

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 26, 2017, all 1,000 common shares of CenterPoint Energy Houston Electric, LLC were held by Utility Holding, LLC, a wholly-owned subsidiary of CenterPoint Energy, Inc.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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GLOSSARY

AMS	Advanced Metering System
ASU	Accounting Standards Update
Bond Companies	Transition and system restoration bond companies
Bond Company II	CenterPoint Energy Transition Bond Company II, LLC
Bond Company III	CenterPoint Energy Transition Bond Company III, LLC
Bond Company IV	CenterPoint Energy Transition Bond Company IV, LLC
Brazos Valley Connection	A portion of the Houston region transmission project between Houston Electric's Zenith substation and the Gibbons Creek substation owned by the Texas Municipal Power Agency
CenterPoint Energy	CenterPoint Energy, Inc., and its subsidiaries
CERC Corp.	CenterPoint Energy Resources Corp.
CERC	CERC Corp., together with its subsidiaries
CES	CenterPoint Energy Services, Inc.
DCRF	Distribution Cost Recovery Factor
EECRF	Energy Efficiency Cost Recovery Factor
ERCOT	Electric Reliability Council of Texas
FASB	Financial Accounting Standards Board
Fitch	Fitch, Inc.
Form 10-Q	Quarterly Report on Form 10-Q
GenOn	GenOn Energy, Inc.
GWh	Gigawatt-hours
Houston Electric	CenterPoint Energy Houston Electric, LLC and its subsidiaries
IBEW	International Brotherhood of Electrical Workers
Interim Condensed Financial Statements	Condensed consolidated interim financial statements and notes
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
Moody's	Moody's Investors Service, Inc.
NECA	National Electrical Contractors Association
NRG	NRG Energy, Inc.
PUCT	Public Utility Commission of Texas
Reliant Energy	Reliant Energy, Incorporated
REP	Retail electric provider
Restoration Bond Company	CenterPoint Energy Restoration Bond Company, LLC
RRI	Reliant Resources, Inc.
SEC	Securities and Exchange Commission
Securitization Bonds	Transition and system restoration bonds
S&P	Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
TBD	To be determined
TCEH Corp.	Formerly Texas Competitive Electric Holdings Company LLC, predecessor to Vistra Energy Corp. whose major subsidiaries include Luminant and TXU Energy
TCOS	Transmission Cost of Service
TDU	Transmission and distribution utility
VIE	Variable interest entity
Vistra Energy Corp.	Texas-based energy company focused on the competitive energy and power generation markets
2016 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2016

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,” “target,” “will” or other similar words.

We have based our forward-looking statements on our management’s beliefs and assumptions based on information reasonably 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 from those expressed or implied by our forward-looking statements:

- industrial, commercial and residential growth in our service territory and changes in market demand, including the effects of energy efficiency measures and demographic patterns;
- timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment;
- future economic conditions in regional and national markets and their effect on sales, prices and costs;
- weather variations and other natural phenomena, including the impact of severe weather events on operations and capital;
- state and federal legislative and regulatory actions or developments affecting various aspects of our business, including, among others, energy deregulation or re-regulation, changes in regulation and legislation pertaining to trade, health care, finance and actions regarding the rates we charge;
- tax reform and legislation;
- problems with regulatory approval, 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;
- local, state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change;
- the impact of unplanned facility outages;
- any direct or indirect effects on our facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt our business or the businesses of third parties, or other catastrophic events such as fires, earthquakes, explosions, leaks, floods, droughts, hurricanes, pandemic health events or other occurrences;
- our ability to invest planned capital and the timely recovery of our investment in capital;
- our ability to control operation and maintenance costs;
- actions by credit rating agencies;
- the sufficiency of our insurance coverage, including availability, cost, coverage and terms;
- the investment performance of CenterPoint Energy, Inc.’s pension and postretirement benefit plans;
- 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;
- changes in interest rates or rates of inflation;

- inability of various counterparties to meet their obligations to us;
- non-payment for our services due to financial distress of our customers;
- timely and appropriate regulatory actions allowing securitization or other recovery of costs associated with Hurricane Harvey and any future hurricanes or natural disasters;
- our potential business strategies and strategic initiatives, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses, which we cannot assure you will be completed or will have the anticipated benefits to us;
- acquisition and merger activities involving us or our competitors;
- our ability to recruit, effectively transition and retain management and key employees and maintain good labor relations;
- the ability of GenOn (formerly known as RRI Energy, Inc., Reliant Energy and RRI), a wholly-owned subsidiary of NRG, and its subsidiaries, currently the subject of bankruptcy proceedings, to satisfy their obligations to us, including indemnity obligations;
- the outcome of litigation;
- the ability of REPs, including REP affiliates of NRG and Vistra Energy Corp., formerly known as TCEH Corp., to satisfy their obligations to us and our subsidiaries;
- changes in technology, particularly with respect to efficient battery storage or the emergence or growth of new, developing or alternative sources of generation;
- the timing and outcome of any audits, disputes and other proceedings related to taxes;
- the effect of changes in and application of accounting standards and pronouncements; and
- other factors we discuss in “Risk Factors” in Item 1A of Part I of our 2016 Form 10-K, which is incorporated herein by reference, and other reports we file from time to time with the SEC.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to update or revise any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	\$ 843	\$ 909	\$ 2,233	\$ 2,328
Expenses:				
Operation and maintenance	344	339	1,043	1,001
Depreciation and amortization	193	253	525	659
Taxes other than income taxes	59	59	177	173
Total	596	651	1,745	1,833
Operating Income	247	258	488	495
Other Income (Expense):				
Interest and other finance charges	(32)	(32)	(97)	(94)
Interest on securitization bonds	(18)	(23)	(58)	(70)
Other, net	4	5	13	14
Total	(46)	(50)	(142)	(150)
Income Before Income Taxes	201	208	346	345
Income tax expense	71	72	123	121
Net Income	\$ 130	\$ 136	\$ 223	\$ 224

