

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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 April 24, 2018, all 1,000 common shares of CenterPoint Energy Houston Electric, LLC were held by Utility Holding, LLC, a wholly-owned subsidiary of CenterPoint Energy, Inc.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2018

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GLOSSARY

AMS	Advanced Metering System
ARP	Alternative revenue program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bond Companies	Bond Company II, Bond Company III, Bond Company IV and Restoration Bond Company, each a wholly-owned, bankruptcy remote entity formed solely for the purpose of purchasing and owning transition or system restoration property through the issuance of Securitization Bonds
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., a wholly-owned subsidiary of CERC Corp.
COLI	Corporate-owned life insurance
DCRF	Distribution Cost Recovery Factor
EDIT	Excess deferred income taxes
EECRF	Energy Efficiency Cost Recovery Factor
ERCOT	Electric Reliability Council of Texas
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
Interim Condensed Financial Statements	Unaudited condensed consolidated interim financial statements and notes
IRS	Internal Revenue Service
kV	Kilovolt
LIBOR	London Interbank Offered Rate
Moody's	Moody's Investors Service, Inc.
NRG	NRG Energy, Inc.
PRP	Potentially responsible party
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

GLOSSARY

TCJA	Tax reform legislation informally called the Tax Cuts and Jobs Act of 2017
TCOS	Transmission Cost of Service
TDU	Transmission and distribution utility
Vectren	Vectren Corporation, an Indiana corporation
VIE	Variable interest entity
Visra Energy Corp.	Texas-based energy company focused on the competitive energy and power generation markets
2017 Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2017

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, including the effects of the TCJA and uncertainties involving the PUCT’s and local municipalities’ regulatory requirements and determinations regarding the treatment of EDIT and our rates;
- actions by credit rating agencies;
- changes in interest rates and their impact on our costs of borrowing;
- 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;
- 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 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 for any future hurricanes or natural disasters or other recovery of costs, including costs associated with Hurricane Harvey;
- 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, including the ability to successfully complete merger, acquisition and divestiture plans;
- our ability to recruit, effectively transition and retain management and key employees and maintain good labor relations;
- 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;
- 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;
- 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 2017 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 March 31,	
	2018	2017
Revenues	\$ 755	\$ 638
Expenses:		
Operation and maintenance	342	341
Depreciation and amortization	233	152
Taxes other than income taxes	61	60
Total	636	553
Operating Income	119	85
Other Income (Expense):		
Interest and other finance charges	(33)	(33)
Interest on Securitization Bonds	(16)	(20)
Other, net	(3)	(4)
Total	(52)	(57)
Income Before Income Taxes	67	28
Income tax expense	15	10
Net Income	\$ 52	\$ 18

See Notes to Unaudited 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 March 31,	
	2018	2017
Net income	\$ 52	\$ 18
Other comprehensive income:		
Net deferred gain (loss) from cash flow hedges (net of tax of \$1 and \$-0-)	4	(1)
Total	\$ 4	\$ (1)
Comprehensive income	\$ 56	\$ 17

See Notes to Unaudited 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>March 31, 2018</u>	<u>December 31, 2017</u>
Current Assets:		
Cash and cash equivalents (\$181 and \$230 related to VIEs, respectively)	\$ 191	\$ 238
Accounts and notes receivable (\$86 and \$73 related to VIEs, respectively), less bad debt reserve of \$1 and \$1, respectively	299	284
Accounts and notes receivable—affiliated companies	140	7
Accrued unbilled revenues	96	120
Inventory	115	119
Other (\$37 and \$35 related to VIEs, respectively)	62	62
Total current assets	<u>903</u>	<u>830</u>
Property, Plant and Equipment:		
Property, plant and equipment	11,660	11,496
Less: accumulated depreciation and amortization	3,694	3,633
Property, plant and equipment, net	<u>7,966</u>	<u>7,863</u>
Other Assets:		
Regulatory assets (\$1,455 and \$1,590 related to VIEs, respectively)	1,457	1,570
Other	32	29
Total other assets	<u>1,489</u>	<u>1,599</u>
Total Assets	<u>\$ 10,358</u>	<u>\$ 10,292</u>

See Notes to Unaudited 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

	March 31, 2018	December 31, 2017
Current Liabilities:		
Current portion of VIE Securitization Bonds long-term debt	\$ 444	\$ 434
Accounts payable	201	243
Accounts and notes payable—affiliated companies	39	104
Taxes accrued	74	116
Interest accrued	53	65
Other	110	120
Total current liabilities	921	1,082
Other Liabilities:		
Deferred income taxes, net	1,040	1,059
Benefit obligations	144	146
Regulatory liabilities	1,265	1,263
Other	54	54
Total other liabilities	2,503	2,522
Long-term Debt:		
VIE Securitization Bonds, net	1,260	1,434
Other, net	3,280	2,885
Total long-term debt, net	4,540	4,319
Commitments and Contingencies (Note 9)		
Member's Equity:		
Common stock	—	—
Paid-in capital	1,697	1,696
Retained earnings	693	673
Accumulated other comprehensive income	4	—
Total member's equity	2,394	2,369
Total Liabilities and Member's Equity	\$ 10,358	\$ 10,292

See Notes to Unaudited 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)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$ 52	\$ 18
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	233	152
Amortization of deferred financing costs	3	3
Deferred income taxes	(20)	8
Changes in other assets and liabilities:		
Accounts and notes receivable, net	9	23
Accounts receivable/payable—affiliated companies	(5)	(56)
Inventory	4	4
Accounts payable	(16)	48
Taxes receivable	—	(3)
Interest and taxes accrued	(54)	(68)
Net regulatory assets and liabilities	(26)	(28)
Other current assets	2	—
Other current liabilities	(2)	(3)
Other assets	1	3
Other liabilities	(2)	4
Other, net	1	(1)
Net cash provided by operating activities	<u>180</u>	<u>104</u>
Cash Flows from Investing Activities:		
Capital expenditures	(230)	(210)
Increase in notes receivable—affiliated companies	(133)	(107)
Other, net	(1)	(2)
Net cash used in investing activities	<u>(364)</u>	<u>(319)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt, net	398	298
Payments of long-term debt	(165)	(155)
Decrease in notes payable—affiliated companies	(60)	—
Dividend to parent	(32)	(32)
Debt issuance costs	(3)	(2)
Other, net	1	1
Net cash provided by financing activities	<u>139</u>	<u>110</u>
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(45)	(105)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	274	381
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 229</u>	<u>\$ 276</u>

See Notes to Unaudited 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 2017 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 March 31, 2018, Houston Electric had the following subsidiaries: Bond Company II, Bond Company III, Restoration Bond Company and Bond Company IV.

As of March 31, 2018, 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

The following table provides an overview of recently adopted or issued accounting pronouncements applicable to Houston Electric.

Recently Adopted Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2014-09- Revenue from Contracts with Customers (Topic 606) and related amendments	This standard 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. <i>Transition method:</i> modified retrospective	January 1, 2018	Houston Electric added a revenue recognition footnote (Note 3) to address the disclosure requirements, and it did not identify significant changes to revenue recognition. A substantial amount of Houston Electric's revenues are tariff based, which were not significantly impacted by these ASUs.
ASU 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	This standard clarifies when and how to apply ASC 610-20, which was issued as part of ASU 2014-09. It amends or supersedes the guidance in ASC 350 and ASC 360 on determining a gain or loss recognized upon the derecognition of nonfinancial assets. <i>Transition method:</i> modified retrospective	January 1, 2018	The adoption of this standard did not have an impact on Houston Electric's financial position, results of operations or disclosures.

