefits that, if recognized, would reduce the effective income tax rate	9	12
Interest accrued on unrecognized tax benefits	9	13

It is reasonably possible that the total amount of CenterPoint Houston's unrecognized tax benefits could decrease by as much as \$59 million or increase by as much as \$65 million over the next 12 months primarily as a result of the tax normalization issue described in Note 4, a temporary difference, and the anticipated resolution of CenterPoint Energy's administrative appeal associated with an IRS examination described in the following paragraph.

On July 1, 2010, the IRS issued a report outlining proposed adjustments with respect to its examination of CenterPoint Energy's 2006 and 2007 federal income tax returns of which CenterPoint Houston is a member. The most significant adjustment proposed by the IRS relates to the disallowance of CenterPoint Houston's casualty loss deduction totaling \$603 million associated with the damage caused by Hurricane Ike. Pursuant to an election made by CenterPoint Houston, the casualty loss deduction was taken in the taxable year preceding the taxable year in which the hurricane occurred. CenterPoint Energy has filed an administrative appeal with the IRS Appeals Office and intends to vigorously defend CenterPoint Houston's reporting of the casualty loss. CenterPoint Houston has considered the effects of the proposed disallowance of the casualty loss deduction by the IRS in its accrual for uncertain income tax positions as of June 30, 2010. Additionally, the casualty loss deduction is a temporary difference and therefore, any increase or decrease in the balance of unrecognized tax benefits related thereto would not affect the effective tax rate.

**(10) Estimated Fair Value of Financial Instruments**

The fair values of cash and cash equivalents, short-term borrowings and the \$750 million note receivable from CenterPoint Houston's parent are estimated to be equivalent to carrying amounts and have been excluded from the table below. The fair value of each debt instrument is determined by multiplying the principal amount of each debt instrument by the market price.

	<u>December 31, 2009</u>		<u>June 30, 2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(in millions)			
Financial liabilities:				
Long-term debt (including \$151 million of long-term notes payable to parent)	\$ 5,288	\$ 5,591	\$ 5,181	\$ 5,712

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

*The following narrative analysis should be read in combination with our Interim Condensed Financial Statements contained in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K).*

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and are therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in our results of operations between the three and six months ended June 30, 2009 and the three and six months ended June 30, 2010. Reference is made to "Management's Narrative Analysis of Results of Operations" in Item 7 of our 2009 Form 10-K.

### Recent Events

#### *Advanced Metering System and Distribution Automation (Intelligent Grid)*

In October 2009, the U.S. Department of Energy (DOE) notified us that we had been selected for a \$200 million grant for our advanced metering system (AMS) and intelligent grid (IG) projects. In March 2010, we and the DOE completed negotiations and finalized the agreement. The DOE will reimburse us 50% of our eligible costs until the total amount of the grant has been paid. Through June 30, 2010, we have requested \$42 million of grant proceeds from the DOE of which \$33 million has been received. We will use \$150 million of the grant funding to accelerate completion of our current deployment of advanced meters to 2012, instead of 2014 as originally scheduled. We will use the other \$50 million from the grant to begin deployment of an electric distribution grid automation strategy in a portion of our service territory over the next three years. It is expected that the portion of the IG project subject to funding by DOE will cost approximately \$115 million. We believe the IG has the potential to provide a significant improvement in grid planning, operations, maintenance and customer service for our distribution system.

In March 2010, the Internal Revenue Service (IRS) announced through the issuance of Revenue Procedure 2010-20 that it was providing a safe harbor to corporations who receive a Smart Grid Investment Grant. The IRS stated that it would not challenge a corporation's treatment of the grant as a non-taxable non-shareholder contribution to capital as long as the corporation properly reduced the tax basis of the property acquired with grant funds.

### Rate Case

As required under the final order in its 2006 rate proceeding, in June 2010 we filed an application to change rates with the Public Utility Commission of Texas (Texas Utility Commission) and the cities in our service area, including cost data and other information that support a retail base rate increase for delivery charges of at least \$76 million to the retail electric providers (REPs) that sell electricity to end-use customers in our service territory. The rate filing package also supports an increase of \$18 million for wholesale transmission customers.

In the filing, we are also requesting to reconcile our current AMS costs incurred as of March 31, 2010, and to revise the estimated costs to complete the AMS project to reflect \$150 million in funds from the \$200 million DOE stimulus grant awarded to us as discussed above, and updated cost information. The reconciliation plan also requests that the duration of the residential AMS surcharge be shortened by six years from the original 12-year plan.

In our filing, we proposed that the Texas Utility Commission approve an alternative ratemaking mechanism that would allow for the adjustment of rates to reflect changes in certain costs and consumer usage on an annual basis. In an interim order in the rate proceeding, the Texas Utility Commission ruled that that proposal should instead be considered in its now-pending rulemaking regarding alternative ratemaking and will not be addressed in the rate proceeding.

Our filing seeks a return on equity of 11.25% and proposes that rates be based on a capital structure of 50% equity and 50% long-term debt.

Based on the statutory timeline prescribed for action on rate case filings, we expect that a decision could be rendered by the Texas Utility Commission as early as late 2010.

### ***Financial Reform Legislation***

On July 21, 2010 the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which makes substantial changes to regulatory oversight regarding banks and financial institutions. Many provisions of Dodd-Frank will also affect non-financial businesses such as ours. It is not possible at this time to predict the ultimate impacts this legislation may have on us since most of the provisions in the law will require extensive rulemaking by various regulatory agencies and authorities, including, among others, the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE). Nevertheless, in a number of areas, the resulting rules are expected to have direct or indirect impacts on our business.