See Notes to 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 COMPREHENSIVE INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 130	\$ 136	\$ 223	\$ 224
Other comprehensive income:				
Net deferred gain (loss) from cash flow hedges (net of tax of \$-0-, \$1, \$-0- and \$-0-)	—	2	(1)	1
Total	\$ —	\$ 2	\$ (1)	\$ 1
Comprehensive income	<u>\$ 130</u>	<u>\$ 138</u>	<u>\$ 222</u>	<u>\$ 225</u>

See Notes to 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

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Current Assets:		
Cash and cash equivalents (\$200 and \$340 related to VIEs, respectively)	\$ 200	\$ 341
Accounts and notes receivable (\$65 and \$52 related to VIEs, respectively), less bad debt reserve of \$1 and \$1, respectively	333	225
Accounts and notes receivable—affiliated companies	73	101
Accrued unbilled revenues	129	106
Inventory	137	134
Taxes receivable	—	6
Other (\$31 and \$40 related to VIEs, respectively)	55	66
Total current assets	<u>927</u>	<u>979</u>
Property, Plant and Equipment:		
Property, plant and equipment	11,256	10,840
Less: accumulated depreciation and amortization	<u>3,593</u>	<u>3,443</u>
Property, plant and equipment, net	<u>7,663</u>	<u>7,397</u>
Other Assets:		
Regulatory assets (\$1,690 and \$1,919 related to VIEs, respectively)	1,663	1,793
Other	36	42
Total other assets	<u>1,699</u>	<u>1,835</u>
Total Assets	<u><u>\$ 10,289</u></u>	<u><u>\$ 10,211</u></u>

See Notes to 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)

LIABILITIES AND MEMBER'S EQUITY

	September 30, 2017	December 31, 2016
Current Liabilities:		
Current portion of VIE securitization bonds long-term debt	\$ 432	\$ 411
Accounts payable	255	145
Accounts and notes payable—affiliated companies	40	88
Taxes accrued	100	106
Interest accrued	46	68
Other	115	90
Total current liabilities	988	908
Other Liabilities:		
Deferred income taxes, net	2,039	2,003
Benefit obligations	145	148
Regulatory liabilities	428	530
Other	53	51
Total other liabilities	2,665	2,732
Long-term Debt:		
VIE securitization bonds, net	1,500	1,867
Other, net	2,884	2,587
Total long-term debt, net	4,384	4,454
Commitments and Contingencies (Note 8)		
Member's Equity:		
Common stock	—	—
Paid-in capital	1,696	1,696
Retained earnings	556	420
Accumulated other comprehensive income	—	1
Total member's equity	2,252	2,117
Total Liabilities and Member's Equity	\$ 10,289	\$ 10,211

See Notes to 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)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 223	\$ 224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	525	659
Amortization of deferred financing costs	10	10
Deferred income taxes	29	(51)
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(131)	(141)
Accounts receivable/payable—affiliated companies	(49)	103
Inventory	(3)	(5)
Accounts payable	105	3
Taxes receivable	6	59
Interest and taxes accrued	(28)	(9)
Net regulatory assets and liabilities	(149)	(70)
Other current assets	2	3
Other current liabilities	25	24
Other assets	2	9
Other liabilities	(1)	3
Other, net	(4)	(1)
Net cash provided by operating activities	<u>562</u>	<u>820</u>
Cash Flows from Investing Activities:		
Capital expenditures	(603)	(655)
Decrease in notes receivable—affiliated companies	29	—
Decrease (increase) in restricted cash of Bond Companies	8	(2)
Other, net	2	13
Net cash used in investing activities	<u>(564)</u>	<u>(644)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt, net	298	600
Payments of long-term debt	(347)	(527)
Decrease in short-term notes payable—affiliated companies	—	(183)
Dividend to parent	(87)	(54)
Debt issuance costs	(3)	(6)
Net cash used in financing activities	<u>(139)</u>	<u>(170)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(141)</u>	<u>6</u>
Cash and Cash Equivalents at Beginning of Period	<u>341</u>	<u>264</u>
Cash and Cash Equivalents at End of Period	<u>\$ 200</u>	<u>\$ 270</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Payments/Receipts:		
Interest, net of capitalized interest	\$ 176	\$ 178
Income taxes, net	76	82
Non-cash transactions:		
Accounts payable related to capital expenditures	\$ 70	\$ 52

See Notes to 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 Form 10-Q are the Interim Condensed Financial Statements of Houston Electric. The Interim Condensed Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the 2016 Form 10-K.

Background. Houston Electric is an indirect, wholly-owned subsidiary of CenterPoint Energy, Inc., a public utility holding company. Houston Electric provides electric transmission and distribution services to REPs serving over 2.4 million metered customers in the Texas Gulf Coast area that includes the city of Houston. As of September 30, 2017, Houston Electric had the following subsidiaries: Bond Company II, Bond Company III, Restoration Bond Company and Bond Company IV.

As of September 30, 2017, Houston Electric had VIEs consisting of the Bond Companies, 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 Houston Electric have no recourse to any assets or revenues of the Bond Companies. The bonds issued by these VIEs are payable only from and secured by transition and system restoration property, and the bondholders have no recourse to the general credit of Houston Electric.

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.

Houston Electric'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 Houston Electric'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.