Recently Adopted Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2016-01- Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	This standard 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. It also changes certain disclosure requirements and other aspects related to recognition and measurement of financial assets and financial liabilities. Transition method: cumulative-effect adjustment to beginning retained earnings, and two features prospective	January 1, 2018	The adoption of this standard did not have an impact on Houston Electric's financial position, results of operations or disclosures.
ASU 2018-03-Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	This standard 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. Transition method: retrospective	January 1, 2018	The adoption did not have a material impact on Houston Electric's financial position, results of operations or disclosures. However, the statement of cash flows reflects an increase in investing activities and a corresponding decrease in operating activities of \$-0- and \$2 million for the three months ended March 31, 2018 and 2017, respectively, due to the requirement that cash proceeds from COLI policies be classified as cash inflows from investing activity.
ASU 2016-15- Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This standard 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. Transition method: retrospective	January 1, 2018	The adoption of this standard did not have an impact on Houston Electric's financial position, results of operations or disclosures. However, the statement of cash flows is reconciled to cash, cash equivalents and restricted cash, resulting in a decrease in investing activities of \$2 million and an increase in investing activities of \$4 million for the three months ended March 31, 2018 and 2017, respectively.
ASU 2017-01- Business Combinations (Topic 805): Clarifying the Definition of a Business	This standard 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. Transition method: prospective	January 1, 2018	The adoption of this revised definition will reduce the number of transactions that are accounted for as a business combination, and therefore may have a potential impact on Houston Electric's accounting for future acquisitions.
ASU 2017-07- Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard 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. Transition method: retrospective for the presentation of the service cost component and other components; prospective for the capitalization of the service cost component.	January 1, 2018	The adoption of this standard did not have a material impact on Houston Electric's financial position, results of operations, cash flows or disclosures; however, it resulted in an increase to operating income and a corresponding decrease to other income of \$7 million and \$8 million in the three months ended March 31, 2018 and 2017, respectively. Other components previously capitalized in assets will be recorded as regulatory assets, prospectively.

Issued, Not Yet Effective Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2016-02- Leases (Topic 842) 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. Transition method: modified retrospective	January 1, 2019 Early adoption is permitted	Houston Electric will elect the practical expedient on existing easements provided by ASU 2018-01 and is evaluating other available transitional practical expedients. Houston Electric is in the process of reviewing contracts to identify leases as defined in ASU 2016-02 and expects to recognize on the statements of financial position right-of-use assets and lease liabilities for the majority of its leases that are currently classified as operating leases. Houston Electric is continuing to assess the impact that adoption of these standards will have on its financial position, results of operations, cash flows and disclosures.
ASU 2018-01- Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842	ASU 2018-01 allows entities to elect not to assess whether existing land easements that were not previously accounted for in accordance with ASC 840 Leases under ASC 842 Leases when transitioning to the new leasing standard.		
ASU 2017-12- Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This standard 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. Transition method: cumulative-effect adjustment for elimination of the separate measurement of ineffectiveness; prospective for presentation and disclosure	January 1, 2019 Early adoption is permitted	Houston Electric is currently assessing the impact that adoption of this standard will have on its financial position, results of operations, cash flows and disclosures.
ASU 2018-02-Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA and requires entities to provide certain disclosures regarding stranded tax effects. Transition method: either in the period of adoption or retrospective	January 1, 2019 Early adoption is permitted	The adoption of this standard will allow Houston Electric to reclass stranded deferred tax adjustments primarily related to benefit plans from other comprehensive income to retained earnings. Houston Electric is currently assessing the impact that adoption of this standard will have on its financial position and disclosures.

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

(3) Revenue Recognition

Houston Electric adopted ASC 606 and all related amendments on January 1, 2018 using the modified retrospective method for those contracts that were not completed as of the date of adoption. Application of the new revenue standard did not result in a cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new standard did not have a material impact on Houston Electric's financial position, results of operations or cash flows.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which Houston Electric expects to be entitled to receive in exchange for these goods or services. Contract assets and liabilities are not material.

The following table disaggregates revenues by major source:

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Revenue from contracts	\$ 761	\$ 644
Other (1)	(6)	(6)
	<u>\$ 755</u>	<u>\$ 638</u>

(1) Primarily consists of income from ARPs and leases. ARPs are contracts between Houston Electric and the PUCT, not between Houston Electric and a customer. Houston Electric recognizes ARP revenue as other revenues when the PUCT-specified conditions for recognition have been met. Upon recovery of ARP revenue through incorporation in rates charged

for utility service to customers, ARP revenue is reversed and recorded as revenue from contracts with customers. The recognition of ARP revenues and the reversal of ARP revenues upon recovery through rates charged for utility service may not occur in the same period.

Revenues from Contracts with Customers

Houston Electric distributes electricity to customers over time and customers consume the electricity when delivered. Revenue, consisting of both volumetric and fixed tariff rates set by the PUCT, is recognized as electricity is delivered and represents amounts both billed and unbilled. Discretionary services requested by customers are provided at a point in time with control transferring upon the completion of the service. Revenue for discretionary services is recognized upon completion of service based on the tariff rates set by the PUCT. Payments for electricity distribution and discretionary services are aggregated and received on a monthly basis. Houston Electric performs transmission services over time as a stand-ready obligation to provide a reliable network of transmission systems. Revenue is recognized upon time elapsed, and the monthly tariff rate set by the PUCT. Payments are received on a monthly basis.

Practical Expedients and Exemption. Sales taxes and other similar taxes collected from customers are excluded from the transaction price.

(4) Employee Benefit Plans

Houston Electric's employees participate in CenterPoint Energy's postretirement benefit plan. Houston Electric's net periodic cost, before considering amounts subject to overhead allocations for capital expenditure projects or for amounts subject to deferral for regulatory purposes, includes the following components relating to postretirement benefits:

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Interest cost (1)	\$ 2	\$ 2
Expected return on plan assets (1)	(1)	(1)
Amortization of prior service credit (1)	(1)	(1)
Net periodic cost	\$ —	\$ —

(1) Included in Other, net in the Condensed Statements of Consolidated Income.

Houston Electric expects to contribute a total of approximately \$10 million to the postretirement benefit plan in 2018, of which approximately \$2 million was contributed during the three months ended March 31, 2018.

(5) Regulatory Accounting

The following is a list of regulatory assets and liabilities reflected on Houston Electric's Condensed Consolidated Balance Sheets:

	March 31, 2018	December 31, 2017
	(in millions)	
Regulatory Assets:		
Non-current regulatory assets:		
Securitized regulatory assets	\$ 1,455	\$ 1,590
Unrecognized equity return (1)	(266)	(287)
Unamortized loss on reacquired debt	74	75
Pension and postretirement-related regulatory asset	32	31
Hurricane Harvey restoration costs (2)	57	58
Regulatory assets related to TCJA (3)	33	33
Other long-term regulatory assets (4)	72	70
Total regulatory assets	<u>1,457</u>	<u>1,570</u>
Regulatory Liabilities:		
Current regulatory liabilities (5)	14	22
Non-current regulatory liabilities:		
Regulatory liabilities related to TCJA (3)	874	862
Estimated removal costs	282	285
Other long-term regulatory liabilities	109	116
Total non-current regulatory liabilities	<u>1,265</u>	<u>1,263</u>
Total regulatory liabilities	<u>1,279</u>	<u>1,285</u>
Total regulatory assets and liabilities, net	<u>\$ 178</u>	<u>\$ 285</u>

(1) The unrecognized equity return will be recognized as it is recovered in rates through 2024. During the three months ended March 31, 2018 and 2017, Houston Electric recognized approximately \$21 million and \$7 million, respectively, of the allowed equity return. The timing of Houston Electric's recognition of the equity return will vary each period based on amounts actually collected during the period. The actual amounts recognized are adjusted at least annually to correct any over-collections or under-collections during the preceding 12 months.