The SEC is charged with adopting new regulations regarding securitization transactions such as those which we have sponsored for recovery of stranded costs and costs related to storm restoration. Proposed securitization regulations issued by the SEC before passage of Dodd-Frank would provide exemptions for utility securitizations such as those previously sponsored by us from some of the requirements that would be applicable to securitization transactions generally. If those proposed regulations are ultimately adopted to implement Dodd-Frank requirements, similar securitizations sponsored by us might not be subject to the regulatory scheme generally prescribed in Dodd-Frank.

Dodd-Frank also makes substantial changes to the regulatory oversight of the credit rating agencies that are typically engaged to rate our securities. Those provisions include the elimination of certain exemptions the credit agencies have previously enjoyed from liabilities under the securities laws, the treatment of ratings agencies as “experts” when their ratings are used in connection with securities offerings and the elimination of a safe harbor under Regulation FD for information provided to credit rating agencies. Following enactment of Dodd-Frank, the three principal rating agencies announced that they would not consent to the inclusion of their ratings in registered public offerings of securities, but the SEC has issued guidance that mitigates, at least for the present time, the impacts of the new restrictions on some securities offerings. It is presently unknown what effect implementation of these new provisions ultimately will have on the activities or costs associated with the credit rating process.

### **CONSOLIDATED RESULTS OF OPERATIONS**

Our results of operations are affected by seasonal fluctuations in the demand for electricity. Our results of operations are also affected by, among other things, the actions of various governmental authorities having jurisdiction over rates we charge, debt service costs, income tax expense, our ability to collect receivables from REPs and our ability to recover our stranded costs and regulatory assets. For more information regarding factors that may affect the future results of operations of our business, please read “Risk Factors” in Item 1A of Part II of this Form 10-Q.

The following table sets forth our consolidated results of operations for the three and six months ended June 30, 2009 and 2010, followed by a discussion of our consolidated results of operations based on operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2010	2009	2010
	(in millions, except customer data)			
<b>Revenues:</b>				
Electric transmission and distribution utility	\$ 432	\$ 449	\$ 778	\$ 841
Transition and system restoration bond companies	89	113	155	209
<b>Total revenues</b>	<b>521</b>	<b>562</b>	<b>933</b>	<b>1,050</b>
<b>Expenses:</b>				
Operation and maintenance, excluding transition and system restoration bond companies	181	204	369	394
Depreciation and amortization, excluding transition and system restoration bond companies	69	71	137	144
Taxes other than income taxes	53	52	106	104
Transition and system restoration bond companies	56	77	89	137
<b>Total expenses</b>	<b>359</b>	<b>404</b>	<b>701</b>	<b>779</b>
Operating income	162	158	232	271
Interest and other finance charges	(40)	(37)	(79)	(74)
Interest on transition and system restoration bonds	(33)	(36)	(66)	(72)
Other income, net	20	9	27	16
Income before income taxes	109	94	114	141
Income tax expense	(42)	(34)	(45)	(51)
<b>Net income</b>	<b>\$ 67</b>	<b>\$ 60</b>	<b>\$ 69</b>	<b>\$ 90</b>
<b>Operating Income:</b>				
Electric transmission and distribution utility	\$ 129	\$ 122	\$ 166	\$ 199
Transition and system restoration bond companies <sup>(1)</sup>	33	36	66	72
<b>Total segment operating income</b>	<b>\$ 162</b>	<b>\$ 158</b>	<b>\$ 232</b>	<b>\$ 271</b>
<b>Throughput (in gigawatt-hours (GWh)):</b>				
Residential	6,831	7,064	10,798	12,237
<b>Total</b>	<b>19,841</b>	<b>20,174</b>	<b>34,983</b>	<b>36,610</b>
<b>Number of metered customers at period end:</b>				
Residential	1,846,908	1,866,699	1,846,908	1,866,699
<b>Total</b>	<b>2,092,209</b>	<b>2,113,695</b>	<b>2,092,209</b>	<b>2,113,695</b>

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

### Three months ended June 30, 2010 compared to three months ended June 30, 2009

We reported operating income of \$158 million for the three months ended June 30, 2010, consisting of \$122 million from the regulated electric transmission and distribution utility (TDU) and \$36 million related to transition and system restoration bond companies. For the three months ended June 30, 2009, operating income totaled \$162 million, consisting of \$129 million from the TDU and \$33 million related to transition bond companies. TDU revenues increased \$17 million primarily due to revenues from implementation of AMS (\$12 million), higher revenues due to customer growth (\$5 million) from the addition of over 21,000 new customers, higher transmission-related revenues (\$5 million) and increased usage (\$2 million) in part due to favorable weather, partially offset by a credit to customers related to deferred income taxes associated with Hurricane Ike storm restoration costs (\$6 million). Operation and maintenance expenses increased \$23 million due primarily to higher transmission costs billed by transmission providers (\$7 million) and increased AMS project expenses (\$5 million), increased labor and benefit costs (\$5 million) and increased insurance costs (\$2 million). Increased depreciation expense is related to increased investment in AMS (\$5 million) and other capital additions (\$1 million), partially offset by reduced transportation equipment depreciation (\$4 million) as the account is fully depreciated.

## **Six months ended June 30, 2010 compared to six months ended June 30, 2009**

We reported operating income of \$271 million for the six months ended June 30, 2010, consisting of \$199 million from the TDU and \$72 million related to transition and system restoration bond companies. For the six months ended June 30, 2009, operating income totaled \$232 million, consisting of \$166 million from the TDU and \$66 million related to transition bond companies. TDU revenues increased \$63 million primarily due to increase in use (\$28 million), in part caused by favorable weather, revenues from implementation of AMS (\$21 million), higher transmission-related revenues (\$11 million) and higher revenues due to customer growth (\$8 million) from the addition of over 21,000 new customers, partially offset by a customer credit related to deferred income taxes associated with Hurricane Ike storm restoration costs (\$12 million). Operation and maintenance expenses increased \$25 million primarily due to higher transmission costs billed by transmission providers (\$10 million), AMS project expenses (\$8 million), increased labor costs (\$5 million) and insurance costs (\$2 million). Increased depreciation expense is related to increased investment in AMS (\$9 million) and other capital additions (\$2 million), partially offset by reduced transportation equipment depreciation (\$4 million) as described above.