Houston Electric consists of a single reportable business segment: Electric Transmission & Distribution.

(2) New Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 requires equity investments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value and to recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. It does not change the guidance for classifying and measuring investments in debt securities and loans. ASU 2016-01 also changes certain disclosure requirements and other aspects related to recognition and measurement of financial assets and financial liabilities. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. As of the first reporting period in which the guidance is adopted, a cumulative-effect adjustment to beginning retained earnings will be made, with two features that will be adopted prospectively. Houston Electric does not believe this standard will have a material impact on its financial position, results of operations, cash flows and disclosures.

In 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02) and related amendments. ASU 2016-02 provides a comprehensive new lease model that requires lessees to recognize assets and liabilities for most leases and would change certain aspects of lessor accounting. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. A modified retrospective adoption approach is required. Houston Electric is currently assessing the impact that this standard will have on its financial position, results of operations, cash flows and disclosures.

In 2016, the FASB issued ASUs which amended ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09, as amended, provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner that depicts the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. Early adoption is permitted, and entities have the option of using either a full retrospective or a modified retrospective adoption approach. Houston Electric is currently evaluating its revenue streams under these ASUs and has

not yet identified any significant changes as the result of these new standards. A substantial amount of Houston Electric's revenues are tariff based, which we do not anticipate will be significantly impacted by these ASUs. Houston Electric expects to adopt these ASUs on January 1, 2018 using the modified retrospective adoption approach.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). ASU 2016-15 provides clarifying guidance on the classification of certain cash receipts and payments in the statement of cash flows and eliminates the variation in practice related to such classifications. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. A retrospective adoption approach is required. Houston Electric is currently assessing the impact that this standard will have on its statement of cash flows.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, the statement of cash flows will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. ASU 2016-18 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. A retrospective adoption approach is required. This standard will not have an impact on Houston Electric's financial position, results of operations, and disclosures, but it will have an impact on the presentation of the statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01). ASU 2017-01 revises the definition of a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then under ASU 2017-01, the asset or group of assets is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs to be more closely aligned with how outputs are described in ASC 606. ASU 2017-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted in certain circumstances. A prospective adoption approach is required. ASU 2017-01 could have a potential impact on Houston Electric's accounting for future acquisitions.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (ASU 2017-05). ASU 2017-05 clarifies when and how to apply ASC 610-20 *Gains and Losses from the Derecognition of Nonfinancial Assets*, which was issued as part of ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*. ASU 2017-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Companies can elect a retrospective or modified retrospective approach to adoption. Houston Electric does not believe this standard will have a material impact on its financial position, results of operations, cash flows and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). ASU 2017-07 requires an employer to report the service cost component of the net periodic pension cost and postretirement benefit cost in the same line item(s) as other employee compensation costs arising from services rendered during the period; all other components will be presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. In addition, only the service cost component will be eligible for capitalization in assets. ASU 2017-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. ASU 2017-07 should be applied retrospectively for the presentation of the service cost component and the other components and prospectively for the capitalization of the service cost component. The adoption of this guidance is expected to result in an increase to operating income and a decrease to other income. Prospectively, other components previously capitalized in assets will be recorded as regulatory assets. Houston Electric does not believe this standard will have a material impact on its financial position, results of operations, cash flows and disclosures.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). ASU 2017-12 expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness, eases certain documentation and assessment requirements, and updates the presentation and disclosure requirements. ASU 2017-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. A cumulative-effect adjustment to eliminate the separate measurement of ineffectiveness upon adoption is required for existing cash flow and net investment hedges. Presentation and disclosure guidance should be applied

prospectively. Houston Electric is currently assessing the impact that this standard will have on its financial position, results of operations, cash flows and disclosures.

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

(3) Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Service cost	\$ —	\$ —	\$ —	\$ 1
Interest cost	3	2	7	8
Expected return on plan assets	(1)	(1)	(3)	(4)
Amortization of prior service credit	(2)	(1)	(4)	(2)
Curtailment gain (1)	—	—	—	(3)
Net periodic cost (2)	\$ —	\$ —	\$ —	\$ —

(1) A curtailment gain or loss is required when the expected future services of a significant number of current employees are reduced or eliminated for the accrual of benefits. In May 2016, Houston Electric entered into a renegotiated collective bargaining agreement with the IBEW Local Union 66 that provides that for Houston Electric union employees covered under the agreement who retire on or after January 1, 2017, retiree medical and prescription drug coverage will be provided exclusively through the NECA/IBEW Family Medical Care Plan in exchange for the payment of monthly premiums as determined under the agreement. As a result, the accrued postretirement benefits related to such future Houston Electric union retirees were eliminated. In 2016, Houston Electric recognized a curtailment gain of \$3 million as an accelerated recognition of the prior service credit that would otherwise be recognized in future periods.

(2) Net periodic cost in this table is before considering amounts subject to overhead allocations for capital expenditure projects or for amounts subject to deferral for regulatory purposes.

Houston Electric expects to contribute approximately \$9 million to its postretirement benefit plan in 2017, of which approximately \$2 million and \$7 million were contributed during the three and nine months ended September 30, 2017, respectively.

(4) Regulatory Accounting

Equity Return. As of September 30, 2017, Houston Electric has not recognized an allowed equity return of \$299 million because such return will be recognized as it is recovered in rates. During the three months ended September 30, 2017 and 2016, Houston Electric recognized approximately \$13 million and \$22 million, respectively, of the allowed equity return not previously recognized. During the nine months ended September 30, 2017 and 2016, Houston Electric recognized approximately \$30 million and \$52 million, respectively, of the allowed equity return not previously recognized.

