

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number 1-3187

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

22-3865106
(I.R.S. Employer Identification No.)

1111 LOUISIANA
HOUSTON, TEXAS 77002
(Address and zip code of principal
executive offices)

(713) 207-1111
(Registrant's telephone number,
including area code)

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC MEETS THE CONDITIONS SET FORTH IN
GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS
FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

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

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

As of August 1, 2005, all 1,000 common shares of CenterPoint Energy Houston
Electric, LLC were held by Utility Holding, LLC, a wholly owned subsidiary of
CenterPoint Energy, Inc.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2005

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will," or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

- the timing and amount of our recovery of the true-up components;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation, constraints placed on our activities or business by the Public Utility Holding Company Act of 1935, as amended (1935 Act), the impact of the repeal of the 1935 Act, changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- changes in interest rates or rates of inflation;
- weather variations and other natural phenomena;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, receipt of certain financing approvals under the 1935 Act, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- non-payment for our services due to financial distress of our customers, including Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI);
- the outcome of the pending securities lawsuits against us, Reliant Energy, Incorporated and RRI;
- the ability of RRI to satisfy its obligations to us, including indemnity obligations;
- our ability to control costs;
- the investment performance of CenterPoint Energy's employee benefit plans;
- our internal restructuring or other restructuring options that may be pursued;

- our potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or to have the anticipated benefits to us; and
- other factors we discuss in "Risk Factors" in Item 5 of Part II of this report beginning on page 23.

Additional risk factors are described in other documents we file with the Securities and Exchange Commission.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
 (AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
 STATEMENTS OF CONSOLIDATED INCOME
 (THOUSANDS OF DOLLARS)
 (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2005	2004	2005
REVENUES	\$ 375,250	\$ 414,057	\$ 705,563	\$ 759,051
EXPENSES:				
Operation and maintenance	126,941	153,060	260,221	292,367
Depreciation and amortization	69,827	81,016	134,900	156,462
Taxes other than income taxes	51,162	57,858	98,207	108,407
Total	247,930	291,934	493,328	557,236
OPERATING INCOME	127,320	122,123	212,235	201,815
OTHER INCOME (EXPENSE):				
Interest and other finance charges	(77,105)	(76,676)	(154,192)	(152,124)
Interest on transition bonds	(9,547)	(9,077)	(19,221)	(18,297)
Return on true-up balance	--	35,475	--	69,557
Other, net	18,670	11,746	25,573	22,541
Total	(67,982)	(38,532)	(147,840)	(78,323)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	59,338	83,591	64,395	123,492
Income Tax Expense	(19,772)	(28,861)	(21,524)	(40,634)
INCOME BEFORE EXTRAORDINARY ITEM	39,566	54,730	42,871	82,858
Extraordinary Item, net of tax	--	30,441	--	30,441
NET INCOME	\$ 39,566	\$ 85,171	\$ 42,871	\$ 113,299

See Notes to the Company's Interim Financial Statements

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

	DECEMBER 31, 2004	JUNE 30, 2005
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 24,928	\$ 31,090
Accounts and notes receivable, net.....	124,452	132,679
Accounts and notes receivable -- affiliated companies, net.....	57,656	--
Accrued unbilled revenues.....	74,089	124,344
Materials and supplies.....	52,886	49,540
Taxes receivable.....	62,078	10,511
Deferred tax asset.....	78,656	76,507
Other.....	12,201	9,874
	-----	-----
Total current assets.....	486,946	434,545
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment.....	6,245,302	6,349,496
Less accumulated depreciation and amortization.....	(2,203,846)	(2,284,420)
	-----	-----
Property, plant and equipment, net.....	4,041,456	4,065,076
	-----	-----
OTHER ASSETS:		
Other intangibles, net.....	38,349	38,029
Regulatory assets.....	3,328,865	2,902,784
Notes receivable -- affiliated companies.....	814,513	814,513
Other.....	72,624	56,514
	-----	-----
Total other assets.....	4,254,351	3,811,840
	-----	-----
TOTAL ASSETS.....	\$ 8,782,753	\$ 8,311,461
	=====	=====

See Notes to the Company's Interim Financial Statements

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

	DECEMBER 31, 2004	JUNE 30, 2005
	-----	-----
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES:		
Current portion of transition bond long-term debt.....	\$ 46,806	\$ 49,352
Current portion of other long-term debt.....	1,310,106	1,310,106
Accounts payable.....	40,852	34,326
Accounts and notes payable -- affiliated companies, net.....	--	16,292
Taxes accrued.....	104,862	54,250
Interest accrued.....	67,897	75,172
Regulatory liabilities	224,732	--
Other.....	57,706	55,784
	-----	-----
Total current liabilities.....	1,852,961	1,595,282
	-----	-----
OTHER LIABILITIES:		
Accumulated deferred income taxes, net.....	1,377,199	1,423,379
Unamortized investment tax credits.....	48,874	45,388
Benefit obligations.....	128,092	134,285
Regulatory liabilities.....	648,305	296,538
Notes payable -- affiliated companies.....	150,850	150,850
Accounts payable -- affiliated companies.....	303,472	303,472
Other.....	18,174	17,333
	-----	-----
Total other liabilities.....	2,674,966	2,371,245
	-----	-----
LONG-TERM DEBT:		
Transition bonds.....	628,903	610,462
Other.....	1,592,429	1,592,006
	-----	-----
Total long-term debt.....	2,221,332	2,202,468
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 6)		
MEMBER'S EQUITY:		
Common stock.....	1	1
Paid-in capital.....	2,278,090	2,282,805
Retained deficit.....	(244,597)	(140,340)
	-----	-----
Total member's equity.....	2,033,494	2,142,466
	-----	-----
TOTAL LIABILITIES AND MEMBER'S EQUITY.....	\$ 8,782,753	\$ 8,311,461
	=====	=====

See Notes to the Company's Interim Financial Statements

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

	SIX MONTHS ENDED JUNE 30,	
	2004	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 42,871	\$ 113,299
Extraordinary item, net of tax.....	--	(30,441)
Income before extraordinary item.....	42,871	82,858
Adjustments to reconcile income before extraordinary item to net cash provided by operating activities:		
Depreciation and amortization.....	134,900	156,462
Amortization of deferred financing costs.....	15,553	16,281
Deferred income taxes.....	42,856	30,638
Investment tax credits.....	(3,486)	(3,486)
Changes in other assets and liabilities:		
Accounts and notes receivable, net.....	(35,621)	(58,432)
Accounts receivable/payable, affiliates.....	5,462	(25,383)
Inventory.....	4,501	3,346
Accounts payable.....	(988)	(6,526)
Taxes receivable.....	137,139	49,826
Interest and taxes accrued.....	(28,267)	(43,337)
Net regulatory assets and liabilities.....	(159,783)	(131,026)
Other current assets.....	6,514	2,341
Other current liabilities.....	2,165	(1,947)
Other assets.....	(8,164)	(12,223)
Other liabilities.....	12,366	3,609
Other, net.....	(210)	307
Net cash provided by operating activities.....	167,808	63,308
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures and other.....	(99,608)	(137,946)
Decrease in notes receivable from affiliates.....	--	72,818
Net cash used in investing activities.....	(99,608)	(65,128)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt.....	229,050	--
Payments of long-term debt.....	(14,355)	(16,626)
Increase in short-term notes payable with affiliates.....	57,788	26,513
Decrease in long-term notes payable with affiliates.....	(229,050)	--
Debt issuance costs.....	(15,283)	(2,105)
Dividend to parent.....	(100,000)	--
Other, net.....	--	200
Net cash provided by (used in) financing activities.....	(71,850)	7,982
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(3,650)	6,162
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	30,720	24,928
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 27,070	\$ 31,090
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest.....	\$ 156,537	\$ 153,813
Income taxes (refunds).....	(52,514)	79,126

See Notes to the Company's Interim Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

General. Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy Houston Electric, LLC are the consolidated interim financial statements and notes (Interim Financial Statements) of CenterPoint Energy Houston Electric, LLC and its subsidiaries (collectively, CenterPoint Houston or the Company). The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Annual Report on Form 10-K of CenterPoint Houston for the year ended December 31, 2004 (CenterPoint Houston Form 10-K).