**Income Tax Expense.** During the three and six months ended June 30, 2009, the effective tax rate was 39% and 40%, respectively. During both the three and six months ended June 30, 2010, the effective tax rate was 36%. The most significant item affecting the comparability of the effective tax rate for both the three and six months ended June 30, 2009 and 2010 is a \$3 million increase in income tax expense in 2009 due to modified settlement expectations related to an IRS examination of tax years 2004 and 2005.

As a result of the enactment in March 2010 of the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act, a portion of retiree health care costs that are reimbursed by Medicare Part D subsidies will no longer be tax deductible effective for tax years beginning after December 31, 2012. Based upon the actuarially determined net present value of lost future retiree health care deductions related to the subsidies, CenterPoint Houston reduced its deferred tax asset related to future retiree health care deductions by approximately \$7 million in March 2010. The entire reduction in the deferred tax asset has been recorded as an adjustment to regulatory assets because CenterPoint Houston believes it will be recovered through the regulatory process. Additionally, the regulatory assets have been adjusted by approximately \$4 million related to the recovery of CenterPoint Houston's income taxes.

### **CERTAIN FACTORS AFFECTING FUTURE EARNINGS**

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Risk Factors" in Item 1A of Part II of this Form 10-Q and "Management's Narrative Analysis of Results of Operations — Certain Factors Affecting Future Earnings" in Item 7 of Part II of our 2009 Form 10-K.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, 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 2010 include approximately \$290 million of capital expenditures and \$134 million of scheduled principal payments on transition and system restoration bonds.

We expect that cash on hand, borrowings under our credit facility, anticipated cash flows from operations and funds from the liquidation of temporary external and money pool investments will be sufficient to meet our anticipated cash needs in the remaining six months of 2010. Cash needs or discretionary financing or refinancing may result in the issuance of debt securities in the capital markets or the arrangement of additional credit facilities. Issuances of debt in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

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

In May 2009, RRI Energy, Inc. (RRI) (formerly known as Reliant Energy, Inc. and Reliant Resources, Inc.) sold its Texas retail business to NRG Retail LLC, a subsidiary of NRG Energy, Inc. In connection with the sale, RRI changed its name to RRI Energy, Inc. and no longer provides service as a REP in our service territory. In April 2010, RRI announced its plan to merge with Mirant Corporation in an all-stock transaction. Neither the sale of the retail business nor the merger with Mirant Corporation, if ultimately finalized, alters RRI's contractual obligations to indemnify CenterPoint Energy and its subsidiaries, including us, for certain liabilities, including their indemnification regarding certain litigation.

*Credit Facility.* Our \$289 million credit facility's first drawn cost is the London Interbank Offered Rate (LIBOR) plus 45 basis points based on our current credit ratings. The facility contains a debt (excluding transition and system restoration bonds) to total capitalization covenant. Under our credit facility, an additional utilization fee of 5 basis points applies to borrowings any time more than 50% of the facility is utilized. The spread to LIBOR and the utilization fee fluctuate based on our credit rating.

Borrowings under our credit facility are subject to customary terms and conditions. However, there is no requirement that we make representations prior to borrowing as to the absence of material adverse changes or litigation that could be expected to have a material adverse effect. Borrowings under our credit facility are subject to acceleration upon the occurrence of events of default that we consider customary. We are currently in compliance with the various business and financial covenants contained in our credit facility.

As of July 26, 2010, we had the following facility (in millions):

<b>Date Executed</b>	<b>Type of Facility</b>	<b>Size of Facility</b>	<b>Amount Utilized at July 26, 2010</b>	<b>Termination Date</b>
June 29, 2007	Revolver	\$ 289	\$ 4 <sup>(1)</sup>	June 29, 2012

(1) Represents outstanding letters of credit.

*Securities Registered with the SEC.* In October 2008, we registered an indeterminate principal amount of our general mortgage bonds under a joint registration statement with CenterPoint Energy.

*Temporary Investments.* As of July 26, 2010, we had external temporary investments of \$333 million, which excludes funds held in trust for the payment of debt service on transition and system restoration bonds.

*Money Pool.* We participate in a money pool through which we and certain of our affiliates can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings by CenterPoint Energy under its revolving credit facility or the sale by CenterPoint Energy of its commercial paper. At July 26, 2010, we had \$502 million invested in the money pool. The money pool may not provide sufficient funds to meet our cash needs.

*Long-term Debt.* Our long-term debt consists of our obligations and the obligations of our subsidiaries, including transition and system restoration bonds issued by our wholly owned subsidiaries. The following table shows future maturity dates of long-term debt issued by us to third parties and affiliates and scheduled future payment dates of transition and system restoration bonds issued by our subsidiaries: CenterPoint Energy Transition Bond Company, LLC (Bond Company), CenterPoint Energy Transition Bond Company II, LLC (Bond Company II), CenterPoint Energy Transition Bond Company III, LLC (Bond Company III) and CenterPoint Energy Restoration Bond Company, LLC (Restoration Bond Company) as of June 30, 2010. Amounts are expressed in millions.