(2) Houston Electric is not earning a return on its Hurricane Harvey restoration costs.

(3) The EDIT and deferred revenues will be recovered or refunded to customers as required by tax and regulatory authorities.

(4) Other long-term regulatory assets that are not earning a return were not material as of March 31, 2018 and December 31, 2017.

(5) Current regulatory liabilities are included in Other current liabilities in Houston Electric's Condensed Consolidated Balance Sheets.

(6) 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 March 31, 2018 and December 31, 2017, Houston Electric held Level 1 investments of \$53 million and \$51 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 March 31, 2018 or December 31, 2017.

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 March 31, 2018 or December 31, 2017.

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 three months ended March 31, 2018, 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.

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:	(in millions)			
Long-term debt, including the current portion	\$ 4,984	\$ 5,131	\$ 4,753	\$ 5,034

(7) 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.

The table below summarizes Houston Electric's money pool activity:

	March 31, 2018		December 31, 2017	
	(in millions)			
Money pool investments (borrowings) (1)	\$	133	\$	(60)
Weighted average interest rate		2.27%		1.90%

(1) Included in Accounts and notes receivable (payable)—affiliated companies in the Condensed Consolidated Balance Sheets.

Affiliate related net interest income (expense) was not material for either the three months ended March 31, 2018 or 2017.

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 March 31,	
	2018	2017
	(in millions)	
Corporate service charges	\$ 44	\$ 42
Charges from CERC for services provided	3	2
Billings to CERC for services provided	(5)	(3)

Houston Electric paid dividends on its common shares to Utility Holding, LLC as follows:

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Dividend to parent	\$ 32	\$ 32

(b) Major Customers

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

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Affiliates of NRG	\$ 161	\$ 152
Affiliates of Vistra Energy Corp.	54	47

(8) Long-term Debt

Debt Issuances. During the three months ended March 31, 2018, Houston Electric issued the following general mortgage bonds:

Issuance Date	Aggregate Principal Amount	Interest Rate	Maturity Date
	(in millions)		
February 2018	\$ 400	3.95%	2048

The proceeds from the issuance of these bonds were used for general limited liability company purposes.

Revolving Credit Facility. Houston Electric had the following revolving credit facility and utilization of such facility:

Execution Date	Size of Facility	March 31, 2018		December 31, 2017		Termination Date
		Loans	Letters of Credit	Loans	Letters of Credit	
		(in millions)				
March 3, 2016	\$ 300	\$ —	\$ 4	\$ —	\$ 4	March 3, 2022
		Draw Rate of LIBOR plus (1)	Financial Covenant Limit on Debt for Borrowed Money to Capital Ratio (2)	Debt for Borrowed Money to Capital Ratio as of March 31, 2018 (3)		
	(in millions)	1.125%	65%	51.2%		

(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.

Houston Electric was in compliance with all financial debt covenants as of March 31, 2018.

Hedging of Interest Expense for Future Debt Issuances. In January and February 2018, Houston Electric entered into forward interest rate agreements with multiple counterparties, having an aggregate notional amount of \$200 million. These agreements were executed to hedge, in part, volatility in the 30-year U.S. treasury rate by reducing Houston Electric's exposure to variability in cash flows related to interest payments of Houston Electric's \$400 million issuance of fixed rate debt in February 2018. These forward interest rate agreements were designated as cash flow hedges. Accordingly, the effective portion of realized gains associated with the forward interest rate agreements, which totaled approximately \$5 million, is a component of accumulated other comprehensive income in 2018 and will be amortized over the life of the fixed rate debt.

Other. As of both March 31, 2018 and December 31, 2017, 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.

(9) 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. In December 2017, GenOn received court approval of a restructuring plan and is expected to emerge from Chapter 11 in mid-2018. 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 Houston Electric's 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 any identified sites consistent with its state and federal legal obligations. From time to time, Houston Electric has received notices, and may receive notices in the future, from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, Houston Electric has been, or may be, 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.

(10) Income Taxes

The effective tax rate reported for the three months ended March 31, 2018 was 22% compared to 36% for the same period in 2017. The lower effective tax rate for the three months ended March 31, 2018 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA.

Houston Electric reported no uncertain tax liability as of March 31, 2018 and expects no significant changes to the uncertain tax liability over the next twelve months. Tax years through 2015 have been audited and settled with the IRS. For the 2016 through 2018 tax years, CenterPoint Energy is a participant in the IRS's Compliance Assurance Process.

(11) Supplemental Disclosure of Cash Flow Information

The table below provides supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Cash Payments/Receipts:		
Interest, net of capitalized interest	\$ 61	\$ 64
Income taxes, net	16	—
Non-cash transactions:		
Accounts payable related to capital expenditures	\$ 78	\$ 57

The table below provides a reconciliation of cash, cash equivalents and restricted cash reported in the Condensed Consolidated Balance Sheets to the amount reported in the Condensed Statements of Consolidated Cash Flows:

	March 31,	December 31, 2017
	2018	
	(in millions)	
Cash and cash equivalents	\$ 191	\$ 238
Restricted cash included in Other current assets	37	35
Restricted cash included in Other non-current assets	1	1
Total cash, cash equivalents and restricted cash shown in Condensed Statements of Consolidated Cash Flows	<u>\$ 229</u>	<u>\$ 274</u>

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 2017 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 months ended March 31, 2018 and the three months ended March 31, 2017. Reference is made to “Management’s Narrative Analysis of Results of Operations” in Item 7 of our 2017 Form 10-K.

RECENT EVENTS

Brazos Valley Connection Project. We completed construction on and energized the Brazos Valley Connection in March 2018. For more information, see “—Liquidity and Capital Resources —Regulatory Matters” below.

Regulatory Proceedings. For details related to our pending and completed regulatory proceedings and orders related to the TCJA to date in 2018, see “—Liquidity and Capital Resources —Regulatory Matters” below.

Debt Issuances. In February 2018, we issued \$400 million aggregate principal amount of general mortgage bonds. For more information about our 2018 debt issuances, see Note 8 to our Interim Condensed Financial Statements.

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 2017 Form 10-K.

The following table sets forth our consolidated results of operations, followed by a discussion of our consolidated results of operations based on operating income.