Background. The Company owns and operates electric transmission and distribution facilities. The Company is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) that implemented certain requirements of the Texas Electric Choice Plan (Texas electric restructuring law).

CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of CenterPoint Energy and those of its subsidiaries. The 1935 Act, among other things, limits the ability of CenterPoint Energy and its subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliated service, sales and construction contracts. On August 8, 2005, President Bush signed the Energy Policy Act of 2005 (Energy Act), which, among other things, repeals the 1935 Act six months after the enactment of the Energy Act. After the effective date of repeal, CenterPoint Energy and its subsidiaries, including the Company, will no longer be subject to restrictions imposed under the 1935 Act. Until the repeal is effective, CenterPoint Energy and its subsidiaries remain subject to the provisions of the 1935 Act and the terms of orders issued by the Securities and Exchange Commission (SEC) under the 1935 Act. The Energy Act transfers to the Federal Energy Regulatory Commission (FERC) certain functions performed by the SEC under the 1935 Act, including the requirement that holding companies and their subsidiaries maintain certain books and records and make them available for review by FERC and, through FERC, to state regulatory authorities. The Energy Act requires FERC to issue regulations to implement its jurisdiction under the Energy Act. It is presently unknown what, if any, specific obligations under those rules may be imposed on the Company as result of that rulemaking.

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

The Company's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's 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) fluctuations in demand for energy, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of businesses, assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's presentation of financial statements in the current year. These reclassifications do not affect net income.

Note 2(e) (Regulatory Assets and Liabilities), Note 4 (Regulatory Matters) and Note 9 (Commitments and Contingencies) to the consolidated annual financial statements in the CenterPoint Houston Form 10-K relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference.

For information regarding certain legal and regulatory proceedings and environmental matters, see Note 6 to the Interim Financial Statements.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS No. 154). SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The correction of an error in previously issued financial statements is not an accounting change and must be reported as a prior-period adjustment by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In March 2005, the FASB issued FASB Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies that an entity must record a liability for a "conditional" asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

(3) REGULATORY MATTERS

(a) Recovery of True-Up Balance.

The Texas electric restructuring law provides for the Public Utility Commission of Texas (Texas Utility Commission) to conduct a "true-up" proceeding to determine the Company's stranded costs and certain other costs resulting from the transition to a competitive retail electric market and to provide for its recovery of those costs. In March 2004, the Company filed its stranded cost true-up application with the Texas Utility Commission. The Company had requested recovery of \$3.7 billion, excluding interest. In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing the Company to recover a true-up balance of approximately \$2.3 billion, which included interest through August 31, 2004, and providing for adjustment of the amount to be recovered to include interest on the balance until recovery, the principal portion of additional excess mitigation credits returned to customers after August 31, 2004 and certain other matters. Both the Company and other parties filed appeals of the True-Up Order, and those appeals remain pending before a state district court in Travis County, Texas. The court held a hearing on the appeal in early August 2005, with a decision currently expected in the near future.

There are two ways for the Company to recover the true-up balance: by issuing transition bonds to securitize the amounts due and/or by implementing a competition transition charge (CTC). In March 2005, the Texas Utility Commission issued a financing order that authorized the issuance of transition bonds. Although it had been expected that approximately \$1.8 billion in transition bonds could be issued by mid-2005 under the terms of the financing order, several parties appealed the financing order and the Company was unable to issue the bonds during the pendency of the appeals. On August 4, 2005, the District Court affirmed the financing order. Texas law provides for any further appeals to be filed directly with the Texas Supreme Court within 15 days. If no appeals are taken from the order of the District Court, the Company expects to pursue issuance of the transition bonds in accordance with the financing order. The Company has filed an application with the SEC for an order under the 1935 Act required in connection with the issuance of the bonds.

On July 14, 2005, the Company received an order from the Texas Utility Commission allowing it to implement a CTC to collect approximately \$570 million over 14 years plus interest at an annual rate of 11.075%. Based on the accrual of interest provided for in the CTC order, the Company expects that this amount will increase to approximately \$600 million by the end of the third quarter which is when the CTC is expected to be implemented. The CTC order also allows the Company to collect approximately \$24 million of rate case expenses over three years. The CTC order authorizes the Company to impose a charge on retail electric providers to recover the portion of the true-up balance not covered by the financing order. The Company cannot implement the CTC until the Texas Utility Commission takes final action on the motions for rehearing.

Under the True-Up Order, the Company is allowed a return until the true-up balance is recovered. The rate of return is based on the Company's cost of capital, established in the Texas Utility Commission's final order issued in October 2001, which is derived from the Company's cost to finance assets (debt return) and an allowance for earnings on shareholders' investment (equity return). Consequently, in accordance with SFAS No. 92, "Regulated Enterprises -- Accounting for Phase-in Plans," the rate of return has been bifurcated into a debt return component

and an equity return component. The Company was allowed a return on the true-up balance of \$65 million and \$127 million for the three months and six months ended June 30, 2005, respectively. The debt return of \$35 million and \$69 million for the three months and six months ended June 30, 2005, respectively, was accrued and included in other income in the Company's Statements of Consolidated Income. The debt return will continue to be recognized as earned going forward. The equity return of \$30 million and \$58 million for the three months and six months ended June 30, 2005, respectively, will be recognized in income as it is collected through rates in the future. As of June 30, 2005, the Company has recorded a regulatory asset of \$296 million related to the debt return on its true-up balance and has not recorded an allowed equity return of \$205 million on its true-up balance because such return will be recognized as it is collected through rates in the future.

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

As a result of a settlement reached in a separate proceeding involving Reliant Energy, Inc.'s (RRI) Price-to-Beat, excess mitigation credits were terminated as of April 29, 2005. As a result of this settlement, the Company has applied the remaining unrefunded excess mitigation credits of approximately \$522 million to reduce the regulatory asset related to stranded costs as of June 30, 2005.

(b) Final Fuel Reconciliation.

The results of the Texas Utility Commission's final decision related to the Company's final fuel reconciliation are a component of the True-Up Order. The Company has appealed certain portions of the True-Up Order involving a disallowance of approximately \$67 million relating to the final fuel reconciliation plus interest of \$10 million. A hearing on this issue was held before a district court in Travis County on April 22, 2005 and a judgment was entered from the district court on May 13, 2005 affirming the Texas Utility Commission's decision. The Company filed an appeal to the Court of Appeals on June 9, 2005.

(c) City of Houston Franchise.

On June 27, 2005, the Company accepted an ordinance granting it a new 30-year franchise to use the public rights-of-way to conduct its business in the City of Houston (New Franchise Ordinance). The New Franchise Ordinance took effect on July 1, 2005, and replaced the prior electricity franchise ordinance, which had been in effect since 1957. The New Franchise Ordinance clarifies certain operational obligations of the Company and the City of Houston and provides for streamlined payment and audit procedures and a two-year statute of limitations on claims for underpayment or overpayment under the ordinance. Under the prior electricity franchise ordinance, the Company paid annual franchise fees of \$76.6 million to the City of Houston for the year ended December 31, 2004. For the twelve-month period beginning July 1, 2005, the annual franchise fee (Annual Franchise Fee) under the New Franchise Ordinance will include a base amount of \$88.1 million (Base Amount) and an additional payment of \$8.5 million (Additional Amount). The Base Amount and the Additional Amount will be adjusted annually based on the annual increase or decrease in kWh delivered by the Company within the City of Houston.

The New Franchise Ordinance requires the City of Houston to modify the Company's tariff to allow the Company to recover the Additional Amount from retail electric providers serving end-use retail electric customers within the City of Houston boundaries. The Company filed a request with the City of Houston to implement a tariff rider to collect the Additional Amount, but subsequently asked the City of Houston to abate further consideration of that application pending a review by counsel for the City of Houston and the Company regarding the implementation of the New Franchise Ordinance.