Year	Third-Party	Affiliate	Sub-Total	Transition and System Restoration Bonds	Total
2010	\$ —	\$ —	\$ —	\$ 134	\$ 134
2011	—	—	—	283	283
2012	46	—	46	307	353
2013	450	—	450	330	780
2014	800	—	800	235	1,035
2015	—	151	151	249	400
2016	—	—	—	266	266
2017	127	—	127	283	410
2018	—	—	—	303	303
2019	—	—	—	323	323
2020	—	—	—	91	91
2021	102	—	102	66	168
2022	—	—	—	69	69
2023	200	—	200	—	200
2027	56	—	56	—	56
2033	312	—	312	—	312
<b>Total</b>	<b>\$ 2,093</b>	<b>\$ 151</b>	<b>\$ 2,244</b>	<b>\$ 2,939</b>	<b>\$ 5,183</b>

As of June 30, 2010, outstanding first mortgage bonds and general mortgage bonds aggregated approximately \$2.8 billion as shown in the following table. Amounts are expressed in millions.

	Issued Directly to Third Parties	Issued as Collateral for Our Debt	Issued as Collateral for CenterPoint Energy's Debt	Total
First Mortgage Bonds	\$ 102	\$ —	\$ 151	\$ 253
General Mortgage Bonds	1,762	229	527 <sup>(1)</sup>	2,518
<b>Total</b>	<b>\$ 1,864</b>	<b>\$ 229</b>	<b>\$ 678</b>	<b>\$ 2,771</b>

(1) Of such amount, \$290 million collateralizes bonds purchased by CenterPoint Energy in January 2010, which may be remarketed by CenterPoint Energy.

The lien of the general mortgage indenture is junior to that of the mortgage pursuant to which the first mortgage bonds are issued. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately \$2.1 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of June 30, 2010. However, we have contractually agreed not to issue additional first mortgage bonds, subject to certain exceptions.

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

Year	First Mortgage Bonds	General Mortgage Bonds	Total
2011	\$ —	\$ 19	\$ 19
2015	151	—	151
2018	—	50	50
2019	—	200 <sup>(1)</sup>	200
2020	—	90 <sup>(1)</sup>	90
2026	—	100	100
2028	—	68	68
Total	\$ 151	\$ 527	\$ 678

(1) These mortgage bonds collateralize bonds purchased by CenterPoint Energy in January 2010, which may be remarketed by CenterPoint Energy.

*Impact on Liquidity of a Downgrade in Credit Ratings.* The interest on borrowings under our credit facility is based on our credit rating. As of August 3, 2010, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P), and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior debt.

Instrument	Moody's		S&P		Fitch	
	Rating	Outlook <sup>(1)</sup>	Rating	Outlook <sup>(2)</sup>	Rating	Outlook <sup>(3)</sup>
Senior Secured Debt	A3	Stable	BBB+	Stable	A-	Stable

(1) A Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term.

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

(3) A "stable" outlook from Fitch encompasses a one- to two-year horizon as to the likely ratings direction.

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

A decline in credit ratings could increase borrowing costs under our credit facility. If our credit ratings had been downgraded one notch by each of the three principal credit rating agencies from the ratings that existed at June 30, 2010, the impact on the borrowing costs under our credit facility would have been immaterial. 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 certain capital market transactions.

*Cross Defaults.* Under CenterPoint Energy's \$1.2 billion revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding \$50 million by us will cause a default. In addition, four outstanding series of CenterPoint Energy's senior notes, aggregating \$950 million in principal amount as of June 30, 2010, provide that a payment default by us, in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of \$50 million, will cause a default. A default by CenterPoint Energy would not trigger a default under our debt instruments or bank credit facility.

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

- increases in interest expense in connection with debt refinancings and borrowings under our credit facility;
- various legislative or regulatory actions;
- the ability of RRI and its subsidiaries to satisfy their obligations in respect of RRI's indemnity obligations to us;
- the ability of REPs that are subsidiaries of NRG Retail LLC and TXU Energy Retail Company LLC, which are our two largest customers, to satisfy their obligations to us and our subsidiaries;
- the outcome of litigation brought by and against us;
- restoration costs and revenue losses resulting from future natural disasters such as hurricanes and the timing of recovery of such restoration costs; and
- various other risks identified in "Risk Factors" in Item 1A of Part II of this Form 10-Q.

*Certain Contractual Limits on Our Ability to Issue Securities and Borrow Money.* Our credit facility limits our debt (excluding transition and system restoration bonds) as a percentage of our total capitalization to 65%. Additionally, we have contractually agreed that we will not issue additional first mortgage bonds, subject to certain exceptions.

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

## NEW ACCOUNTING PRONOUNCEMENTS

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

### Item 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2010 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, 2010 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

For a discussion of material legal and regulatory proceedings affecting us, please read Notes 4 and 8 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 2009 Form 10-K.

## Item 1A. RISK FACTORS

The following risk factors are provided to supplement and update the risk factors contained in the reports we file with the SEC, including the risk factors contained in Item 1A of Part I of our 2009 Form 10-K.

The following information about risks, along with any additional legal proceedings identified or referenced in Part II, Item 1 “Legal Proceedings” of this Form 10-Q and in “Legal Proceedings” in Item 3 of our 2009 Form 10-K, summarize the principal risk factors associated with our business.

### Risk Factors Affecting Our Business

***Following the exhaustion of all judicial appeals in our true-up proceeding, we may lose certain tax benefits and/or may not recover the full amount of our true-up request. Such a result could have an adverse impact on our results of operations, financial condition and cash flows.***

In March 2004, we filed our true-up application with the Public Utility Commission of Texas (Texas Utility Commission), requesting recovery of \$3.7 billion, excluding interest, as allowed under the Texas Electric Choice Plan (Texas electric restructuring law). In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing us to recover a true-up balance of approximately \$2.3 billion, which included interest through August 31, 2004, and provided for adjustment of the amount to be recovered to include interest on the balance until recovery, along with the principal portion of additional excess mitigation credits (EMCs) returned to customers after August 31, 2004 and certain other adjustments.