	Three Months Ended March 31,	
	2018	2017
	(in millions, except throughput and customer data)	
Revenues:		
TDU	\$ 602	\$ 561
Bond Companies	153	77
Total revenues	755	638
Expenses:		
Operation and maintenance, excluding Bond Companies	340	340
Depreciation and amortization, excluding Bond Companies	98	96
Taxes other than income taxes	61	60
Bond Companies	137	57
Total expenses	636	553
Operating income	119	85
Interest and other finance charges	(33)	(33)
Interest on Securitization Bonds	(16)	(20)
Other income, net	(3)	(4)
Income before income taxes	67	28
Income tax expense	15	10
Net income	\$ 52	\$ 18
Operating Income:		
TDU	\$ 103	\$ 65
Bond Companies (1)	16	20
Total operating income	\$ 119	\$ 85
Throughput (in GWh):		
Residential	5,605	5,152
Total	19,644	18,753
Number of metered customers at end of period:		
Residential	2,171,715	2,139,413
Total	2,453,844	2,414,193

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

Three months ended March 31, 2018 compared to three months ended March 31, 2017

We reported operating income of \$119 million for the three months ended March 31, 2018, consisting of \$103 million from the TDU and \$16 million related to the Bond Companies. For the three months ended March 31, 2017, operating income totaled \$85 million, consisting of \$65 million from the TDU and \$20 million related to the Bond Companies.

TDU operating income increased \$38 million, primarily due to the following key factors:

- higher equity return of \$14 million, primarily related to the annual true-up of transition charges correcting for under-collections that occurred during the preceding 12 months;
- higher usage of \$13 million, primarily due to a return to more normal weather;
- rate increases of \$9 million related to distribution capital investments;

- higher transmission-related revenues of \$8 million and lower transmission costs billed by transmission providers of \$6 million; and
- customer growth of \$6 million from the addition of almost 40,000 customers.

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

- lower revenues of \$12 million due to the recording of a regulatory liability and a corresponding decrease to revenue reflecting the difference in revenues collected under existing customer rates and the revenues that would have been collected had existing rates been set using the lower corporate tax rate from the TCJA; and
- increased operation and maintenance expenses of \$6 million, primarily due to increased labor costs and support services expense.

Income Tax Expense. Our effective tax rate reported for the three months ended March 31, 2018 was 22% compared to 36% for the same period in 2017. The lower effective tax rate for the three months ended March 31, 2018 was primarily due to the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018 as prescribed by the TCJA.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read “Management’s Narrative Analysis of Results of Operations — Certain Factors Affecting Future Earnings” in Item 7 of Part II of our 2017 Form 10-K, “Risk Factors” in Item 1A of Part I of our 2017 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 and to maintain reliability and safety and increase resiliency. Our principal anticipated cash requirements for the remaining nine months of 2018 include the following:

- capital expenditures of approximately \$742 million; and
- scheduled principal payments on Securitization Bonds of \$269 million.

We expect that anticipated cash needs for the remaining nine months of 2018 will be met with borrowings under our credit facility, anticipated cash flows from operations and intercompany borrowings. 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 tax-exempt 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

We completed construction on and energized the Brazos Valley Connection in March 2018, ahead of the original June 1, 2018 energization date. The final capital costs of the project were approximately \$285 million, which was within the estimated range of approximately \$270-\$310 million in the PUCT’s original order. We plan to seek interim recovery of the project costs not already included in rates in a filing with the PUCT in the second quarter of 2018. Final approval by the PUCT of the project costs will occur in our next base rate case.

Bailey-Jones Creek Project

In April 2017, we submitted a proposal to ERCOT requesting its endorsement of our approximately \$250 million transmission project in the greater Freeport, Texas area, which includes enhancements to two existing substations and the construction of a new 345 kV double-circuit transmission line. On December 12, 2017, we received approval from ERCOT and anticipate that the PUCT will provide a decision in 2019 regarding the design and route of the project.

Rate Change Applications

We are routinely involved in rate change applications before the PUCT. Those applications include general rate cases, where the entire cost of service of the utility is assessed and reset. In addition, we are periodically involved in proceedings to adjust our capital tracking mechanisms (TCOS and DCRF) and annually file to adjust our EECRF. The table below reflects significant applications pending or completed since our 2017 Form 10-K was filed with the SEC.

Mechanism	Annual Increase ⁽¹⁾	Filing Date	Effective Date	Approval Date	Additional Information
Houston Electric (PUCT)					
TCOS	N/A	February 2018	April 2018	April 2018	Revise TCOS annual revenue application approved in November 2017 by a reduction of \$41.6 million to recognize decrease in the federal income tax rate, amortize certain EDIT balances and adjust rate base by EDIT attributable to new plant since the last rate case, all of which are related to the TCJA.
DCRF	N/A	April 2018	September 2018	TBD	Proposes an approximately \$83 million revenue requirement starting September 1, 2018 to begin recovering approximately \$503.6 million in eligible distribution capital invested in 2017, which does not include the \$29 million AMS refund or \$3 million additional offsets in the \$58 million DCRF charges currently in effect but does include an approximately \$39 million reduction to reflect the benefit of the recent decrease in the federal income tax rate.

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

Tax Reform

Our federal income tax expense is included in the rates approved by the PUCT and local municipalities and charged to consumers. As we have general rate cases and other periodic rate adjustments, the impacts of the TCJA (including the lower tax rate and the calculation and amortization of EDIT), along with other increases and decreases in our revenue requirements, will be incorporated into our future rates as allowed by IRS rules. The effect of any potential return of tax savings resulting from the TCJA to consumers may differ depending on how each regulatory body requires us to return such savings.

On January 25, 2018, the PUCT issued an accounting order in Project No. 47945 directing electric utilities, including us, to record as a regulatory liability (1) the difference between revenues collected under existing rates and revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates and (2) the balance of EDIT that now exists because of the reduction in federal income tax rates. On February 13, 2018, we and other likely parties to a future rate case announced a settlement that requires us to make (i) a TCOS filing by February 20, 2018 to reflect the change in the federal income tax rate for our transmission rate base through July 31, 2017 and account for certain EDIT (and such filing was timely submitted), (ii) a DCRF filing in April 2018 to reflect the change in the federal income tax rate for our distribution rate base through December 31, 2017 (and such filing was timely submitted) and (iii) a full rate case filing by April 30, 2019. The settlement was presented to the PUCT during its open meeting on February 15, 2018. In response to the settlement, the PUCT did not proceed with a prior proposal to require us to file a rate case in the summer of 2018. The PUCT also amended its prior accounting order to remove the requirement that utilities include carrying costs in the new regulatory liability.

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, please see Note 8 to our Interim Condensed Financial Statements.

As of April 24, 2018, we had the following revolving credit facility and utilization of such facility:

Execution Date	Size of Facility	Amount Utilized (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.

Long-term Debt

Our long-term debt consists of our obligations and the obligations of our subsidiaries, including Securitization Bonds issued by our wholly-owned subsidiaries.

In February 2018, we issued \$400 million aggregate principal amount of general mortgage bonds. For further information about our 2018 debt issuances, see Note 8 to our Interim Condensed Financial Statements.

As of March 31, 2018, our outstanding first mortgage bonds and general mortgage bonds aggregated approximately \$3.4 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 \$4.0 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of March 31, 2018. We have contractually agreed that we will not issue additional first mortgage bonds, subject to certain exceptions.

As of March 31, 2018, our subsidiaries had the following aggregate principal amount, exclusive of debt issuance costs, of Securitization Bonds outstanding.

Company	Aggregate Principal Amount Outstanding
	(in millions)
Bond Company II	\$ 296
Bond Company III	110
Bond Company IV	1,020
Restoration Bond Company	281
Total	\$ 1,707

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.