The Company began paying the new annual franchise fees on July 1, 2005. Pursuant to the New Franchise Ordinance, the Company retains the right to recover from the City of Houston any portion of the Additional Amount paid (or to refuse to pay any portion not yet paid) for which it is denied recovery by any regulatory authority. Additionally, the New Franchise Ordinance provides that the Annual Franchise Fee will be reduced prospectively to reflect any portion of the Annual Franchise Fee that is not included in the Company's base rates in any subsequent rate case.

(4) LONG-TERM DEBT

In March 2005, the Company established a \$200 million five-year revolving credit facility. Borrowings may be made under the facility at the London interbank offered rate (LIBOR) plus 75 basis points based on the Company's

current credit rating. An additional utilization fee of 12.5 basis points applies to borrowings whenever more than 50% of the facility is utilized. Changes in credit ratings could lower or raise the increment to LIBOR depending on whether ratings improved or were lowered. As of June 30, 2005, there were no borrowings outstanding under the revolving credit facility.

The Company also established a \$1.31 billion credit facility in March 2005. This facility is available to be utilized only to refinance the Company's \$1.31 billion term loan maturing in November 2005 in the event that proceeds from the issuance of transition bonds are not sufficient to repay such term loan. Drawings may be made under this credit facility until November 2005, at which time any outstanding borrowings are converted to term loans maturing in November 2007. Under this facility, (i) 100% of the net proceeds from the issuance of transition bonds and (ii) the proceeds, in excess of \$200 million, from certain other new net indebtedness for borrowed money incurred by the Company must be used to repay borrowings under the facility. Based on the Company's current credit ratings, borrowings under the facility may be made at LIBOR plus 75 basis points. The interest rate under the term loan which this facility would replace is LIBOR plus 975 basis points. Changes in credit ratings could lower or raise the increment to LIBOR depending on whether ratings improved or were lowered. Any drawings under this facility must be secured by the Company's general mortgage bonds in the same principal amount and bearing the same interest rate as such drawings.

(5) RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

Related Party Transactions. The following table summarizes receivables from, or payables to, CenterPoint Energy or its subsidiaries:

	DECEMBER 31, 2004	JUNE 30, 2005
	-----	-----
	(IN MILLIONS)	
Accounts receivable from affiliates.....	\$ 17	\$ 39
Accounts payable to affiliates.....	(32)	(28)
Notes receivable/(payable) -- affiliated companies (1).....	73	(27)
	-----	-----
Accounts and notes receivable/(payable) -- affiliated companies, net...	\$ 58	\$ (16)
	=====	=====
Long-term notes receivable -- affiliated companies.....	\$ 815	\$ 815
	=====	=====
Long-term notes payable -- affiliated companies.....	\$ (151)	\$ (151)
	=====	=====
Long-term accounts payable -- affiliated companies.....	\$ (303)	\$ (303)
	=====	=====

(1) Represents money pool borrowings and investments.

For the three months ended June 30, 2004 and 2005, the Company had net interest income related to affiliate borrowings of \$4 million and \$9 million, respectively, and \$6 million and \$18 million for the six months ended June 30, 2004 and 2005, respectively.

The 1935 Act generally prohibits borrowings by CenterPoint Energy from its subsidiaries, including the Company, either through the money pool or otherwise.

CenterPoint Energy provides some corporate services to the Company. The costs of services have been charged directly to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment and proportionate corporate formulas based on assets, operating margins, operating expenses and employees. These charges are not necessarily indicative of what would have been incurred had the Company not been an affiliate. Amounts charged to the Company for these services were \$25 million and \$28 million for the three months ended June 30, 2004 and 2005, respectively, and \$49 million and \$54 million for the six months ended June 31, 2004 and 2005, respectively, and are included primarily in operation and maintenance expenses.

Pursuant to the tax sharing agreement with CenterPoint Energy, the Company received an allocation of CenterPoint Energy's tax benefits totaling \$7 million in the second quarter of 2005, which was recorded as an increase to additional paid-in capital.

Major Customers. During the three months ended June 30, 2004 and 2005, revenues derived from energy delivery charges provided by the Company to a subsidiary of Reliant Energy, Inc. (formerly named Reliant Resources, Inc.) (RRI) totaled \$202 million and \$183 million, respectively, and \$401 million and \$366 million during the six months ended June 30, 2004 and 2005, respectively.

(6) COMMITMENTS AND CONTINGENCIES

(a) Legal Matters.

RRI Indemnified Litigation

The Company, CenterPoint Energy or their predecessor, Reliant Energy, and certain of their former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between CenterPoint Energy and RRI, CenterPoint Energy and its subsidiaries are entitled to be indemnified by RRI for any losses, including attorneys' fees and other costs, arising out of the lawsuits described below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. Pursuant to the indemnification obligation, RRI is defending CenterPoint Energy and its subsidiaries, including the Company, to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

Electricity and Gas Market Manipulation Cases. A large number of lawsuits have been filed against numerous market participants and remain pending in both federal and state courts in California and Nevada in connection with the operation of the electricity and natural gas markets in California and certain other western states in 2000-2001, a time of power shortages and significant increases in prices. These lawsuits, many of which have been filed as class actions, are based on a number of legal theories, including violation of state and federal antitrust laws, laws against unfair and unlawful business practices, the federal Racketeer Influenced Corrupt Organization Act, false claims statutes and similar theories and breaches of contracts to supply power to governmental entities. Plaintiffs in these lawsuits, which include state officials and governmental entities as well as private litigants, are seeking a variety of forms of relief, including recovery of compensatory damages (in some cases in excess of \$1 billion), a trebling of compensatory damages and punitive damages, injunctive relief, restitution, interest due, disgorgement, civil penalties and fines, costs of suit, attorneys' fees and divestiture of assets. To date, several of the electricity complaints have been dismissed by the trial court and are on appeal, and several of the dismissals have been affirmed by appellate courts. Others remain in the early procedural stages. One of the gas complaints has also been dismissed and is on appeal. The other gas cases remain in the early procedural stages. CenterPoint Energy's former subsidiary, RRI, was a participant in the California markets, owning generating plants in the state and participating in both electricity and natural gas trading in that state and in western power markets generally. RRI, some of its subsidiaries and, in some cases, former corporate officers or employees of some of those companies have been named as defendants in these suits.

CenterPoint Energy or its predecessor, Reliant Energy, has been named in approximately 30 of these lawsuits, which were instituted between 2001 and 2005 and are pending in California state courts in San Diego County and in federal district courts in San Francisco, San Diego, Los Angeles, Fresno, Sacramento, San Jose and Nevada and before the Ninth Circuit Court of Appeals. However, the Company, CenterPoint Energy and Reliant Energy were not participants in the electricity or natural gas markets in California. CenterPoint Energy and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court and CenterPoint Energy believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from such remaining cases. On July 6, 2004 and on October 12, 2004, the Ninth Circuit affirmed CenterPoint Energy's removal to federal district court of two electric cases brought by the California Attorney General and affirmed the federal court's dismissal of these cases based upon the filed rate doctrine and federal preemption. On April 18, 2005, the Supreme Court of the United States denied the Attorney General's petition for certiorari in one of these cases. No petition for certiorari was filed in the other case, and both of these cases are now finally resolved in favor of the defendants. In one other case filed by the California Attorney General, a claim for injunctive relief remains pending, with a trial currently scheduled to begin in federal district court in February 2006. Several cases that are now pending in state court in San Diego County were originally filed in several California state courts but were removed by the defendants to federal district court. When the federal district court remanded those cases, they were coordinated in front of one San Diego state court. In July 2005, that San Diego state court refused to dismiss certain of those cases based on defendants' claims of federal preemption and the filed rate doctrine.