We and other parties filed appeals of the True-Up Order to a district court in Travis County, Texas. In August 2005, that court issued its judgment on the various appeals. In its judgment, the district court:

- reversed the Texas Utility Commission’s ruling that had denied recovery of a portion of the capacity auction true-up amounts;
- reversed the Texas Utility Commission’s ruling that precluded us from recovering the interest component of the EMCs paid to retail electric providers (REPs); and
- affirmed the True-Up Order in all other respects.

The district court’s decision would have had the effect of restoring approximately \$650 million, plus interest, of the \$1.7 billion the Texas Utility Commission had disallowed from our initial request.

We and other parties appealed the district court’s judgment to the Texas Third Court of Appeals, which issued its decision in December 2007. In its decision, the court of appeals:

- reversed the district court’s judgment to the extent it restored the capacity auction true-up amounts;
- reversed the district court’s judgment to the extent it upheld the Texas Utility Commission’s decision to allow us to recover EMCs paid to RRI Energy, Inc. (RRI) (formerly known as Reliant Energy, Inc. and Reliant Resources, Inc.);
- ordered that the tax normalization issue described below be remanded to the Texas Utility Commission as requested by the Texas Utility Commission; and
- affirmed the district court’s judgment in all other respects.

In April 2008, the court of appeals denied all motions for rehearing and reissued substantially the same opinion as it had rendered in December 2007.

In June 2008, we petitioned the Texas Supreme Court for review of the court of appeals decision. In our petition, we seek reversal of the parts of the court of appeals decision that (i) denied recovery of EMCs paid to RRI,

(ii) denied recovery of the capacity auction true-up amounts allowed by the district court, (iii) affirmed the Texas Utility Commission's rulings that denied recovery of approximately \$378 million related to depreciation and (iv) affirmed the Texas Utility Commission's refusal to permit us to utilize the partial stock valuation methodology for determining the market value of our former generation assets. Two other petitions for review were filed with the Texas Supreme Court by other parties to the appeal. In those petitions parties contend that (i) the Texas Utility Commission was without authority to fashion the methodology it used for valuing the former generation assets after it had determined that we could not use the partial stock valuation method, (ii) in fashioning the method used for valuing the former generating assets, the Texas Utility Commission deprived parties of their due process rights and an opportunity to be heard, (iii) the net book value of the generating assets should have been adjusted downward due to the impact of a purchase option that had been granted to RRI, (iv) we should not have been permitted to recover construction work in progress balances without proving those amounts in the manner required by law and (v) the Texas Utility Commission was without authority to award interest on the capacity auction true up award.

In June 2009, the Texas Supreme Court granted the petitions for review of the court of appeals decision. Oral argument before the court was held in October 2009, and the parties have filed post-submission briefs to the court. Although we and CenterPoint Energy believe that our true-up request is consistent with applicable statutes and regulations and, accordingly, that it is reasonably possible that we will be successful in our appeal to the Texas Supreme Court, we can provide no assurance as to the ultimate court rulings on the issues to be considered in the appeal or with respect to the ultimate decision by the Texas Utility Commission on the tax normalization issue described below.

To reflect the impact of the True-Up Order, in 2004 and 2005, we recorded a net after-tax extraordinary loss of \$947 million. No amounts related to the district court's judgment or the decision of the court of appeals have been recorded in our consolidated financial statements. However, if the court of appeals decision is not reversed or modified as a result of further review by the Texas Supreme Court, we anticipate that we would be required to record an additional loss to reflect the court of appeals decision. The amount of that loss would depend on several factors, including ultimate resolution of the tax normalization issue described below and the calculation of interest on any amounts we ultimately are authorized to recover or are required to refund beyond the amounts recorded based on the True-Up Order, but could range from \$180 million to \$410 million (pre-tax) plus interest subsequent to December 31, 2009.

In the True-Up Order, the Texas Utility Commission reduced our stranded cost recovery by approximately \$146 million, which was included in the extraordinary loss discussed above, for the present value of certain deferred tax benefits associated with our former electric generation assets. We believe that the Texas Utility Commission based its order on proposed regulations issued by the Internal Revenue Service (IRS) in March 2003 that 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, the IRS subsequently withdrew those proposed normalization regulations and, in March 2008, adopted final regulations that would not permit utilities like us to pass the tax benefits back to customers without creating normalization violations. In addition, CenterPoint Energy received a Private Letter Ruling (PLR) from the IRS in August 2007, prior to adoption of the final regulations that confirmed that the Texas Utility Commission's order reducing our stranded cost recovery by \$146 million for ADITC and EDFIT would cause normalization violations with respect to the ADITC and EDFIT.

If the Texas Utility Commission's order relating to the ADITC reduction is not reversed or otherwise modified on remand so as to eliminate the normalization violation, the IRS could require CenterPoint Energy to pay an amount equal to our unamortized ADITC balance as of the date that the normalization violation is deemed to have occurred. In addition, the IRS could deny us the ability to elect accelerated tax depreciation benefits beginning in the taxable year that the normalization violation is deemed to have occurred. Such treatment, if required by the IRS, could have a material adverse impact on our results of operations, financial condition and cash flows in addition to any potential loss resulting from final resolution of the True-Up Order. In its opinion, the court of appeals ordered that this issue be remanded to the Texas Utility Commission, as that commission requested. No party has challenged that order by the court of appeals although the Texas Supreme Court has the authority to consider all aspects of the rulings above, not just those challenged specifically by the appellants. We and CenterPoint Energy will continue to pursue a favorable resolution of this issue through the appellate and administrative process. Although the Texas Utility Commission has not previously required a company subject to its jurisdiction to take action that would result

in a normalization violation, no prediction can be made as to the ultimate action the Texas Utility Commission may take on this issue on remand.