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 April 24, 2018, 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 under CenterPoint Energy's revolving credit facility or the sale of CenterPoint Energy's commercial paper. As of April 24, 2018, we had investments in the money pool of \$116 million. The money pool may not provide sufficient funds to meet our cash needs.

Impact on Liquidity of a Downgrade in Credit Ratings

The interest on borrowings under our credit facility is based on our credit rating. On April 24, 2018, as a result of CenterPoint Energy's announcement of its proposed merger with Vectren, S&P placed its long-term ratings on our senior debt on CreditWatch with negative implications and affirmed its rating.

As of April 24, 2018, 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	CreditWatch (2)	Rating	Outlook (3)
Senior Secured Debt	A1	Stable	A	Negative	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 CreditWatch assesses the potential direction of a short-term or long-term credit rating.

(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 March 31, 2018, 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.

Possible Acquisitions, Joint Ventures or Dispositions

From time to time, we consider the acquisition or the disposition of assets or businesses or possible joint ventures, strategic initiatives or other joint ownership arrangements with respect to assets or businesses. Any determination to take action in this regard will be based on market conditions and opportunities existing at the time, and accordingly, the timing, size or success of any efforts and the associated potential capital commitments are unpredictable. We may seek to fund all or part of any such efforts with proceeds from debt and/or equity issuances. Debt or equity financing may not, however, be available to us at that time due to a variety of events, including, among others, maintenance of our credit ratings, industry conditions, general economic conditions, market conditions and market perceptions.

Hedging of Interest Expense for Future Debt Issuances

During the first quarter of 2018, 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 8 to our Interim Condensed Financial Statements.

Collection of Receivables from REPs

Our receivables from the distribution of electricity are collected from REPs that supply the electricity we distribute to their customers. Before conducting business, a REP must register with the PUCT and must meet certain financial qualifications. Nevertheless, 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, and any delay or default in payment by REPs could adversely affect our cash flows. In the event of a REP's default, our tariff provides a number of remedies, including our option to request that the PUCT suspend or revoke the certification of the REP. Applicable regulatory provisions require that customers be shifted to another REP or a provider of last resort if a REP cannot make timely payments. However, we remain at risk for payments related to services provided prior to the shift to the replacement REP or the provider of last resort. If a REP were unable to meet its obligations, it 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 against us involving payments we had received from such REP. If a REP were to file for bankruptcy, we may not be successful in recovering accrued receivables owed by such REP that are unpaid as of the date the REP filed for bankruptcy. However, PUCT regulations authorize utilities, such as us, to defer bad debts resulting from defaults by REPs for recovery in future rate cases, subject to a review of reasonableness and necessity.

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 2017 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 8 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 March 31, 2018 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 March 31, 2018 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 description of certain legal and regulatory proceedings affecting us, please read Note 9 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 2017 Form 10-K.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our 2017 Form 10-K.

Item 5. OTHER INFORMATION

Ratio of Earnings to Fixed Charges. The ratio of earnings to fixed charges for the three months ended March 31, 2018 and 2017 was 2.27 and 1.47, respectively. We do not believe that the ratios for these three-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
4.3	General Mortgage Indenture, dated as of October 10, 2002, between CenterPoint Energy Houston Electric, LLC and JPMorgan Chase Bank, as Trustee	Houston Electric's Form 10-Q for the quarter ended September 30, 2002	1-3187	4(j)(1)
+4.4	Twenty-Seventh Supplemental Indenture, dated as of February 28, 2018, to the General Mortgage Indenture, dated as of October 10, 2002, between Houston Electric and the Trustee			
+4.5	Officer's Certificate, dated as of February 28, 2018, setting forth the form, terms and provisions of the Twenty-Eighth Series of General Mortgage Bonds			
+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			

CenterPoint Energy Houston Electric, LLC
1111 Louisiana Street
Houston, TX 77002

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

TO

THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION
(successor in trust to JPMORGAN CHASE BANK),

as Trustee

TWENTY-SEVENTH SUPPLEMENTAL INDENTURE

Dated as of February 28, 2018

Supplementing the General Mortgage Indenture
Dated as of October 10, 2002
Filed under file number 030004510538 in the
Office of the Secretary of State as an instrument
granting a security interest by a public utility

THIS INSTRUMENT GRANTS A SECURITY INTEREST BY A UTILITY

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS

This instrument is being filed pursuant to Chapter 261 of the Texas Business and Commerce Code

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TWENTY-SEVENTH SUPPLEMENTAL INDENTURE, dated as of February 28, 2018, between CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a limited liability company organized and existing under the laws of the State of Texas (herein called the “Company”), having its principal office at 1111 Louisiana Street, Houston, Texas 77002, and THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION (successor in trust to JPMORGAN CHASE BANK), a limited purpose national banking association duly organized and existing under the laws of the United States, as Trustee (herein called the “Trustee”), the office of the Trustee at which on the date hereof its corporate trust business is administered being 601 Travis Street, 16th Floor, Houston, Texas 77002.

RECITALS OF THE COMPANY

WHEREAS, the Company has heretofore executed and delivered to the Trustee a General Mortgage Indenture dated as of October 10, 2002, as supplemented and amended (the “Indenture”), providing for the issuance by the Company from time to time of its bonds, notes or other evidence of indebtedness to be issued in one or more series (in the Indenture and herein called the “Securities”) and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities; and

WHEREAS, the Company, in the exercise of the power and authority conferred upon and reserved to it under the provisions of the Indenture and pursuant to appropriate resolutions of the Manager, has duly determined to make, execute and deliver to the Trustee this Twenty-Seventh Supplemental Indenture to the Indenture as permitted by Sections 201, 301, 403(2) and 1401 of the Indenture in order to establish the form or terms of, and to provide for the creation and issuance of, a twenty-eighth series of Securities under the Indenture in an initial aggregate principal amount of \$400,000,000 (such twenty-eighth series being hereinafter referred to as the “Twenty-Eighth Series”); and

WHEREAS, all things necessary to make the Securities of the Twenty-Eighth Series, when executed by the Company and authenticated and delivered by the Trustee or any Authenticating Agent and issued upon the terms and subject to the conditions hereinafter and in the Indenture set forth against payment therefor the valid, binding and legal obligations of the Company and to make this Twenty-Seventh Supplemental Indenture a valid, binding and legal agreement of the Company, have been done;

NOW, THEREFORE, THIS TWENTY-SEVENTH SUPPLEMENTAL INDENTURE WITNESSETH that, in order to establish the terms of a series of Securities, and for and in consideration of the premises and of the covenants contained in the Indenture and in this Twenty-Seventh Supplemental Indenture and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, it is mutually covenanted and agreed as follows:

**ARTICLE ONE
DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION**

Section 101. Definitions. Each capitalized term that is used herein and is defined in the Indenture shall have the meaning specified in the Indenture unless such term is otherwise defined herein.

**ARTICLE TWO
TITLE, FORM AND TERMS OF THE BONDS**

Section 201. Title of the Bonds. This Twenty-Seventh Supplemental Indenture hereby creates a series of Securities designated as the “3.95% General Mortgage Bonds, Series AB, due 2048” (the “Series AB Bonds”). For purposes of the Indenture, the Series AB Bonds shall constitute a single series of Securities and, subject to the provisions, including, but not limited to Article Four of the Indenture, the Series AB Bonds shall be issued in an aggregate principal amount of \$400,000,000.