Hurricane Harvey. Houston Electric's electric delivery system suffered damage as a result of Hurricane Harvey, a major storm classified as a Category 4 hurricane on the Saffir-Simpson Hurricane Wind Scale, that first struck the Texas coast on Friday, August 25, 2017 and remained over the Houston area for the next several days. The unprecedented flooding from torrential amounts of rainfall accompanying the storm caused significant damage to or destruction of residences and businesses served by Houston Electric.

Currently, Houston Electric estimates that total costs to restore the electric delivery facilities damaged as a result of Hurricane Harvey will range from \$110 million to \$120 million and estimates that the total restoration costs covered by insurance will be approximately \$35 million. Houston Electric will defer the uninsured storm restoration costs as management believes it is probable that such costs will be recovered through traditional rate adjustment mechanisms for capital costs and through the next rate proceeding for operation and maintenance expenses. As of September 30, 2017, Houston Electric recorded an increase of \$4 million in property, plant and equipment and \$73 million in regulatory assets, net of \$23 million in insurance receivables recorded, for restoration costs incurred. As a result, storm restoration costs should not materially affect Houston Electric's reported net income for 2017.

(5) Fair Value Measurements

Assets and liabilities that are recorded at fair value in the Condensed Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined below 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. As of September 30, 2017 and December 31, 2016, Houston Electric held Level 1 investments of \$50 million and \$59 million, respectively, which were primarily investments in money market funds and are included in other current assets and other assets in the Condensed Consolidated Balance Sheets.

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. Houston Electric had no Level 2 assets or liabilities as of either September 30, 2017 or December 31, 2016.

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. Unobservable inputs reflect Houston Electric's judgments about the assumptions market participants would use in determining fair value. Houston Electric had no Level 3 assets or liabilities as of either September 30, 2017 or December 31, 2016.

Houston Electric determines the appropriate level for each financial asset and liability on a quarterly basis and recognizes transfers between levels at the end of the reporting period. For the nine months ended September 30, 2017, there were no transfers between levels.

Estimated Fair Value of Financial Instruments

The fair values of cash and cash equivalents and short-term borrowings are estimated to be approximately 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 a combination of historical trading prices and comparable issue data. These liabilities, which are not measured at fair value in the Condensed Consolidated Balance Sheets, but for which the fair value is disclosed, would be classified as Level 2 in the fair value hierarchy.

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
		(in millions)		
Long-term debt	\$ 4,816	\$ 5,077	\$ 4,865	\$ 5,079

(6) Related Party Transactions and Major Customers

(a) Related Party Transactions

Houston Electric 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. Houston Electric had investments in the money pool of \$67 million and \$96 million as of September 30, 2017 and December 31, 2016, respectively, which are included in accounts and notes receivable-affiliated companies, in the Condensed Consolidated Balance Sheets. As of September 30, 2017, Houston Electric's money pool investments had a weighted-average interest rate of 1.44%.

Houston Electric had affiliate related net interest income of \$-0- and \$1 million for the three and nine months ended September 30, 2017, respectively, and net interest expense of \$1 million and \$4 million for the three and nine months ended September 30, 2016, respectively.

CenterPoint Energy provides some corporate services to Houston Electric. The costs of services have been charged directly to Houston Electric 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. CERC provides certain services to Houston Electric. These services are billed at actual cost,

either directly or as an allocation and include line locating and other miscellaneous services. Additionally, Houston Electric provides a number of services to CERC. These services are billed at actual cost, either directly or as an allocation and include fleet services, shop services, geographic services, surveying and right-of-way services, radio communications, data circuit management and field operations. These charges are not necessarily indicative of what would have been incurred had Houston Electric not been an affiliate. Amounts charged to and by Houston Electric for these services were as follows and are included primarily in operation and maintenance expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Corporate service charges	\$ 41	\$ 43	\$ 127	\$ 131
Charges from CERC for services provided	2	2	5	5
Billings to CERC for services provided	(3)	(4)	(11)	(11)

(b) Major Customers

Houston Electric's transmission and distribution revenues from major customers are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Affiliates of NRG	\$ 221	\$ 223	\$ 540	\$ 527
Affiliates of Vistra Energy Corp.	72	71	172	166

(7) Long-term Debt

Debt Issuances. During the nine months ended September 30, 2017, Houston Electric issued the following general mortgage bonds:

Issuance Date	Aggregate Principal Amount	Interest Rate	Maturity Date
(in millions)			
January 2017	\$ 300	3.00%	2027

The proceeds from the issuance of these bonds were used to repay short-term debt and for general limited liability company purposes.

Revolving Credit Facility. In June 2017, Houston Electric entered into an amendment to its revolving credit facility to extend the termination date thereof from March 3, 2021 to March 3, 2022 and to terminate the swingline loan subfacility thereunder. No changes were made to the aggregate commitments under the revolving credit facility.