***Our receivables are concentrated in a small number of REPs, and any delay or default in payment could adversely affect our cash flows, financial condition and results of operations.***

Our receivables from the distribution of electricity are collected from REPs that supply the electricity we distribute to their customers. As of June 30, 2010, we did business with approximately 92 REPs. Adverse economic conditions, structural problems in the market served by ERCOT or financial difficulties of one or more REPs could impair the ability of these REPs to pay for our services or could cause them to delay such payments. We depend on these REPs to remit payments on a timely basis. Applicable regulatory provisions require that customers be shifted to a provider of last resort if a REP cannot make timely payments. Applicable Texas Utility Commission regulations significantly limit the extent to which we can apply normal commercial terms or otherwise seek credit protection from firms desiring to provide retail electric service in our service territory, and thus we remain at risk for payments not made prior to the shift to the provider of last resort. The Texas Utility Commission revised its regulations in 2009 to (i) increase the financial qualifications from REPs that began selling power after January 1, 2009, and (ii) authorize utilities to defer bad debts resulting from defaults by REPs for recovery in a future rate case. A subsidiary of NRG Energy, Inc., NRG Retail LLC, acquired the Texas retail business of RRI, and its subsidiaries are together considered the largest REP in our service territory. Approximately 39% of our \$200 million in billed receivables from REPs at June 30, 2010 was owed by subsidiaries of NRG Retail LLC and approximately 13% of the \$200 million in billed receivables was owed by subsidiaries of TXU Energy Retail Company LLC (TXU Energy). Any delay or default in payment by REPs could adversely affect our cash flows, financial condition and results of operations. If any of these REPs were unable to meet their obligations, they could consider, among various options, restructuring under the bankruptcy laws, in which event such REP might seek to avoid honoring its obligations and claims might be made by creditors involving payments we had received from such REP.

***Rate regulation of our business may delay or deny our ability to earn a reasonable return and fully recover our costs.***

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

***Disruptions at power generation facilities owned by third parties could interrupt our sales of transmission and distribution services.***

We transmit and distribute to customers of REPs electric power that the REPs obtain from power generation facilities owned by third parties. We do not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, our sales of transmission and distribution services may be diminished or interrupted, and our results of operations, financial condition and cash flows could be adversely affected.

***Our revenues and results of operations are seasonal.***

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

## Risk Factors Associated with Our Consolidated Financial Condition

### *If we are unable to arrange future financings on acceptable terms, our ability to refinance existing indebtedness could be limited.*

As of June 30, 2010, we had \$5.0 billion of outstanding indebtedness on a consolidated basis, which includes \$2.9 billion of non-recourse transition and system restoration bonds. As of June 30, 2010, approximately \$46 million principal amount of this debt is required to be paid through 2012. This amount excludes principal repayments of approximately \$724 million on transition and system restoration bonds for which a dedicated revenue stream exists. Our future financing activities may be significantly affected by, among other things:

- the resolution of the true-up proceedings, including, in particular, the results of appeals to the Texas Supreme Court regarding rulings obtained to date;
- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the markets in which we operate;
- maintenance of acceptable credit ratings by us and CenterPoint Energy;
- market expectations regarding our future earnings and cash flows;
- market perceptions of our and CenterPoint Energy's 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 CenterPoint Energy; and
- provisions of relevant tax and securities laws.

As of June 30, 2010, we had outstanding approximately \$2.5 billion aggregate principal amount of general mortgage bonds, including approximately \$527 million held in trust to secure pollution control bonds for which CenterPoint Energy is obligated and approximately \$229 million held in trust to secure pollution control bonds for which we are obligated. Additionally, we had outstanding approximately \$253 million aggregate principal amount of first mortgage bonds, including approximately \$151 million held in trust to secure certain pollution control bonds for which CenterPoint Energy is obligated. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately \$2.1 billion of additional first mortgage bonds and general mortgage bonds in the aggregate could be issued on the basis of retired bonds and 70% of property additions as of June 30, 2010. However, we have contractually agreed that we will not issue additional first mortgage bonds, subject to certain exceptions.

Our current credit ratings are discussed in “Management’s Narrative Analysis of Results of Operations — Liquidity — Impact on Liquidity of a Downgrade in Credit Ratings” in Item 2 of Part I of this Form 10-Q. These credit ratings may not remain in effect for any given period of time and one or more of these ratings may be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

### *The creditworthiness and liquidity of our parent company and our affiliates could affect our creditworthiness and liquidity.*

Our credit ratings and liquidity may be impacted by the creditworthiness and liquidity of our affiliates. As of June 30, 2010, CenterPoint Energy and its subsidiaries other than us have approximately \$769 million principal amount of debt required to be paid through 2012. This amount excludes amounts related to indexed debt securities obligations. If CenterPoint Energy were to experience a deterioration in its creditworthiness or liquidity, our

creditworthiness, liquidity and the repayment of notes receivable from CenterPoint Energy in the amount of \$750 million as of June 30, 2010 could be adversely affected. In addition, from time to time we and other affiliates invest or borrow funds in the money pool maintained by CenterPoint Energy. If CenterPoint Energy or the affiliates that borrow our invested funds were to experience a deterioration in their creditworthiness or liquidity, our creditworthiness, liquidity and the repayment of notes receivable from CenterPoint Energy and our affiliates under the money pool could be adversely impacted. As of June 30, 2010, we had invested \$398 million in the CenterPoint Energy money pool.