Other Class Action Lawsuits. Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of RRI and/or Reliant Energy have been consolidated in federal district court in Houston. RRI and certain of its former and current executive officers are named as defendants. The consolidated complaint also names RRI, Reliant Energy, the underwriters of the initial public offering of RRI's common stock in May 2001 (RRI Offering), and RRI's and Reliant Energy's independent auditors as defendants. The consolidated amended complaint seeks monetary relief purportedly on behalf of purchasers of common stock of Reliant Energy or RRI during certain time periods ranging from February 2000 to May 2002, and purchasers of common stock that can be traced to the RRI Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001. In January 2004, the trial judge dismissed the plaintiffs' allegations that the defendants had engaged in fraud, but claims based on alleged misrepresentations in the registration statement issued in the RRI Offering remain. In June 2004, the plaintiffs filed a motion for class certification, which the court granted in February 2005. The defendants appealed the court's order certifying the class and asked the trial court to reconsider its ruling certifying the class. In July 2005, the parties announced that they had reached a settlement in this matter, subject to court approval. The terms of the settlement do not require a payment by CenterPoint Energy or the Company.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by CenterPoint Energy. Two of the lawsuits have been dismissed without prejudice. CenterPoint Energy and certain current and former members of its benefits committee are the remaining defendants in the third lawsuit. That lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by CenterPoint Energy, in violation of the Employee Retirement Income Security Act of 1974. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by CenterPoint Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaint seeks monetary damages for losses suffered on behalf of the plans and a putative class of plan participants whose accounts held CenterPoint Energy or RRI securities, as well as restitution. Both the plaintiffs and the defendants have pending motions for summary judgment before the court. The court is expected to establish a trial date for this case later in the fall.

In October 2002, a derivative action was filed in the federal district court in Houston against the directors and officers of CenterPoint Energy. The complaint set forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleged that the defendants caused CenterPoint Energy to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleged breach of fiduciary duty in connection with the spin-off of RRI and the RRI Offering. The complaint sought monetary damages on behalf of CenterPoint Energy as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. CenterPoint Energy's board of directors investigated that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a CenterPoint Energy shareholder. The second letter demanded that CenterPoint Energy take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. In June 2003, the board determined that these proposed actions would not be in the best interests of CenterPoint Energy. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on CenterPoint Energy before filing suit. Thereafter, the same party sent another demand asserting the same claims, but there has been no further activity.

The Company believes that none of the lawsuits described under Other Class Action Lawsuits has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to the plaintiffs.

Other Legal Matters

Texas Antitrust Actions. In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against Reliant Energy, the Company and CenterPoint Energy, as successors to Reliant Energy, Genco LP, RRI, Reliant Energy Solutions, LLC, several other RRI subsidiaries and a number of other participants in the Electric Reliability Council of Texas (ERCOT) power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit

sought damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. In June 2004, the federal court dismissed the plaintiff's claims and in July 2004, the plaintiff filed a notice of appeal. The Company is vigorously contesting the appeal. The ultimate outcome of this matter cannot be predicted at this time.

In February 2005, Utility Choice Electric filed in federal court in Houston, Texas a lawsuit against the Company, CenterPoint Energy, CenterPoint Energy Gas Services, Inc., CenterPoint Energy Alternative Fuels, Inc., Genco LP and a number of other participants in the ERCOT power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws, intentionally interfered with prospective business relationships and contracts, and committed fraud and negligent misrepresentation. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. The Company intends to vigorously defend the case. The ultimate outcome of this matter cannot be predicted at this time.

Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit in state district court in Harris County, Texas for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of the Company's predecessor, Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claimed that they were entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. After a jury trial involving the Three Cities' claims (but not the class of cities), the trial court entered a judgment on the Three Cities' breach of contract claims for \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. It also decertified the class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, a state court of appeals in Houston rendered an opinion reversing the judgment against the Company and rendering judgment that the Three Cities take nothing by their claims. The court of appeals held that all of the Three Cities' claims were barred by the jury's finding of laches, a defense similar to the statute of limitations, due to the Three Cities' having unreasonably delayed bringing their claims during the more than 30 years since the alleged wrongs began. The court also held that the Three Cities were not entitled to recover any attorneys' fees. The Three Cities filed a petition for review to the Texas Supreme Court, which declined to hear the case. Thus, the Three Cities' claims have been finally resolved in the Company's favor, but the individual claims of the remaining 45 cities remain pending in the same court. The Company does not expect the outcome of the remaining claims to have a material impact on its financial condition, results of operations or cash flows.

(b) Environmental Matters.

Asbestos. A number of facilities owned by CenterPoint Energy contain significant amounts of asbestos insulation and other asbestos-containing materials. CenterPoint Energy or its subsidiaries have been named, along with numerous others, as a defendant in lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos. Most claimants in such litigation have been workers who participated in construction of various industrial facilities, including power plants. Some of the claimants have worked at locations owned by CenterPoint Energy, but most existing claims relate to facilities previously owned by CenterPoint Energy but currently owned by Texas Genco LLC. The Company anticipates that additional claims like those received may be asserted in the future. Under the terms of the separation agreement between CenterPoint Energy and Texas Genco Holdings, Inc. (Texas Genco), ultimate financial responsibility for uninsured losses relating to these claims has been assumed by Texas Genco, but under the terms of its agreement to sell Texas Genco to Texas Genco LLC, CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from Texas Genco LLC. Although their ultimate outcome cannot be predicted at this time, the Company intends to continue vigorously contesting claims that it does not consider to have merit and does not expect, based on its experience to date, these matters, either individually or in the aggregate, to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(c) Other Proceedings.

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management does not expect the disposition of these matters to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(d) Nuclear Decommissioning Trusts.

The Company, as collection agent for the nuclear decommissioning charge assessed on its transmission and distribution customers, deposited \$2.9 million in 2004 to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project, and expects to deposit approximately \$2.9 million of collected charges in 2005. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the Nuclear Regulatory Commission relating to Texas Genco's nuclear decommissioning trusts. Pursuant to the provisions of both a separation agreement and the Texas Utility Commission's final order, the Company and Texas Genco are presently jointly administering the decommissioning funds through the Nuclear Decommissioning Trust Investment Committee. Texas Genco and the Company have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. As administrators of the decommissioning funds, the Company and Texas Genco are jointly responsible for assuring that the funds are prudently invested in a manner consistent with the rules of the Texas Utility Commission. The Company and Texas Genco expect to file a request with the Texas Utility Commission in 2005 to name Texas Genco as the sole fund administrator. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that were not recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be charged to transmission and distribution customers of the Company or its successor.

(7) EMPLOYEE BENEFIT PLANS

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2005	2004	2005
	(IN MILLIONS)			
Service cost.....	\$ 1	\$ --	\$ 1	\$ --
Interest cost.....	4	5	8	9
Expected return on plan assets....	(3)	(2)	(5)	(5)
Net amortization.....	3	1	5	3
Net periodic cost.....	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 7</u>

The Company previously disclosed in its financial statements for the year ended December 31, 2004, that it expected to contribute \$10 million to its postretirement benefits plan in 2005. As of June 30, 2005, \$4 million has been contributed.

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

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

We are an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company created on August 31, 2002, as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy). CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). For information about the 1935 Act, please read " -- Liquidity -- Certain Contractual and Regulatory Limits on Our Ability to Issue Securities, Borrow Money and Pay Dividends."

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and are therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations), Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in our results of operations between the three and six months ended June 30, 2004 and the three and six months ended June 30, 2005. Reference is made to "Management's Narrative Analysis of Results of Operations" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2004 (CenterPoint Houston Form 10-K).

RECENT EVENTS

RECOVERY OF TRUE-UP BALANCE

The Texas Electric Choice Plan (Texas electric restructuring law) provides for the Public Utility Commission of Texas (Texas Utility Commission) to conduct a "true-up" proceeding to determine our stranded costs and certain other costs resulting from the transition to a competitive retail electric market and to provide for our recovery of those costs. In March 2004, we filed our stranded cost true-up application with the Texas Utility Commission. We had requested recovery of \$3.7 billion, excluding interest. In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing us to recover a true-up balance of approximately \$2.3 billion, which included interest through August 31, 2004, and providing for adjustment of the amount to be recovered to include interest on the balance until recovery, the principal portion of additional excess mitigation credits returned to customers after August 31, 2004 and certain other matters. Both CenterPoint Houston and other parties filed appeals of the True-Up Order, and those appeals remain pending before a state district court in Travis County, Texas. The court held a hearing on the appeal in early August 2005, with a decision currently expected in the near future.