As of September 30, 2017 and December 31, 2016, Houston Electric had the following revolving credit facility and utilization of such facility:

Size of Facility	September 30, 2017		December 31, 2016	
	Loans	Letters of Credit	Loans	Letters of Credit
	(in millions)			
\$ 300	\$ —	\$ 4	\$ —	\$ 4

<u>Execution Date</u>	<u>Size of Facility</u>	<u>Draw Rate of LIBOR plus (1)</u>	<u>Financial Covenant Limit on Debt for Borrowed Money to Capital Ratio (2)</u>	<u>Debt for Borrowed Money to Capital Ratio as of September 30, 2017 (3)</u>	<u>Termination Date (4)</u>
	(in millions)				
March 3, 2016	\$ 300	1.125%	65%	49%	March 3, 2022

- (1) Based on current credit ratings.
- (2) The financial covenant limit will temporarily increase from 65% to 70% if Houston Electric experiences damage from a natural disaster in its service territory and Houston Electric certifies to the administrative agent that Houston Electric has incurred system restoration costs reasonably likely to exceed \$100 million in a consecutive 12-month period, all or part of which Houston Electric intends to seek to recover through securitization financing. Such temporary increase in the financial covenant would be in effect from the date Houston Electric delivers its certification until the earliest to occur of (i) the completion of the securitization financing, (ii) the first anniversary of Houston Electric's certification or (iii) the revocation of such certification.
- (3) As defined in the revolving credit facility agreement, excluding Securitization Bonds.
- (4) Amended on June 16, 2017 to extend the termination date as noted above.

Houston Electric was in compliance with all financial debt covenants as of September 30, 2017.

Hedging of Interest Expense for Future Debt Issuances. In January 2017, Houston Electric entered into forward interest rate agreements with several counterparties, having an aggregate notional amount of \$150 million. These agreements were executed to hedge, in part, volatility in the 10-year U.S. treasury rate by reducing Houston Electric's exposure to variability in cash flows related to interest payments of Houston Electric's \$300 million issuance of fixed rate debt in January 2017. These forward interest rate agreements were designated as cash flow hedges. Accordingly, the effective portion of realized losses associated with the agreements, which totaled approximately \$0.5 million, is a component of accumulated other comprehensive income in 2017 and will be amortized over the life of the bonds.

Other. As of both September 30, 2017 and December 31, 2016, Houston Electric had issued \$118 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, Houston Electric or their predecessor, Reliant Energy, and certain of their former subsidiaries have been named as defendants in certain lawsuits described below. Under a master separation agreement between CenterPoint Energy and a former subsidiary, RRI, CenterPoint Energy and its subsidiaries are entitled to be indemnified by RRI and its successors for any losses, including certain attorneys' fees and other costs, arising out of these lawsuits. In May 2009, RRI sold its Texas retail business to a subsidiary of NRG and RRI changed its name to RRI Energy, Inc. In December 2010, Mirant Corporation merged with and became a wholly-owned subsidiary of RRI, and RRI changed its name to GenOn. In December 2012, NRG acquired GenOn through a merger in which GenOn became a wholly-owned subsidiary of NRG. None of the sale of the retail business, the merger with Mirant Corporation, or the acquisition of GenOn by NRG alters RRI's (now GenOn's) contractual obligations to indemnify CenterPoint Energy and its subsidiaries, including Houston Electric, for certain liabilities, including their indemnification obligations regarding the gas market manipulation litigation.

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 and its affiliates have since been released or dismissed from all such cases. CES, a subsidiary of CERC Corp., was a defendant in a case now pending in federal court in Nevada alleging a conspiracy to inflate Wisconsin natural gas prices in 2000–2002. On May 24, 2016, the district court granted CES's motion for summary judgment, dismissing CES from the case. The plaintiffs have appealed that ruling. CenterPoint Energy and CES intend to continue vigorously defending against the plaintiffs' claims. In June 2017, GenOn and various affiliates filed for

protection under Chapter 11 of the U.S. Bankruptcy Code. CenterPoint Energy, CERC, and CES submitted proofs of claim in the bankruptcy proceedings to protect their indemnity rights. If GenOn were unable to meet its indemnity obligations or satisfy a liability that has been assumed in the gas market manipulation litigation, then Houston Electric, CenterPoint Energy or CERC could incur liability and be responsible for satisfying the liability. Houston Electric does not expect the ultimate outcome of the case against CES to have a material adverse effect on its financial condition, results of operations or cash flows.

Environmental Matters

Asbestos. Some facilities owned by Houston Electric contain or have contained asbestos insulation and other asbestos-containing materials. CenterPoint Energy and its subsidiaries, including Houston Electric, are from time to time named, along with numerous others, as defendants in lawsuits filed by a number of individuals who claim injury due to exposure to asbestos, and CenterPoint Energy anticipates that additional claims may be asserted in the future. Although their ultimate outcome cannot be predicted at this time, Houston Electric does not expect 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, Houston Electric identifies the presence of environmental contaminants during its operations or on property where its predecessor companies have conducted operations. Other such sites involving contaminants may be identified in the future. Houston Electric has and expects to continue to remediate identified sites consistent with its legal obligations. From time to time, Houston Electric 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, Houston Electric 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, Houston Electric does not expect 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

Houston Electric 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. From time to time, Houston Electric is also a defendant in legal proceedings with respect to claims brought by various plaintiffs against broad groups of participants in the energy industry. Some of these proceedings involve substantial amounts. Houston Electric regularly analyzes current information and, as necessary, provides accruals for probable and reasonably estimable liabilities on the eventual disposition of these matters. Houston Electric 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

The effective tax rate reported for the three months ended September 30, 2017 and 2016 was 35%. The effective tax rates reported for the nine months ended September 30, 2017 was 36% compared to 35% for the same period in 2016.

Houston Electric reported no uncertain tax liability as of September 30, 2017 and expects no significant change to the uncertain tax liability over the next twelve months. CenterPoint Energy's consolidated federal income tax returns have been audited and settled through 2015. For the 2016 and 2017 tax years, CenterPoint Energy is a participant in the IRS's Compliance Assurance Process.

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 2016 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) and Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in our results of operations between the three and nine months ended September 30, 2017 and the three and nine months ended September 30, 2016. Reference is made to “Management’s Narrative Analysis of Results of Operations” in Item 7 of our 2016 Form 10-K.