***We are an indirect wholly owned subsidiary of CenterPoint Energy. CenterPoint Energy can exercise substantial control over our dividend policy and business and operations and could do so in a manner that is adverse to our interests.***

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

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

Other than the financial covenant contained in our credit facility (described under “Management’s Narrative Analysis of Results of Operations — Liquidity and Capital Resources — Credit Facility” in Item 2 of Part I of this report), which could have the practical effect of limiting the payment of dividends under certain circumstances, there are no contractual restrictions on our ability to pay dividends to CenterPoint Energy. Our management could decide to increase our dividends to CenterPoint Energy to support its cash needs. This could adversely affect our liquidity. However, under our credit facility, our ability to pay dividends is restricted by a covenant that debt, excluding transition and system restoration bonds, as a percentage of total capitalization may not exceed 65%.

## **Other Risks**

***We are subject to operational and financial risks and liabilities arising from environmental laws and regulations.***

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

- restricting the way we can handle or dispose of 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 our line of business that serve coastal regions, we do not have insurance covering our transmission and distribution system, other than substations, because we believe it to be cost prohibitive. In the future, we may not be able to recover the costs incurred in restoring our transmission and distribution properties following hurricanes or other natural disasters through issuance of storm restoration bonds or a change in our regulated rates or otherwise, or any such recovery may not be timely granted. Therefore, we may not be able to restore any loss of, or damage to, any of our transmission and distribution properties without negative impact on our results of operations, financial condition and cash flows.

***We and CenterPoint Energy could incur liabilities associated with businesses and assets that we have transferred to others.***

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

- merchant energy, energy trading and REP businesses transferred to RRI or its subsidiaries in connection with the organization and capitalization of RRI prior to its initial public offering in 2001; and
- Texas electric generating facilities transferred to Texas Genco Holdings, Inc. (Texas Genco) in 2004 and early 2005.

In connection with the organization and capitalization of RRI, RRI and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. RRI also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the transferred assets and businesses. These 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 were unable to satisfy a liability that has been so assumed in circumstances in which Reliant Energy and its subsidiaries were not released from the liability in connection with the transfer, we and CenterPoint Energy could be responsible for satisfying the liability.

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

In May 2009, RRI sold its Texas retail business to NRG Retail LLC, a subsidiary of NRG Energy, Inc. In connection with the sale, RRI changed its name to RRI Energy, Inc. and no longer provides service as a REP in our service territory. In April 2010, RRI announced its plan to merge with Mirant Corporation in an all-stock transaction. Neither the sale of the retail business nor the merger with Mirant Corporation, if ultimately finalized, alters RRI's contractual obligations to indemnify CenterPoint Energy and its subsidiaries, including us, for certain liabilities, including their indemnification regarding certain litigation.

Reliant Energy and RRI are named as defendants in a number of lawsuits arising out of sales of natural gas in California and other markets. Although these matters relate to the business and operations of RRI, claims against Reliant Energy have been made on grounds that include liability of Reliant Energy as a controlling shareholder of RRI. We and CenterPoint Energy could incur liability if claims in one or more of these lawsuits were successfully asserted against us or CenterPoint Energy 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, Reliant Energy and Texas Genco entered into a separation agreement in which Texas Genco assumed liabilities associated with the electric generation assets Reliant Energy transferred to it. Texas Genco also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were obligations of ours, and we were not released by third parties from these liabilities. The indemnity provisions were intended generally to place sole financial responsibility on Texas Genco and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Texas Genco, regardless of the time those liabilities arose. If Texas Genco were unable to satisfy a liability that had been so assumed or indemnified against, and provided CenterPoint Energy or Reliant Energy had not been released from the liability in connection with the transfer, we could be responsible for satisfying the liability.

In connection with CenterPoint Energy's sale of Texas Genco to a third party, the separation agreement was amended to provide that Texas Genco would no longer be liable for, and CenterPoint Energy would assume and agree to indemnify Texas Genco 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 held by CenterPoint Energy. Texas Genco and its related businesses now operate as subsidiaries of NRG Energy, Inc.

CenterPoint Energy or its subsidiaries, including us, have been named, along with numerous others, as a defendant in lawsuits filed by a number of individuals who claim injury due to exposure to asbestos. Some of the claimants have worked at locations owned by CenterPoint Energy or us, but most existing claims relate to facilities previously owned by CenterPoint Energy's other subsidiaries or us, but currently owned by NRG Texas LP. We anticipate that additional claims like those received may be asserted in the future. Under the terms of the arrangements regarding separation of the generating business from CenterPoint Energy and its sale to NRG Texas LP, ultimate financial responsibility for uninsured losses from claims relating to the generating business has been assumed by NRG Texas LP, but CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense by NRG Texas LP.

***The unsettled conditions in the global financial system may have impacts on our business, liquidity and financial condition that we currently cannot predict.***

The recent credit crisis and unsettled conditions in the global financial system may have an impact on our business, liquidity and financial condition. Our ability to access the capital markets may be severely restricted at a time when we would like, or need, to access those markets, which could have an impact on our liquidity and flexibility to react to changing economic and business conditions. In addition, the cost of debt financing may be materially adversely impacted by these market conditions. Defaults of lenders in our credit facility, should they further occur, could adversely affect our liquidity. Capital market turmoil was also reflected in significant reductions

in equity market valuations in 2008, which significantly reduced the value of assets of CenterPoint Energy's pension plan in which we participate. These reductions increased non-cash pension expense in 2009 which impacted 2009 results of operations and may impact liquidity if contributions are made to offset reduced asset values.

In addition to the credit and financial market issues, a recurrence of national and local recessionary conditions may impact our business in a variety of ways. These include, among other things, reduced customer usage, increased customer default rates and wide swings in commodity prices.