There are two ways for us to recover the true-up balance: by issuing transition bonds to securitize the amounts due and/or by implementing a competition transition charge (CTC). In March 2005, the Texas Utility Commission issued a financing order that authorized the issuance of transition bonds. Although it had been expected that approximately \$1.8 billion in transition bonds could be issued by mid-2005 under the terms of the financing order, several parties appealed the financing order and we were unable to issue the bonds during the pendency of the appeals. On August 4, 2005, the District Court affirmed the financing order. Texas law provides for any further appeals to be filed directly with the Texas Supreme Court within 15 days. If no appeals are taken from the order of the District Court, we expect to pursue issuance of the transition bonds in accordance with the financing order. We have filed an application with the Securities and Exchange Commission (SEC) for an order under the 1935 Act required in connection with the issuance of the bonds.

On July 14, 2005, we received an order from the Texas Utility Commission allowing us to implement a CTC to collect approximately \$570 million over 14 years plus interest at an annual rate of 11.075%. Based on the accrual of interest provided for in the CTC order, we expect that this amount will increase to approximately \$600 million by the end of the third quarter which is when the CTC is expected to be implemented. The CTC order also allows us to collect approximately \$24 million of rate case expenses over three years. The CTC order authorizes us to impose a charge on retail electric providers to recover the portion of the true-up balance not covered by the financing order. We cannot implement the CTC until the Texas Utility Commission takes final action on the motions for rehearing.

We are entitled to accrue a return on the true-up balance until it is fully recovered.

CITY OF HOUSTON FRANCHISE

On June 27, 2005, we accepted an ordinance granting us a new 30-year franchise to use the public rights-of-way to conduct our business in the City of Houston (New Franchise Ordinance). The New Franchise Ordinance took effect on July 1, 2005, and replaced the prior electricity franchise ordinance, which had been in effect since 1957. The New Franchise Ordinance clarifies certain operational obligations of ours and the City of Houston and provides for streamlined payment and audit procedures and a two year statute of limitations on claims for underpayment or overpayment under the ordinance. Under the prior electricity franchise ordinance, we paid annual franchise fees of \$76.6 million to the City of Houston for the year ended December 31, 2004. For the twelve-month period beginning July 1, 2005, the annual franchise fee (Annual Franchise Fee) under the New Franchise Ordinance will include a base amount of \$88.1 million (Base Amount) and an additional payment of \$8.5 million (Additional Amount). The Base Amount and the Additional Amount will be adjusted annually based on the annual increase or decrease in kWh delivered by us within the City of Houston.

The New Franchise Ordinance requires the City of Houston to modify our tariff to allow us to recover the Additional Amount from retail electric providers serving end-use retail electric customers within the City of Houston boundaries. We filed a request with the City of Houston to implement a tariff rider to collect the Additional Amount, but subsequently asked the City of Houston to abate further consideration of that application pending a review by counsel for us and the City of Houston regarding the implementation of the New Franchise Ordinance.

We began paying the new annual franchise fees on July 1, 2005. Pursuant to the New Franchise Ordinance, we retain the right to recover from the City of Houston any portion of the Additional Amount paid (or to refuse to pay any portion not yet paid) for which we are denied recovery by any regulatory authority. Additionally, the New Franchise Ordinance provides that the Annual Franchise Fee will be reduced prospectively to reflect any portion of the Annual Franchise Fee that is not included in our base rates in any subsequent rate case.

REPEAL OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

On August 8, 2005, President Bush signed the Energy Policy Act of 2005 (Energy Act), which, among other things, repeals the 1935 Act six months after the enactment of the Energy Act. After the effective date of repeal, CenterPoint Energy and its subsidiaries, including us, will no longer be subject to restrictions imposed under the 1935 Act. Until the repeal is effective, CenterPoint Energy and its subsidiaries remain subject to the provisions of the 1935 Act and the terms of orders issued by the SEC under the 1935 Act. The Energy Act transfers to the Federal Energy Regulatory Commission (FERC) certain functions performed by the SEC under the 1935 Act, including the requirement that holding companies and their subsidiaries maintain certain books and records and make them available for review by FERC and, through FERC, to state regulatory authorities. The Energy Act requires FERC to issue regulations to implement its jurisdiction under the Energy Act. It is presently unknown what, if any, specific obligations under those rules may be imposed on us as result of that rulemaking.

CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by, among other things, seasonal fluctuations and other changes in the demand for electricity, the actions of various governmental authorities having jurisdiction over the rates we charge, debt service costs, income tax expense, our ability to collect receivables from retail electric providers and our ability to recover our stranded costs and regulatory assets. For more information regarding factors that may affect the future results of operations of our business, please read "Risk Factors" in Item 5 of Part II of this report beginning on page 23 and "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of the CenterPoint Houston Form 10-K, which is incorporated herein by reference.

The following table sets forth our consolidated results of operations for the three and six months ended June 30, 2004 and 2005, followed by a discussion of our consolidated results of operations based on operating income. We have provided a reconciliation of consolidated operating income to net income below.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2005	2004	2005
	(IN MILLIONS, EXCEPT CUSTOMER DATA)			
Electric transmission and distribution revenues.....	\$ 357	\$ 388	\$ 672	\$ 711
Electric transmission and distribution expenses:				
Operation and maintenance.....	125	153	258	291
Depreciation and amortization.....	63	64	123	128
Taxes other than income taxes.....	51	58	98	108
Total electric transmission and distribution expenses.....	239	275	479	527
Operating income - Electric transmission and distribution utility.....	118	113	193	184
Operating income - Transition bond company (1).....	9	9	19	18
Total operating income.....	127	122	212	202
Interest and other finance charges.....	(87)	(85)	(173)	(170)
Return on true-up balance.....	--	35	--	69
Other income, net.....	19	12	25	23
Income before income taxes and extraordinary item.....	59	84	64	124
Income tax expense.....	(19)	(29)	(21)	(41)
Income before extraordinary item.....	40	55	43	83
Extraordinary item, net of tax.....	--	30	--	30
Net income	\$ 40	\$ 85	\$ 43	\$ 113
Actual gigawatt-hours (Gwh) delivered:				
Residential.....	5,801	6,594	10,203	10,736
Total	18,545	18,956	34,065	34,783
Average number of metered customers:				
Residential.....	1,634,202	1,675,573	1,628,074	1,668,447
Total	1,856,846	1,904,090	1,849,762	1,895,556

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

THREE MONTHS ENDED JUNE 30, 2005 COMPARED TO THREE MONTHS ENDED JUNE 30, 2004

We reported operating income of \$122 million for the three months ended June 30, 2005, consisting of \$113 million for the regulated electric transmission and distribution utility and \$9 million for the transition bond company. For the three months ended June 30, 2004, operating income totaled \$127 million, consisting of \$118 million for the regulated electric transmission and distribution utility and \$9 million for the transition bond company. Operating revenues increased primarily from increased usage mainly due to warmer weather (\$14 million), continued customer growth (\$8 million) with the addition of 48,000 metered customers since June 2004 and higher transmission cost recovery (\$4 million). The increase in operating revenues was more than offset by higher transmission costs (\$3 million), higher tree trimming costs for preventive maintenance (\$4 million), increased state and local taxes (\$7 million) and the absence of a \$15 million partial reversal of a reserve related to the final fuel reconciliation recorded in 2004.

SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO SIX MONTHS ENDED JUNE 30, 2004

We reported operating income of \$202 million for the six months ended June 30, 2005, consisting of \$184 million for the regulated electric transmission and distribution utility and \$18 million for the transition bond company. For the six months ended June 30, 2004, operating income totaled \$212 million, consisting of \$193 million for the regulated electric transmission and distribution utility and \$19 million for the transition bond company. Operating revenues increased primarily from increased usage mainly due to warmer weather (\$9 million),

continued customer growth (\$15 million) with the addition of 48,000 metered customers since June 2004 and higher transmission cost recovery (\$8 million). The increase in operating revenues was more than offset by higher transmission costs (\$8 million), higher tree trimming costs for preventive maintenance (\$6 million), the absence of a \$15 million partial reversal of a reserve related to the final fuel reconciliation recorded in 2004, increased state and local taxes (\$10 million) and higher depreciation (\$5 million), partially offset by reduced benefits expense (\$7 million).