Section 202. Form and Terms of the Bonds. The form and terms of the Series AB Bonds will be set forth in an Officer’s Certificate delivered by the Company to the Trustee pursuant to the authority granted by this Twenty-Seventh Supplemental Indenture in accordance with Sections 201 and 301 of the Indenture.

Section 203. Treatment of Proceeds of Title Insurance Policy. Any moneys received by the Trustee as proceeds of any title insurance policy on Mortgaged Property of the Company shall be subject to and treated in accordance with the provisions of Section 607(2) of the Indenture (other than the last paragraph thereof).

ARTICLE THREE

MISCELLANEOUS PROVISIONS

The Trustee makes no undertaking or representations in respect of, and shall not be responsible in any manner whatsoever for and in respect of, the validity or sufficiency of this Twenty-Seventh Supplemental Indenture or the proper authorization or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein, all of which recitals and statements are made solely by the Company.

In no event shall the Trustee be liable for any indirect, special, punitive or consequential loss or damage of any kind whatsoever, including, but not limited to, lost profits, even if it has been advised of the likelihood of such loss or damage and regardless of the form of action.

In no event shall the Trustee be liable for any failure or delay in the performance of its obligations hereunder because of circumstances beyond its control, including, but not limited to, acts of God,

flood, war (whether declared or undeclared), terrorism, strikes, work stoppages, civil or military disturbances, nuclear or natural catastrophes, fire, riot, embargo, loss or malfunctions of utilities, communications or computer (software and hardware) services, government action, including any laws, ordinances, regulations, governmental action or the like which delay, restrict or prohibit the providing of the services contemplated by this Twenty-Seventh Supplemental Indenture; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS TWENTY-SEVENTH SUPPLEMENTAL INDENTURE, THE SERIES AB BONDS OR THE TRANSACTION CONTEMPLATED HEREBY.

Except as expressly amended and supplemented hereby, the Indenture shall continue in full force and effect in accordance with the provisions thereof and the Indenture is in all respects hereby ratified and confirmed. This Twenty-Seventh Supplemental Indenture and all of its provisions shall be deemed a part of the Indenture in the manner and to the extent herein and therein provided.

This Twenty-Seventh Supplemental Indenture shall be governed by, and construed in accordance with, the law of the State of New York.

This Twenty-Seventh Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Twenty-Seventh Supplemental Indenture to be duly executed as of the day and year set forth below and effective as of the day and year first above written.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Dated: February 28, 2018

By: /s/ Kristie L. Colvin

Name: Kristie L. Colvin

Title: Senior Vice President and Chief Accounting Officer

THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION
(successor in trust to JPMORGAN CHASE BANK), as Trustee

Dated: February 28, 2018

By: /s/ Karen Yu

Name: Karen Yu

Title: Vice President

ACKNOWLEDGMENT

STATE OF TEXAS)
) ss
COUNTY OF HARRIS)

On the 28th day of February, 2018, before me personally came Kristie L. Colvin, to me known, who, being by me duly sworn, did depose and say that she resides in Katy, Texas; that she is the Senior Vice President and Chief Accounting Officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company, the limited liability company described in and which executed the foregoing instrument; and that she signed her name thereto by authority of the sole manager of said limited liability company.

/s/ Sheila R. Matson

Notary Public

State of California
County of Los Angeles)

On February 27, 2018 before me, Alex Dominguez, Notary Public personally appeared Karen Yu, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her authorized capacity, and that by her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature /s/ Alex Dominguez (Seal)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

FEBRUARY 28, 2018

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the sole Manager of the Company dated February 19, 2018, and Sections 105, 201, 301, 401(1), 401(5), 403(2)(B) and 1403 of the General Mortgage Indenture, dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank), as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture, unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

- (1) The Securities of the twenty-eighth series to be issued under the Indenture shall be designated as the "3.95% General Mortgage Bonds, Series AB, due 2048" (the "Bonds"), as set forth in the Twenty-Seventh Supplemental Indenture, dated as of the date hereof, between the Company and the Trustee.
- (2) The Trustee shall authenticate and deliver the Bonds for original issue on February 28, 2018 (the "Issue Date") in the aggregate principal amount of \$400,000,000, upon a Company Order for the authentication and delivery thereof and satisfaction of Section 401 of the Indenture.
- (3) Interest on the Bonds shall be payable to the Persons in whose names such Securities are registered at the close of business on the Regular Record Date for such interest (as specified in (5) below), except as otherwise expressly provided in the form of such Securities attached hereto as Exhibit A.
- (4) The Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on March 1, 2048.
- (5) The Bonds shall bear interest at the rate of 3.95% per annum. Interest shall accrue on the Bonds from the Issue Date, or the most recent date to which interest has been paid or duly provided for. The Interest Payment Dates for the Bonds shall be March 1 and September 1 in each year commencing September 1, 2018, and the Regular Record Dates with respect to the Interest Payment Dates for the Bonds shall be the February 15 and August 15, respectively, immediately preceding each Interest Payment Date (whether or not a Business Day); provided however that interest payable at maturity, upon redemption or when principal is otherwise due will be payable to the Holder to whom principal is payable.
- (6) The Corporate Trust Office of The Bank of New York Mellon Trust Company, National Association in New York, New York shall be the place at which (i) the principal of and premium, if any, and interest on the Bonds shall be payable, (ii) registration of transfer of the Bonds may be effected, (iii) exchanges of the Bonds may be effected, and (iv) notices and demands to or upon the Company in respect of the Bonds and the Indenture may be served; and The Bank of New York Mellon Trust Company, National Association shall be the Security Registrar and Paying Agent for the Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for each series of Bonds.

(7) The Bonds shall be redeemable, at the option of the Company, at any time or from time to time, in whole or in part, on any date prior to September 1, 2047 at a price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Bonds to be redeemed that would be due if the Bonds matured on September 1, 2047 but for the redemption (not including any portion of such payments of interest accrued to the Redemption Date) discounted to the date of redemption (the “Redemption Date”) on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 15 basis points plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the Redemption Date. On or after September 1, 2047, the Company may redeem the Bonds, at any time or from time to time, in whole or in part, by paying 100% of the principal amount of Bonds to be redeemed plus accrued and unpaid interest on the principal amount being redeemed to the Redemption Date.

“Treasury Rate” means, with respect to any Redemption Date the yield calculated on the third business day preceding the redemption date, as follows: for the latest day that appears in the most recent statistical release published by the Board of Governors of the Federal Reserve System designated as “Selected Interest Rates (Daily) - H.15” (or any successor publication) (“H.15”) under the caption “Treasury Constant Maturities - Nominal”, the independent investment banker shall select two yields – one for the maturity immediately before and one for the maturity immediately after the remaining maturity of the notes (assuming the notes matured on September 1, 2047) – and shall interpolate on a straight-line basis using such yields; if there is no such maturity either before or after, the independent investment banker shall select the maturity closest to September 1, 2047 that appears on the release; or if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated by the Independent Investment Banker using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date. The Treasury Rate will be calculated by the Independent Investment Banker on the third Business Day preceding the Redemption Date.

“Comparable Treasury Issue” means the U.S. Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term (“remaining life”) of the Bonds to be redeemed (assuming for this purpose that the Bonds matured on September 1, 2047) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Bonds.

“Comparable Treasury Price” means (1) the average of four Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of Mizuho Securities USA LLC, RBC Capital Markets, LLC or Wells Fargo Securities, LLC, as specified by the Company, or if these firms are unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing selected by the Company.