RECENT EVENTS

Hurricane Harvey. Our electric delivery system suffered damage as a result of Hurricane Harvey, which struck the Texas coast on Friday, August 25, 2017. For further information regarding the impact of Hurricane Harvey, see Note 4 to our Interim Condensed Financial Statements.

Regulatory Proceedings. For details related to our pending and completed regulatory proceedings to date in 2017, see “—Liquidity and Capital Resources —Regulatory Matters” below.

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 regulatory assets. For more information regarding factors that may affect the future results of operations of our business, please read “Risk Factors” in Item 1A of Part I of our 2016 Form 10-K.

The following table sets forth our consolidated results of operations for the three and nine months ended September 30, 2017 and 2016, followed by a discussion of our consolidated results of operations based on operating income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in millions, except throughput and customer data)			
Revenues:				
TDU	\$ 729	\$ 726	\$ 1,943	\$ 1,878
Bond Companies	114	183	290	450
Total revenues	843	909	2,233	2,328
Expenses:				
Operation and maintenance, excluding Bond Companies	344	336	1,040	995
Depreciation and amortization, excluding Bond Companies	97	96	296	285
Taxes other than income taxes	59	59	177	173
Bond Companies	96	160	232	380
Total expenses	596	651	1,745	1,833
Operating income	247	258	488	495
Interest and other finance charges	(32)	(32)	(97)	(94)
Interest on Securitization Bonds	(18)	(23)	(58)	(70)
Other income, net	4	5	13	14
Income before income taxes	201	208	346	345
Income tax expense	71	72	123	121
Net income	\$ 130	\$ 136	\$ 223	\$ 224
Operating Income:				
TDU	\$ 229	\$ 235	\$ 430	\$ 425
Bond Companies (1)	18	23	58	70
Total operating income	\$ 247	\$ 258	\$ 488	\$ 495
Throughput (in GWh):				
Residential	10,419	10,776	23,512	23,427
Total	26,453	26,518	67,956	66,839
Number of metered customers at end of period:				
Residential	2,156,624	2,116,312	2,156,624	2,116,312
Total	2,435,558	2,389,014	2,435,558	2,389,014

(1) Represents the amount necessary to pay interest on the Securitization Bonds.

Three months ended September 30, 2017 compared to three months ended September 30, 2016

We reported operating income of \$247 million for the three months ended September 30, 2017, consisting of \$229 million from the TDU and \$18 million related to the Bond Companies. For the three months ended September 30, 2016, operating income totaled \$258 million, consisting of \$235 million from the TDU and \$23 million related to the Bond Companies.

TDU operating income decreased \$6 million, primarily due to the following key factors:

- lower usage of \$12 million, largely due to a return to more normal weather in 2017;
- lower equity return of \$9 million, primarily related to the annual true-up of transition charges correcting for over-collections that occurred during 2016; and
- lower miscellaneous revenues, including right-of-way, of \$7 million.

These decreases to operating income were partially offset by the following:

- rate increases of \$12 million related to distribution capital investments;
- lower operation and maintenance expenses of \$4 million; and
- customer growth of \$9 million from the addition of over 46,000 new customers.

Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

We reported operating income of \$488 million for the nine months ended September 30, 2017, consisting of \$430 million from the TDU and \$58 million related to the Bond Companies. For the nine months ended September 30, 2016, operating income totaled \$495 million, consisting of \$425 million from the TDU and \$70 million related to the Bond Companies.

TDU operating income increased \$5 million, primarily due to the following key factors:

- rate increases of \$39 million related to distribution capital investments; and
- customer growth of \$26 million from the addition of over 46,000 new customers.

These increases to operating income were partially offset by the following:

- lower equity return of \$22 million, primarily related to the annual true-up of transition charges correcting for over-collections that occurred during 2016;
- higher depreciation and amortization expense, primarily because of ongoing additions to plant in service, and other taxes of \$14 million;
- lower usage of \$11 million;
- lower miscellaneous revenues, including right-of-way, of \$9 million;
- higher operation and maintenance expenses of \$2 million; and
- increased transmission costs billed by transmission providers of \$47 million, which were partially offset by higher transmission-related revenues of \$46 million.

Income Tax Expense. Our effective tax rates reported for the three months ended September 30, 2017 and 2016 was 35%. The effective tax rates reported for the nine months ended September 30, 2017 was 36% compared to 35% for the same period in 2016.

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 I of our 2016 Form 10-K and “Management’s Narrative Analysis of Results of Operations — Certain Factors Affecting Future Earnings” in Item 7 of Part II of our 2016 Form 10-K, and “Cautionary Statement Regarding Forward-Looking Information” in this Form 10-Q.

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, dividends to parent and various regulatory actions. Our capital expenditures are expected to be used for investment in infrastructure for our electric transmission and distribution operations. These capital expenditures are anticipated to maintain reliability and safety as well as expand our system through value-added projects. Our principal anticipated cash requirements for the remaining three months of 2017 include approximately \$306 million of capital expenditures, \$64 million of scheduled principal payments on Securitization Bonds and restoration costs associated with Hurricane Harvey.

We expect that borrowings under our credit facility, anticipated cash flows from operations and intercompany borrowings will be sufficient to meet our anticipated cash needs for the remaining three months of 2017. 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 first mortgage bonds and general mortgage bonds issued as collateral for long-term debt of CenterPoint Energy as discussed below and operating leases, we have no off-balance sheet arrangements.