EXTRAORDINARY ITEM

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

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of Part II of the CenterPoint Houston Form 10-K, which is incorporated herein by reference, and "Risk Factors" in Item 5 of Part II of this report beginning on page 23.

LIQUIDITY

Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, working capital needs, various regulatory actions and appeals relating to such regulatory actions. Our principal cash requirements for the last six months of 2005 include the following:

- the maturity of our \$1.31 billion term loan;
- approximately \$131 million of capital expenditures; and
- \$31 million of maturing transition bonds.

We expect that borrowings under our credit facilities, anticipated cash flows from operations and intercompany borrowings under the money pool described below will be sufficient to meet our cash needs for 2005. Our \$1.31 billion term loan, maturing in November 2005, requires the proceeds from the issuance of transition bonds to be used to reduce the term loan unless refused by the lenders. Our \$1.31 billion credit facility, as described below, may be utilized only to refinance the \$1.31 billion term loan at maturity.

The 1935 Act currently regulates our financing ability, as more fully described in " -- Certain Contractual and Regulatory Limits on Our Ability to Issue Securities, Borrow Money and Pay Dividends" below.

Off-Balance Sheet Arrangements. Other than operating leases, we have no off-balance sheet arrangements.

Credit Facilities. In March 2005, we established a \$200 million five-year revolving credit facility. Borrowings may be made under the facility at LIBOR plus 75 basis points based on our current credit rating. An additional utilization fee of 12.5 basis points applies to borrowings whenever more than 50% of the facility is utilized. Changes in credit ratings could lower or raise the increment to LIBOR depending on whether ratings improved or were lowered.

We also established a \$1.31 billion credit facility in March 2005. This facility is available to be utilized only to refinance our \$1.31 billion term loan maturing in November 2005 in the event that proceeds from the issuance of transition bonds are not sufficient to repay such term loan. Due to the pending appeal of the Texas Utility Commission's financing order, it is unlikely that proceeds from the sale of transition bonds would be received prior to November 2005. Drawings may be made under this credit facility until November 2005, at which time any outstanding borrowings are converted to term loans maturing in November 2007. Under this facility, (i) 100% of the net proceeds from the issuance of transition bonds and (ii) the proceeds, in excess of \$200 million, from certain

other new net indebtedness for borrowed money incurred by us must be used to repay borrowings under the facility. Based on our current credit ratings, borrowings under the facility may be made at LIBOR plus 75 basis points. The interest rate under the term loan which this facility would replace is LIBOR plus 975 basis points. Changes in credit ratings could lower or raise the increment to LIBOR depending on whether ratings improved or were lowered. Any drawings under this facility must be secured by our general mortgage bonds in the same principal amount and bearing the same interest rate as such drawings.

Our \$200 million and \$1.31 billion credit facilities each contain covenants, including a debt (excluding transition bonds) to total capitalization covenant of 68% and an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest covenant. Borrowings under our \$200 million credit facility and our \$1.31 billion credit facility are available notwithstanding that a material adverse change has occurred or litigation that could be expected to have a material adverse effect has occurred, so long as other customary terms and conditions are satisfied.

As of August 1, 2005, we had the following credit facilities (in millions):

DATE EXECUTED	SIZE OF FACILITY	AMOUNT UTILIZED AT AUGUST 1, 2005	TERMINATION DATE
March 7, 2005	\$ 200	\$ --	March 7, 2010
March 7, 2005	1,310	--	(1)

(1) Revolver until November 2005 with two-year term-out of borrowed moneys.

Long-term Debt. Our long-term debt consists of our obligations and the obligations of our subsidiaries, including transition bonds issued by a wholly owned subsidiary. The following table shows future maturity dates of long-term debt issued by us to third parties and affiliates and expected future maturity dates of transition bonds issued by our subsidiary, CenterPoint Energy Transition Bond Company, LLC (Bond Company), as of August 1, 2005. Amounts are expressed in millions.

YEAR	THIRD-PARTY	AFFILIATE	SUB-TOTAL	TRANSITION BONDS	TOTAL
2005	\$ 1,310	\$ --	\$ 1,310	\$ 31	\$ 1,341
2006	--	--	--	54	54
2007	--	--	--	60	60
2008	--	--	--	66	66
2009	--	--	--	73	73
2010	--	--	--	80	80
2011	--	--	--	88	88
2012	46	--	46	99	145
2013	450	--	450	109	559
2014	300	--	300	--	300
2015	--	151	151	--	151
2017	128	--	128	--	128
2021	102	--	102	--	102
2023	200	--	200	--	200
2027	56	--	56	--	56
2033	312	--	312	--	312
Total	\$ 2,904	\$ 151	\$ 3,055	\$ 660	\$ 3,715

As of August 1, 2005, outstanding first mortgage bonds and general mortgage bonds aggregated approximately \$3.6 billion as shown in the following table. Amounts are expressed in millions.

	ISSUED DIRECTLY TO THIRD PARTIES	ISSUED AS COLLATERAL FOR THE COMPANY'S DEBT	ISSUED AS COLLATERAL FOR CENTERPOINT ENERGY'S DEBT	TOTAL
First Mortgage Bonds	\$ 102	\$ --	\$ 151	\$ 253
General Mortgage Bonds	1,262	1,539	527	3,328
Total	\$ 1,364	\$ 1,539	\$ 678	\$ 3,581

The lien of the general mortgage indenture is junior to that of the mortgage, pursuant to which the first mortgage bonds are issued. The aggregate amount of incremental general mortgage bonds and first mortgage bonds that could be issued as of June 30, 2005 is approximately \$600 million based on estimates of the value of our property encumbered by the general mortgage, the cost of such property, the amount of retired bonds that could be used as the basis for issuing new bonds and the 70% bonding ratio contained in the general mortgage. However, contractual limitations on us and CenterPoint Energy contained in the \$1.31 billion term loan maturing in November 2005 limit the incremental aggregate amount of first mortgage bonds and general mortgage bonds that may be issued to \$200 million. Generally, first mortgage bonds and general mortgage bonds can be issued to refinance outstanding first mortgage bonds or general mortgage bonds in the same principal amount. Additionally, under our \$1.31 billion credit facility, (i) 100% of the net proceeds from the issuance of transition bonds and (ii) the proceeds, in excess of \$200 million, from certain other new net indebtedness for borrowed money incurred by us must be used to repay borrowings under the facility.

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

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

The Bond Company has \$660 million aggregate principal amount of outstanding transition bonds as of June 30, 2005, that were issued in 2001 in accordance with the Texas electric restructuring law. The transition bonds are secured by "transition property," as defined in the Texas electric restructuring law, which includes the irrevocable right to recover, through non-bypassable transition charges payable by retail electric customers, qualified costs provided in the Texas electric restructuring law. The transition bonds are reported as our long-term debt, although the holders of the transition bonds have no recourse to any of our assets or revenues, and our creditors have no recourse to any assets or revenues (including, without limitation, the transition charges) of the Bond Company. We have no payment obligations with respect to the transition bonds except to remit collections of transition charges as set forth in a servicing agreement between us and the Bond Company and in an intercreditor agreement among us, the Bond Company and other parties.

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 money pool's net funding requirements are generally met by borrowings of CenterPoint Energy. The terms of the money pool are in accordance with requirements currently applicable to registered public utility holding companies under the 1935 Act and under an order from the SEC relating to our financing activities dated June 29, 2005 (June 2005 Financing Order). Our money

pool borrowing limit under the existing order is \$600 million. At August 1, 2005, we had borrowings from the money pool of \$5 million. The money pool may not provide sufficient funds to meet our cash needs.