***Climate change legislation and regulatory initiatives could result in increased operating costs and reduced demand for our services.***

Legislation to regulate emissions of greenhouse gases has been introduced in Congress, and there has been a wide-ranging policy debate, both nationally and internationally, regarding the impact of these gases and possible means for their regulation. In addition, efforts have been made and continue to be made in the international community toward the adoption of international treaties or protocols that would address global climate change issues, such as the United Nations Climate Change Conference in Copenhagen in 2009. Also, the EPA has undertaken new efforts to collect information regarding greenhouse gas emissions and their effects. Recently, the EPA declared that certain greenhouse gases represent an endangerment to human health and proposed to expand its regulations relating to those emissions. It is too early to determine whether, or in what form, further regulatory action regarding greenhouse gas emissions will be adopted or what specific impacts a new regulatory action might have on us. Our electric transmission and distribution business, in contrast to some electric utilities, does not generate electricity and thus is not directly exposed to the risk of high capital costs and regulatory uncertainties that face electric utilities that burn fossil fuels to generate electricity. Nevertheless, our revenues could be adversely affected to the extent any resulting regulatory action has the effect of reducing consumption of electricity by ultimate consumers within our service territory. Likewise, incentives to conserve energy or use other energy sources could result in a decrease in demand for our services.

***Climate changes could result in more frequent severe weather events and warmer temperatures which could adversely affect the results of operations of our business.***

To the extent climate changes occur, our business may be adversely impacted, though we believe any such impacts are likely to occur very gradually and hence would be difficult to quantify with specificity. A possible consequence of climate change is the possibility of more frequent and more severe weather events, such as hurricanes or tornadoes. Since many of our facilities are located along or near the Gulf Coast, increased or more severe hurricanes or tornadoes can increase our costs to repair damaged facilities and restore service to our customers. When we cannot deliver electricity to customers or our customers cannot receive our services, our financial results can be impacted by lost revenues, and we generally must seek approval from regulators to recover restoration costs. To the extent we are unable to recover those costs, or if higher rates resulting from our recovery of such costs result in reduced demand for our services, our future financial results may be adversely impacted.

**Item 5. OTHER INFORMATION**

Our ratio of earnings to fixed charges for the six months ended June 30, 2009 and 2010 was 1.77 and 1.95, respectively. We do not believe that the ratios for these six-month periods are necessarily indicative of the ratios for the twelve-month periods due to the seasonal nature of our business. The ratios were calculated pursuant to applicable rules of the Securities and Exchange Commission.

We were successful at reaching an agreement with the International Brotherhood of Electrical Workers (IBEW) Union Local 66 for a new three-year contract effective May 26, 2010. The IBEW Local 66 members ratified the agreement in a vote held on July 1, 2010.

**Item 6. EXHIBITS**

The following exhibits are filed herewith:

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

Agreements included as exhibits are included only to provide information to investors regarding their terms. Agreements listed below may contain representations, warranties and other provisions that were made, among other things, to provide the parties thereto with specified rights and obligations and to allocate risk among them, and no such agreement should be relied upon as constituting or providing any factual disclosures about CenterPoint Energy Houston Electric, LLC, any other persons, any state of affairs or other matters.

<u>Exhibit Number</u>	<u>Description</u>	<u>Report or Registration Statement</u>	<u>SEC File or Registration Number</u>	<u>Exhibit References</u>
3.1	Articles of Organization of CenterPoint Houston	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(b)
3.2	Limited Liability Company Regulations of CenterPoint Houston	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(c)
4.1	\$300,000,000 Second Amended and Restated Credit Agreement, dated as of June 29, 2007, among CenterPoint Houston, as Borrower, and the banks named therein	CenterPoint Houston's Form 10-Q for the quarter ended June 30, 2007	1-3187	4.1
4.2	First Amendment to Exhibit 4.1, dated as of November 18, 2008, among CenterPoint Houston, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated November 18, 2008	1-31447	4.2
+12	Computation of Ratios of Earnings to Fixed Charges			
+31.1	Rule 13a-14(a)/15d-14(a) Certification of David M. McClanahan			
+31.2	Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock			
+32.1	Section 1350 Certification of David M. McClanahan			
+32.2	Section 1350 Certification of Gary L. Whitlock			



## Index to Exhibits

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+32.1	Section 1350 Certification of David M. McClanahan			
+32.2	Section 1350 Certification of Gary L. Whitlock			



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

**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES**  
**(Millions of Dollars)**

	<b>Six Months Ended June 30,</b>	
	<b>2009 (1)</b>	<b>2010 (1)</b>
Net Income	\$ 69	\$ 90
Income taxes	45	51
Capitalized interest	(2)	(1)
	<u>112</u>	<u>140</u>
Fixed charges, as defined:		
Interest	145	146
Capitalized interest	2	1
Interest component of rentals charged to operating income	—	—
Total fixed charges	<u>147</u>	<u>147</u>
Earnings, as defined	<u>\$ 259</u>	<u>\$ 287</u>
Ratio of earnings to fixed charges	<u>1.77</u>	<u>1.95</u>

- (1) Excluded from the computation of fixed charges for the six months ended June 30, 2009 and 2010 is interest expense of \$8 million and \$3 million, respectively, which is included in income tax expense.



**CERTIFICATIONS**

I, David M. McClanahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Houston Electric, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-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 10, 2010

/s/ David M. McClanahan

David M. McClanahan

Chairman (Principal Executive Officer)

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**CERTIFICATIONS**

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Houston Electric, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-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 10, 2010

/s/ Gary L. Whitlock

Gary L. Whitlock

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the quarter ended June 30, 2010 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Chairman (Principal Executive Officer), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David M. McClanahan

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David M. McClanahan

Chairman (Principal Executive Officer)

August 10, 2010

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

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the quarter ended June 30, 2010 (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

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Gary L. Whitlock

Executive Vice President and Chief Financial Officer

August 10, 2010

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