Regulatory Matters

Brazos Valley Connection Project

Construction began on the Brazos Valley Connection in February 2017, and we expect to complete construction and energize the Brazos Valley Connection in the first quarter of 2018, ahead of the original June 1, 2018 energization date. We continue to anticipate that the final capital costs of the project will be within the estimated range of approximately \$270-\$310 million in the PUCT’s original order. We are eligible to continue making filings for the recovery of land acquisition costs through interim TCOS updates in advance of project completion.

Freeport Project

In April 2017, we submitted a proposal to ERCOT requesting its endorsement of our approximately \$250 million transmission project in the Freeport, Texas area, which includes enhancements to two existing substations and the construction of a new 345 kv double-circuit transmission line. Capital expenditures for the project will be incremental to our previously disclosed five-year capital plan. We anticipate a decision from ERCOT in the fourth quarter of 2017, and if approved, will make the necessary filings with the PUCT.

Rate Change Applications

We are routinely involved in rate change applications before the PUCT. Those applications sometimes include general rate cases where the entire cost of service of the utility is assessed and reset. More frequently, we are involved in proceedings to adjust our capital tracking mechanisms (TCOS and DCRF) and to adjust our EECRF. The table below reflects significant applications pending or completed since our 2016 Form 10-K was filed with the SEC.

Mechanism	Annual Increase (1) (in millions)	Filing Date	Effective Date	Approval Date	Additional Information
AMS	N/A	June 2017	TBD	TBD	Final reconciliation of AMS surcharge proposing a \$28.7 million refund for AMS revenue in excess of expenses, for which a reserve has been recorded. Refunds began in September 2017.
EECRF (2)	\$11.0	June 2017	TBD	TBD	Annual reconciliation filing for program year 2016 and includes proposed performance bonus of \$11 million. Anticipated effective date of March 2018.
DCRF	41.8	April 2017	September 2017	July 2017	Based on an increase in eligible distribution-invested capital for 2016 of \$479 million. Unanimous Stipulation and Settlement Agreement was filed in June 2017 for \$86.8 million (a \$41.8 million annual increase). The settlement agreement also included the AMS refund referenced above.
TCOS	7.8	December 2016	February 2017	February 2017	Based on an incremental increase in total rate base of \$109.6 million.
TCOS	39.3	September 2017	TBD	TBD	Based on an incremental increase in total rate base of \$263.4 million.

(1) Represents proposed increases when effective date and/or approval date is not yet determined. Approved rates could differ materially from proposed rates.

(2) Amounts are recorded when approved.

Other Matters

Credit Facility

Our revolving credit facility may be drawn on from time to time to provide funds used for general limited liability company purposes and may also be utilized to obtain letters of credit. For further details related to our revolving credit facility and the 2017 amendment, please see Note 7 to our Interim Condensed Financial Statements.

As of October 26, 2017, we had the following revolving credit facility and utilization of such facility:

Execution Date	Size of Facility	Amount Utilized at October 26, 2017 (1)	Termination Date
		(in millions)	
March 3, 2016	\$ 300	\$ 4	March 3, 2022

(1) Represents outstanding letters of credit.

Borrowings under our revolving credit facility are subject to customary terms and conditions. However, there is no requirement that we make representations prior to borrowings as to the absence of material adverse changes or litigation that could be expected to have a material adverse effect. Borrowings under our revolving credit facility are subject to acceleration upon the occurrence of events of default that we consider customary. The revolving credit facility also provides for customary fees, including commitment fees, administrative agent fees, fees in respect of letters of credit and other fees. In our revolving credit facility, the spread to LIBOR and the commitment fees fluctuate based on our credit rating. We are currently in compliance with the various business and financial covenants in our revolving credit facility.

Securities Registered with the SEC

On January 31, 2017, we filed a shelf registration statement with the SEC registering an indeterminate principal amount of our general mortgage bonds. The shelf registration statement will expire on January 31, 2020.

Temporary Investments

As of October 26, 2017, we had no temporary external investments.

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. As of October 26, 2017, we had investments in the money pool of \$90 million. 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 Securitization Bonds issued by wholly-owned subsidiaries.

In January 2017, we issued \$300 million aggregate principal amount of general mortgage bonds. For further information about our 2017 debt transactions, see Note 7 to our Interim Condensed Financial Statements.

As of September 30, 2017, our outstanding first mortgage bonds and general mortgage bonds aggregated approximately \$3 billion, of which \$118 million is not reflected in our consolidated financial statements because of the contingent nature of the obligation.

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 \$4.1 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of September 30, 2017. We have contractually agreed that we will not issue additional first mortgage bonds, subject to certain exceptions.

At September 30, 2017, our subsidiaries had the following aggregate principal amount of Securitization Bonds outstanding.

Company	Aggregate Principal Amount Outstanding
	(in millions)
Bond Company II	\$ 402
Bond Company III	138
Bond Company IV	1,084
Restoration Bond Company	312
Total	\$ 1,936

The Securitization Bonds are paid through the imposition of “transition” or “system restoration” charges, as defined in the Texas Public Utility Regulatory Act, which are irrevocable, non-bypassable charges to provide recovery of authorized qualified costs. The Securitization Bonds are reported as our long-term debt, although the holders of these bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition or system restoration charges) of the Bond Companies. We have no payment obligations with respect to the Securitization Bonds except to remit collections of transition and system restoration charges as set forth in servicing agreements between us and the Bond Companies and in an intercreditor agreement among us, the Bond Companies and other parties.

Impact on Liquidity of a Downgrade in Credit Ratings

The interest on borrowings under our credit facilities is based on our credit rating. On August 4, 2017, S&P revised its rating outlook on our senior secured debt to positive from developing and affirmed its rating. On September 24, 2017, Fitch upgraded our senior secured debt rating to A+ and maintained its rating outlook of stable.