Impact on Liquidity of a Downgrade in Credit Ratings. As of August 1, 2005, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P), and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior debt:

COMPANY/INSTRUMENT	MOODY'S		S&P		FITCH	
	RATING	OUTLOOK(1)	RATING	OUTLOOK(2)	RATING	OUTLOOK(3)
CenterPoint Houston Senior Secured Debt (First Mortgage Bonds).....	Baa2	Stable	BBB	Negative	BBB+	Stable

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

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

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

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

A decline in credit ratings could increase borrowing costs under our \$200 million credit facility and our \$1.31 billion credit facility. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions.

Our \$200 million credit facility and our \$1.31 billion facility do not contain material adverse change clauses with respect to borrowings.

Cross Defaults. Under CenterPoint Energy's revolving credit facility, a payment default by us on, or a non-payment default by us that permits acceleration of, any indebtedness exceeding \$50 million will cause a default. Pursuant to the indenture governing CenterPoint Energy's senior notes, a payment default by us in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of \$50 million will cause a default. As of August 1, 2005, CenterPoint Energy had issued five series of senior notes aggregating \$1.4 billion in principal amount under this indenture. A default by CenterPoint Energy would not trigger a default under our debt instruments or bank credit facilities.

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

- increases in interest expense in connection with debt refinancings and borrowings under credit facilities;
- various regulatory actions;
- the ability of RRI and its subsidiaries to satisfy their obligations as our principal customer and in respect of RRI's indemnity obligations to us; and
- various of the risks identified in "Risk Factors" in Item 5 of Part II of this report beginning on page 23.

Certain Contractual and Regulatory Limits on Our Ability to Issue Securities, Borrow Money and Pay Dividends. Our secured term loan and each of our credit facilities limit our debt, excluding transition bonds, as a percentage of our total capitalization to 68%. Our \$1.31 billion and \$200 million credit facilities contain an EBITDA to interest covenant.

Our parent, CenterPoint Energy, is a registered public utility holding company under the 1935 Act. The 1935 Act and related rules and regulations impose a number of restrictions on our parent's activities and those of its subsidiaries, including us. The 1935 Act, among other things, limits our parent's ability and the ability of its regulated subsidiaries, including us, to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliated service, sales and construction contracts. On August 8, 2005, President Bush signed the Energy Act, which, among other things, repeals the 1935 Act six months after the enactment of the Energy Act. After the effective date of repeal, CenterPoint Energy and its subsidiaries, including us, will no longer be subject to restrictions imposed under the 1935 Act. Until the repeal is effective, CenterPoint Energy and its subsidiaries remain subject to the provisions of the 1935 Act and the terms of orders issued by the SEC under the 1935 Act. The Energy Act transfers to the FERC certain functions performed by the SEC under the 1935 Act, including the requirement that holding companies and their subsidiaries maintain certain books and records and make them available for review by FERC and, through FERC, to state regulatory authorities. The Energy Act requires FERC to issue regulations to implement its jurisdiction under the Energy Act. It is presently unknown what, if any, specific obligations under those rules may be imposed on us as result of that rulemaking.

The June 2005 Financing Order establishes limits on the amount of external debt and equity securities that can be issued by CenterPoint Energy and its regulated subsidiaries, including us, without additional authorization but generally permit CenterPoint Energy and its regulated subsidiaries, including us, to refinance our existing obligations. We are in compliance with the authorized limits. The order also generally permits utilization of our undrawn credit facilities. Unless we obtain a further order from the SEC, as of July 31, 2005, we are authorized to issue an aggregate of \$16 million of debt or preferred securities.

In the June 2005 Financing Order, the SEC "reserved jurisdiction" over a number of matters, meaning that an order will be required from the SEC before we may conduct those activities. However, an order regarding the activities over which the SEC has reserved jurisdiction generally can be issued by the SEC more quickly than orders on other matters, although there is no assurance that a release of jurisdiction will be granted on a given matter or the terms under which such an order may be issued. In the June 2005 Financing Order, the SEC reserved jurisdiction over all authority otherwise granted if the common equity level of CenterPoint Energy falls below its level as of March 31, 2005 (11.4% net of securitization debt) or if the common equity ratio of either us or CenterPoint Energy Resources Corp., another wholly owned subsidiary of CenterPoint Energy, falls below 30%. Among the other transactions over which the SEC reserved jurisdiction are: (i) issuance of securities by CenterPoint Energy or any of its subsidiaries, including us, unless our and the issuer's other securities which are rated have an investment grade rating from at least one nationally recognized statistical rating organization, (ii) further investment in inactive subsidiaries and (iii) payment of dividends by us from capital or unearned surplus. The June 2005 Financing Order also contains certain requirements for interest rates, maturities, issuance expenses and use of proceeds in connection with securities issued by CenterPoint Energy or any of its subsidiaries, including us. So long as the common equity of CenterPoint Energy is less than 30% of its capitalization, the SEC also reserved jurisdiction over the use of proceeds from authorized financings for the acquisition of additional energy-related or gas-related companies. Finally, the SEC reserved jurisdiction over the issuance of \$500 million in incremental debt by us. The total authorized amount of debt and preferred securities that could be outstanding during the authorization period, including the amounts over which the SEC has reserved jurisdiction and undrawn amounts under our revolving credit facilities, is \$4.280 billion. The foregoing and the following restrictions contained in the June 2005 Financing Order, along with other restrictions contained in that order, will cease to apply to us on the effective date of repeal of the 1935 Act.

The 1935 Act limits the payment of dividends to payment from current and retained earnings unless specific authorization is obtained to pay dividends from other sources. We expect to pay dividends out of current earnings. The June 2005 Financing Order also requires that we maintain a ratio of common equity to total capitalization of 30%, although the SEC has permitted the percentage to be below this level for other companies taking into account non-recourse securitization debt as a component of capitalization. At June 30, 2005, our ratio (excluding transition bonds) was 43%.

Other Factors Affecting the Upstreaming of Cash to Parent. Our term loan, subject to certain exceptions, limits the application of proceeds, in excess of \$200 million, from capital markets transactions and certain other borrowing transactions, by us to repayment of debt existing as of November 2002.

We plan to distribute recovery of the true-up components not used to repay our indebtedness to CenterPoint Energy through the payment of dividends. We require SEC action to approve any dividends in excess of our current and retained earnings. To maintain our capital structure at the appropriate levels, CenterPoint Energy may reinvest funds in us in the form of equity contributions or intercompany loans.

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

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Our significant accounting policies are discussed in Note 2 to the consolidated financial statements in the CenterPoint Houston 10-K (CenterPoint Houston 10-K Notes). We believe the following accounting policies involve the application of critical accounting estimates. Accordingly, these accounting estimates have been reviewed and discussed with the audit committee of the board of directors of CenterPoint Energy.

ACCOUNTING FOR RATE REGULATION

SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated entities account for and report assets and liabilities consistent with the recovery of those incurred costs in rates if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Application of SFAS No. 71 to the electric generation portion of our predecessor's business was discontinued as of June 30, 1999. We continue to apply SFAS No. 71 which results in our accounting for the regulatory effects of recovery of stranded costs and other regulatory assets resulting from the unbundling of the transmission and distribution business from the electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Significant accounting estimates embedded within the application of SFAS No. 71 relate to \$2.1 billion of recoverable electric generation-related regulatory assets as of June 30, 2005. These costs are recoverable under the provisions of the Texas electric restructuring law. Based on our analysis of the True-Up Order, we recorded an after-tax charge to earnings in 2004 of approximately \$977 million to write-down our electric generation-related regulatory assets to their realizable value, which was reflected as an extraordinary loss. Based on subsequent orders received from the Texas Utility Commission, we recorded an extraordinary gain of \$30 million after-tax in the second quarter of 2005.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

We review the carrying value of our long-lived assets, including identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Unforeseen events and changes in circumstances and market conditions and material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows, regulatory matters and operating costs could negatively affect the fair value of our assets and result in an impairment charge.

Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques.