“Reference Treasury Dealer” means each of (1) Mizuho Securities USA LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in the United States of America (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer and (2) any other Primary Treasury Dealer selected by the Company after consultation with the Independent Investment Banker.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third business day preceding such Redemption Date.

The Trustee, at the written direction of the Company, will send a notice of redemption to each holder of Bonds to be redeemed by first-class mail (or in accordance with the procedures of The Depository Trust Company with respect to Bonds registered in the name of Cede & Co.) at least 15 and not more than 60 days prior to the date fixed for redemption. Unless the Company defaults on payment of the redemption price, interest will cease to accrue on the Bonds or portions thereof called for redemption on the Redemption Date. If fewer than all of the Bonds are to be redeemed, not more than 60 days prior to the Redemption Date, the particular Bonds or portions thereof for redemption will be selected from the outstanding Bonds not previously called by such method as the Trustee deems fair and appropriate. The Trustee may select for redemption Bonds and portions of Bonds in amounts of \$1,000 or whole multiples of \$1,000. In the case of a partial redemption of Bonds registered in the name of Cede & Co, the Bonds to be redeemed will be determined in accordance with the procedures of The Depository Trust Company.

(8) Not applicable.

(9) Not applicable.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) See subsection (7) above.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.

(17) The Bonds shall be issuable in whole or in part in the form of one or more Global Securities (as defined below). The Depository Trust Company shall initially serve as Depository (as defined below) with respect to the Global Securities. "Depository" means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as depository for such Securities. "Global Security" means a Security that evidences all or part of the Securities of a series and bears a legend in substantially the following form:

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

The provisions of Clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under the Indenture shall be registered in the name of the Depository designated for such Global Security or a nominee thereof and delivered to such Depository or a nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of the Indenture.

(2) Notwithstanding any other provision in the Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depository for such Global Security or a nominee thereof unless (A) the Company has notified the Trustee that the Depository is unwilling or unable to continue as Depository for such Global Security, the Depository defaults in the performance of its duties as Depository, or the Depository has ceased to be a clearing agency registered under the Exchange Act, in each case, unless the Company has approved a successor Depository within 90 days, (B) the Company in its sole discretion determines that such Global Security will be so exchangeable or transferable or (C) there shall exist such

circumstances, if any, in addition to or in lieu of the foregoing as have been specified for this purpose as contemplated by the Indenture.

(3) Subject to Clause (2) above, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to Sections 304, 305, 306, 507 or 1406 of the Indenture or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

(18) Not applicable.

(19) Not applicable.

(20) For purposes of the Bonds, "Business Day" shall mean any day, other than Saturday or Sunday, on which commercial banks and foreign exchange markets are open for business, including dealings in deposits in U.S. dollars, in New York, New York.

(21) Not applicable.

(22) The Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the authentication, delivery and issuance of the Bonds and the execution and delivery of the Twenty-Seventh Supplemental Indenture and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, she has made such examination or investigation as is necessary to enable her to express an informed opinion as to whether or not such covenants and conditions have been complied with.

5. In the opinion of the undersigned, such conditions and covenants have been complied with.

6. To my knowledge, no Event of Default has occurred and is continuing.

7. The execution of the Twenty-Seventh Supplemental Indenture, dated as of the date hereof, between the Company and the Trustee is authorized or permitted by the Indenture.

8. With respect to Section 403(2)(B) of the Indenture, General Mortgage Bonds, due March 1, 2014, having an aggregate principal amount of \$12,895,000 out of an aggregate principal amount of \$12,895,000 remaining from the \$500,000,000 original aggregate principal amount, and General Mortgage Bonds, due March 15, 2013, having an aggregate principal amount of \$387,105,000 out of an aggregate principal amount of \$450,000,000 remaining from the \$450,000,000 original aggregate principal amount (the "Retired Mortgage Bonds"), have heretofore been authenticated and delivered and as of the date of this certificate, constitute Retired Securities. \$400,000,000 aggregate principal amount of such Retired Mortgage Bonds are the basis for the authentication and delivery of \$400,000,000 aggregate principal amount of the Series AB Bonds.

9. The First Mortgage Collateralization Date has not occurred.

10. No certificate of an Independent Accountant pursuant to Section 104 of the Indenture is required in connection with the authentication and delivery of the Bonds because (i) the Net Earnings Certificate covers a period different from that required to be covered by annual reports required to be filed by the Company and (ii) an Independent Accountant has provided the Company with a letter addressed to the Company containing the results of procedures on

financial information included in the Net Earnings Certificate that are agreed upon by the Authorized Officer signing the Net Earnings Certificate.

11. Pursuant to the resolutions adopted by the Sole Manager of the Company by written consent on February 19, 2018, Carla A. Kneipp, Vice President and Treasurer, has been named an Authorized Officer, as defined under the Indenture, including for purposes of executing the Net Earnings Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Officer's Certificate as of the date first written above.

/s/ Carla A. Kneipp

Carla A. Kneipp

Vice President and Treasurer

Acknowledged and Received as
of the date first written above

THE BANK OF NEW YORK
MELLON TRUST COMPANY,
NATIONAL ASSOCIATION,
as Trustee

/s/ Karen Yu

Karen Yu

Vice President

Signature Page to Officer's Certificate Under the Indenture

EXHIBIT A
FORM OF BONDS

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

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to CenterPoint Energy Houston Electric, LLC or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
3.95% General Mortgage Bonds, Series AB, due 2048

Original Interest Accrual Date: February 28, 2018
Stated Maturity: March 1, 2048
Interest Rate: 3.95%
Interest Payment Dates: March 1 and September 1
Regular Record Dates: February 15 and August 15 immediately preceding
the respective Interest Payment Date

Redeemable: Yes [] No []
Redemption Date: At any time.
Redemption Price: on any date prior to September 1, 2047 at a price equal to the greater of (i) 100% of the principal amount of this Security or the portion hereof to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on this Security or the portion thereof to be redeemed that would be due if this Security matured on September 1, 2047 but for the redemption (not including any portion of such payments of interest accrued to the Redemption Date) discounted to the Redemption Date on a semiannual basis at the applicable Treasury Rate plus 15 basis points; plus, in each case, accrued and unpaid interest to the Redemption Date on the principal amount being redeemed; or on or after September 1, 2047, at a price equal to 100% of the principal amount of this Security or the portion thereof to be redeemed plus accrued and unpaid interest to the Redemption Date on the principal amount being redeemed.

This Security is not an Original Issue Discount Security
within the meaning of the within-mentioned Indenture.

Principal Amount Registered No. T-1

\$400,000,000* CUSIP 15189X AS7

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a limited liability company duly organized and existing under the laws of the State of Texas (herein called the “Company,” which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to

CEDE & Co.

*Reference is made to Schedule A attached hereto with respect to decreases and increases in the aggregate principal amount of Securities evidenced hereby.