The interest on borrowings under our credit facility is based on our credit rating. As of October 26, 2017, Moody's, S&P and Fitch had assigned the following credit ratings to our senior debt.

Instrument	Moody's		S&P		Fitch	
	Rating	Outlook (1)	Rating	Outlook (2)	Rating	Outlook (3)
Senior Secured Debt	A1	Stable	A	Positive	A+	Stable

- (1) A Moody's rating outlook is an opinion regarding the likely direction of an issuer's 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 Fitch rating outlook indicates the direction a rating is likely to move over a one- to two-year period.

We cannot assure 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 these 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 revolving 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 as of September 30, 2017, 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 capital market transactions.

Cross Defaults

Under CenterPoint Energy's revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness for borrowed money and certain other specified types of obligations (including guarantees) exceeding \$125 million by us will cause a default. A default by CenterPoint Energy would not trigger a default under our debt instruments or revolving credit facility.

Hedging of Interest Expense for Future Debt Issuances

During the first quarter of 2017, we entered into forward interest rate agreements to hedge, in part, volatility in the U.S. treasury rates by reducing variability in cash flows related to interest payments. For further information, see Note 7 to our Interim Condensed Financial Statements.

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 GenOn and its subsidiaries, currently the subject of bankruptcy proceedings, to satisfy their obligations in respect of GenOn's indemnity obligations to us;
- the ability of REPs, including REP affiliates of NRG and Vistra Energy Corp., formerly known as TCEH Corp., to satisfy their obligations to us;
- the outcome of litigation brought by or 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 I of our 2016 Form 10-K.

Certain Contractual Limits on Our Ability to Issue Securities and Borrow Money

We have contractually agreed that we will not issue additional first mortgage bonds, subject to certain exceptions. For information about the total debt to capitalization financial covenants in our revolving credit facility, see Note 7 to our Interim Condensed Financial Statements.

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, incorporated herein by reference, for a discussion of new accounting pronouncements that affect us.

Item 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2017 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 SEC’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 control over financial reporting that occurred during the three months ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For a discussion of certain legal and regulatory proceedings affecting us, please read Note 8 to our Interim Condensed Financial Statements and “Management’s Narrative Analysis of Results of Operations — Liquidity and Capital Resources — Regulatory Matters,” 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 2016 Form 10-K.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our 2016 Form 10-K.

Item 5. OTHER INFORMATION

Ratio of Earnings to Fixed Charges. The ratio of earnings to fixed charges for the nine months ended September 30, 2017 and 2016 was 3.13 and 3.01, respectively. We do not believe that the ratios for these nine-month periods are necessarily indicative of the ratios for the 12-month periods due to the seasonal nature of our business. The ratios were calculated pursuant to applicable rules of the SEC.

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 Houston Electric 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.

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
3.1	Restated Certificate of Formation of Houston Electric	Houston Electric's Form 10-Q for the quarter ended June 30, 2011	1-3187	3.1
3.2	Amended and Restated Limited Liability Company Agreement of Houston Electric	Houston Electric's Form 10-Q for the quarter ended June 30, 2011	1-3187	3.2
4.1	\$300,000,000 Credit Agreement, dated as of March 3, 2016, among Houston Electric, as Borrower, and the banks named therein	Houston Electric's Form 8-K dated March 3, 2016	1-3187	4.2
4.2	First Amendment to Credit Agreement, dated as of June 16, 2017, among Houston Electric, as Borrower, and the banks named therein	Houston Electric's Form 8-K dated June 16, 2017	1-3187	4.2
+12	Computation of Ratios of Earnings to Fixed Charges			
+31.1	Rule 13a-14(a)/15d-14(a) Certification of Scott M. Prochazka			
+31.2	Rule 13a-14(a)/15d-14(a) Certification of William D. Rogers			
+32.1	Section 1350 Certification of Scott M. Prochazka			
+32.2	Section 1350 Certification of William D. Rogers			
+101.INS	XBRL Instance Document			
+101.SCH	XBRL Taxonomy Extension Schema Document			
+101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
+101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			
+101.LAB	XBRL Taxonomy Extension Labels Linkbase Document			
+101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			

SIGNATURES

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

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: _____ /s/ Kristie L. Colvin
Kristie L. Colvin
Senior Vice President and Chief Accounting Officer

Date: November 3, 2017

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

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

	Nine Months Ended September 30,	
	2017	2016
	(in millions, except ratios)	
Net income	\$ 223	\$ 224
Income taxes	123	121
Capitalized interest	(5)	(5)
	<u>341</u>	<u>340</u>
Fixed charges, as defined:		
Interest	155	164
Capitalized interest	5	5
Interest component of rentals charged to operating expense	—	—
Total fixed charges	<u>160</u>	<u>169</u>
Earnings, as defined	<u>\$ 501</u>	<u>\$ 509</u>
Ratio of earnings to fixed charges	<u>3.13</u>	<u>3.01</u>

CERTIFICATIONS

I, Scott M. Prochazka, 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: November 3, 2017

/s/ Scott M. Prochazka

Scott M. Prochazka

Chairman (Principal Executive Officer)

CERTIFICATIONS

I, William D. Rogers, 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: November 3, 2017

/s/ William D. Rogers

William D. Rogers

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the three months ended September 30, 2017 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Scott M. Prochazka, 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/ Scott M. Prochazka

Scott M. Prochazka

Chairman (Principal Executive Officer)

November 3, 2017

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 three months ended September 30, 2017 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, William D. Rogers, 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/ William D. Rogers

William D. Rogers

Executive Vice President and Chief Financial Officer

November 3, 2017