, or its registered assigns, the principal sum of FOUR HUNDRED MILLION DOLLARS, on the Stated Maturity specified above, and to pay interest thereon from the Original Interest Accrual Date specified above or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on the Interest Payment Dates specified above in each year, commencing on September 1, 2018, and at Maturity, at the Interest Rate per annum specified above, until the principal hereof is paid or duly provided for. The interest so payable, and paid or duly provided for, on any Interest Payment Date shall, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date specified above (whether or not a Business Day) next preceding such Interest Payment Date. Notwithstanding the foregoing, interest payable at Maturity shall be paid to the Person to whom principal shall be paid. Except as otherwise provided in said Indenture, any such interest not so paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice of which shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of and premium, if any, on this Security and interest hereon at Maturity shall be made upon presentation of this Security at the office of the Corporate Trust Administration of The Bank of New York Mellon Trust Company, National Association, located in New York, New York or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of interest on this Security (other than interest at Maturity) shall be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register, except that if such Person shall be a securities depository, such payment may be made by such other means in lieu of check, as shall be agreed upon by the Company, the Trustee and such Person. Payment of the principal of and premium, if any, and interest on this Security, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002, as supplemented and amended (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank), trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Security shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Security is one of the series designated above.

If any Interest Payment Date, any Redemption Date or the Stated Maturity shall not be a Business Day (as hereinafter defined), payment of the amounts due on this Security on such date may be made on the next succeeding Business Day; and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on such amounts for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to such Business Day. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

This Security is subject to redemption, at the option of the Company, at any time or from time to time, in whole or in part, on any date prior to September 1, 2047 at a price equal to the greater of (i) 100% of the principal amount of this Security (or the portion hereof to be redeemed) or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on this Security (or such portion to be redeemed) that would be due if this Security (or such portion to be redeemed) matured on September 1, 2047 but for the redemption (not including any portion of such payments of interest accrued to the Redemption Date) discounted to the Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 15 basis points;

plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the Redemption Date. On or after September 1, 2047, the Company may redeem this Security, at any time or from time to time, in whole or in part, by paying 100% of the principal amount of this Security (or such portion to be redeemed) plus accrued and unpaid interest on the principal amount being redeemed to the Redemption Date. The Trustee shall have no responsibility for the calculation of such amount.

“Treasury Rate” means, with respect to any Redemption Date the yield calculated on the third business day preceding the redemption date, as follows: for the latest day that appears in the most recent statistical release published by the Board of Governors of the Federal Reserve System designated as “Selected Interest Rates (Daily) - H.15” (or any successor publication) (“H.15”) under the caption “Treasury Constant Maturities - Nominal”, the independent investment banker shall select two yields – one for the maturity immediately before and one for the maturity immediately after the remaining maturity of the notes (assuming the notes matured on September 1, 2047) – and shall interpolate on a straight-line basis using such yields; if there is no such maturity either before or after, the independent investment banker shall select the maturity closest to September 1, 2047 that appears on the release; or if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated by the Independent Investment Banker using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date. The Treasury Rate will be calculated by the Independent Investment Banker on the third Business Day preceding the Redemption Date.

“Comparable Treasury Issue” means the U.S. Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term (“remaining life”) of this Security to be redeemed (assuming for this purpose that this Security matured on September 1, 2047) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of this Security.

“Comparable Treasury Price” means (1) the average of four Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of Mizuho Securities USA LLC, RBC Capital Markets, LLC or Wells Fargo Securities, LLC, as specified by the Company, or if these firms are unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing selected by the Company.

“Reference Treasury Dealer” means each of (1) Mizuho Securities USA LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC and their respective successors; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in the United States of America (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer and (2) any other Primary Treasury Dealer selected by the Company after consultation with the Independent Investment Banker.

“Reference Treasury Dealer Quotations” means with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third Business Day preceding such Redemption Date.

The Trustee, at the written direction of the Company, will send a notice of redemption to each Holder of Securities to be redeemed by first-class mail (or in accordance with the procedures of The Depository Trust Company with respect to Securities registered in the name of Cede & Co.) at least 15 and not more than 60 days prior to the date fixed for redemption. Unless the Company defaults on payment of the redemption price, interest will cease to accrue on the Securities or portions thereof called for redemption on the Redemption Date. If fewer than all of the Securities of this series are to be redeemed, not more than 60 days prior to the Redemption Date, the particular Securities of this series

or portions thereof for redemption will be selected from the outstanding Securities of this series not previously called by such method as the Trustee deems fair and appropriate. The Trustee may select for redemption Securities of this series and portions of Securities of this series in amounts of \$1,000 or whole multiples of \$1,000. In the case of a partial redemption of Securities registered in the name of Cede & Co, the Securities to be redeemed will be determined in accordance with the procedures of The Depository Trust Company.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; *provided, however*, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and *provided, further*, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and *provided, further*, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in the Indenture and subject to certain limitations therein set forth, this Security or any portion of the principal amount hereof will be deemed to have been paid for all purposes of the Indenture and to be no longer Outstanding thereunder, and, at the election of the Company, the Company's entire indebtedness in respect thereof will be satisfied and discharged, if there has been irrevocably deposited with the Trustee or any Paying Agent (other than the Company), in trust, money in an amount which will be sufficient and/or Eligible Obligations, the principal of and interest on which when due, without regard to any reinvestment thereof, will provide moneys which, together with moneys so deposited, will be sufficient to pay when due the principal of and interest on this Security when due.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the Corporate Trust Office of The Bank of New York Mellon Trust Company, National Association in New York, New York, or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only as registered Securities, without coupons, and in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of the same series and Tranche, of any authorized denominations, as requested by the Holder surrendering the same, and of like tenor upon surrender of the Security or Securities to be exchanged at the office of The Bank of New York Mellon Trust Company, National Association in New York, New York, or such other office or agency as may be designated by the Company from time to time.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

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

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

As used herein, "Business Day" shall mean any day, other than Saturday or Sunday, on which commercial banks and foreign exchange markets are open for business, including dealings in deposits in U.S. dollars, in New York, New York. All other terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

As provided in the Indenture, no recourse shall be had for the payment of the principal of or premium, if any, or interest on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under the Indenture, against, and no personal liability whatsoever shall attach to, or be incurred by, any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture and all the Securities are solely corporate obligations and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of the Indenture and the issuance of the Securities.

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

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Attest: _____
Vincent A. Mercaldi
Secretary

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

(SEAL)

CERTIFICATE OF AUTHENTICATION

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

Date of Authentication: _____, 2018

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, NATIONAL ASSOCIATION**, as Trustee

By: _____

SCHEDULE A

The initial aggregate principal amount of Securities evidenced by the Certificate to which this Schedule is attached is \$400,000,000. The notations on the following table evidence decreases and increases in the aggregate principal amount of Securities evidenced by such Certificate.

Date of Adjustment	Decrease in Aggregate Principal Amount of Securities	Increase in Aggregate Principal Amount of Securities	Aggregate Principal Amount of Securities Remaining After Such Decrease or Increase	Notation by Security Registrar
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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT, WHOLLY-OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

	Three Months Ended March 31,	
	2018	2017
	(in millions, except ratios)	
Net income	\$ 52	\$ 18
Income taxes	15	10
Capitalized interest	(2)	(2)
	<u>65</u>	<u>26</u>
Fixed charges, as defined:		
Interest	49	53
Capitalized interest	2	2
Interest component of rentals charged to operating expense	—	—
Total fixed charges	<u>51</u>	<u>55</u>
Earnings, as defined	<u>\$ 116</u>	<u>\$ 81</u>
Ratio of earnings to fixed charges	<u>2.27</u>	<u>1.47</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: May 4, 2018

/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: May 4, 2018

/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 March 31, 2018 (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)

May 4, 2018

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 March 31, 2018 (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

May 4, 2018