UNBILLED REVENUES

Revenues related to the delivery of electricity are generally recorded when electricity is delivered to customers. However, the determination of electricity deliveries to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of electricity delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled electricity delivery revenue is estimated each month based on daily supply volumes, applicable rates and analyses reflecting significant historical trends and experience. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2005 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of certain legal and regulatory proceedings affecting us, please review Notes 3 and 6 to our Interim Financial Statements, "Business - - Regulation" and " - - Environmental Matters" in Item 1 of the CenterPoint Houston Form 10-K, "Legal Proceedings" in Item 3 of the CenterPoint Houston Form 10-K and Notes 4 and 9(b) to the CenterPoint Houston 10-K Notes, each of which is incorporated herein by reference.

ITEM 5. OTHER INFORMATION

RISK FACTORS

PRINCIPAL RISK FACTORS ASSOCIATED WITH OUR BUSINESS

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

On March 31, 2004, we filed the final true-up application required by the Texas electric restructuring law with the Texas Utility Commission. Our requested true-up balance was \$3.7 billion, excluding interest and net of the retail clawback payable to us by a former affiliate. In December 2004, the Texas Utility Commission approved a final order in our true-up proceeding authorizing us to recover \$2.3 billion including interest through August 31, 2004, subject to adjustments to reflect the benefit of certain deferred taxes and the accrual of interest and payment of excess mitigation credits after August 31, 2004. In January 2005, we appealed certain aspects of the final order seeking to increase the true-up balance ultimately recovered by us. Other parties have also appealed the order, seeking to reduce the amount authorized for our recovery. No prediction can be made as to the ultimate outcome or timing of such appeals. A failure by us to recover the full value of our true-up components may have an adverse impact on our results of operations, financial condition and cash flows.

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

Our receivables from the distribution of electricity are collected from retail electric providers that supply the electricity we distribute to their customers. Currently, we do business with approximately 63 retail electric providers. Adverse economic conditions, structural problems in the market served by ERCOT or financial difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for our services or could cause them to delay such payments. We depend on these retail electric providers to remit payments on a timely basis. Any delay or default in payment could adversely affect our cash flows, financial condition and results of operations. RRI, through its subsidiaries, is our largest customer. Approximately 64% of our \$154 million in billed receivables from retail electric providers at June 30, 2005 was owed by subsidiaries of RRI.

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

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

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

We depend on power generation facilities owned by third parties to provide retail electric providers with electric power which we transmit and distribute to customers of the retail electric providers. We do not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, our services may be interrupted, and our results of operations, financial condition and cash flows may be adversely affected.

OUR REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

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

RISK FACTORS ASSOCIATED WITH OUR CONSOLIDATED FINANCIAL CONDITION

IF WE ARE UNABLE TO ARRANGE FUTURE FINANCINGS ON ACCEPTABLE TERMS, OUR ABILITY REFINANCE EXISTING INDEBTEDNESS COULD BE LIMITED.

As of June 30, 2005, we had \$3.6 billion of outstanding indebtedness on a consolidated basis. As of June 30, 2005, approximately \$1.3 billion principal amount of this debt must be paid through 2006, excluding principal repayments of approximately \$85 million on transition bonds. The success of our future financing efforts may depend, at least in part, on:

- the timing and amount of our recovery of the true-up components;
- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings by us and CenterPoint Energy;
- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to RRI as our customer and in connection with its indemnification obligations arising in connection with its separation from CenterPoint Energy;
- provisions of relevant tax and securities laws; and
- our ability to obtain approval of specific financing transactions under the 1935 Act prior to the effective date of the repeal of the 1935 Act.

As of June 30, 2005, we had \$3.3 billion principal amount of general mortgage bonds outstanding and \$253 million of first mortgage bonds outstanding. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Although approximately \$600 million of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of June 30, 2005, we have agreed under the \$1.3 billion collateralized term loan maturing in November 2005 to not issue, subject to certain exceptions, more than \$200 million of any incremental secured or unsecured debt. In addition, we are contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds. Our \$1.3 billion credit facility requires that proceeds from the issuance of transition bonds and certain new net indebtedness for borrowed money we issue in excess of \$200 million be used to repay borrowings under such facility.

Our capital structure and liquidity will be affected significantly by the securitization of approximately \$1.8 billion of costs authorized for recovery in our proceeding regarding the transition to competitive retail markets in Texas.

Our current credit ratings are discussed in "Management's Narrative Analysis of Results of Operations -- Liquidity -- Impact on Liquidity of a Downgrade in Credit Ratings" in Item 2 of Part I of this report. These credit ratings may not remain in effect for any given period of time and one or more of these ratings may be lowered or

withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

AN INCREASE IN SHORT-TERM INTEREST RATES COULD ADVERSELY AFFECT OUR CASH FLOWS AND EARNINGS.

As of June 30, 2005, we had \$1.3 billion of outstanding floating-rate debt owed to third parties. The interest rate spreads on such debt are substantially above our historical interest rate spreads. In addition, any floating-rate debt issued by us in the future could be at interest rates substantially above our historical borrowing rates. An increase in short-term interest rates could result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

THE FINANCIAL CONDITION AND LIQUIDITY OF OUR PARENT COMPANY COULD AFFECT OUR ACCESS TO CAPITAL, OUR CREDIT STANDING AND OUR FINANCIAL CONDITION.

Our ratings and credit may be impacted by CenterPoint Energy's credit standing. As of June 30, 2005, CenterPoint Energy and its subsidiaries other than us have approximately \$477 million principal amount of debt required to be paid through 2006. This amount excludes amounts related to capital leases, securitization debt and indexed debt securities obligations. CenterPoint Energy and its other subsidiaries may not be able to pay or refinance these amounts. If CenterPoint Energy were to experience a deterioration in its credit standing or liquidity difficulties, our access to credit and our ratings could be adversely affected and the repayment of notes receivable from CenterPoint Energy in the amount of \$815 million as of June 30, 2005 could be adversely affected.

WE ARE AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY. CENTERPOINT ENERGY CAN EXERCISE SUBSTANTIAL CONTROL OVER OUR BUSINESS AND OPERATIONS AND COULD DO SO IN A MANNER THAT IS ADVERSE TO OUR INTERESTS.

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

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

There are no contractual restrictions on our ability to pay dividends to CenterPoint Energy. Our management could decide to increase our dividends to CenterPoint Energy to support its cash needs. This could adversely affect our liquidity. Under the 1935 Act, our ability to pay dividends is restricted by the SEC's requirement that common equity as a percentage of total capitalization must be at least 30% after the payment of any dividend. Under our credit facilities, our ability to pay dividends is restricted by a covenant that debt, excluding transition bonds, as a percentage of total capitalization may not exceed 68%.

OTHER RISKS

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

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

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

In connection with the organization and capitalization of RRI, RRI and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. RRI also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the transferred assets and businesses. The indemnity provisions were intended to place sole financial responsibility on RRI and its subsidiaries for all liabilities associated with the current and historical businesses and operations of RRI, regardless of the time those liabilities arose. If RRI is unable to satisfy a liability that has been so assumed in circumstances in which Reliant Energy has not been released from the liability in connection with the transfer, we or CenterPoint Energy could be responsible for satisfying the liability.

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

Reliant Energy and RRI are named as defendants in a number of lawsuits arising out of power sales in California and other West Coast markets and financial reporting matters. Although these matters relate to the business and operations of RRI, claims against Reliant Energy have been made on grounds that include the effect of RRI's financial results on Reliant Energy's historical financial statements and liability of Reliant Energy as a controlling shareholder of RRI. We could incur liability if claims in one or more of these lawsuits were successfully asserted against us or CenterPoint Energy and indemnification from RRI were determined to be unavailable or if RRI were unable to satisfy indemnification obligations owed with respect to those claims.

In connection with the organization and capitalization of Texas Genco, Texas Genco assumed liabilities associated with the electric generation assets Reliant Energy transferred to it. Texas Genco also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, CenterPoint Energy and its subsidiaries, including us, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were held by us and we were not released by third parties from these liabilities. The indemnity provisions were intended generally to place sole financial responsibility on Texas Genco and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Texas Genco, regardless of the time those liabilities arose. In connection with the sale of Texas Genco's fossil generation assets (coal, lignite and gas-fired plants) to Texas Genco LLC, the separation agreement CenterPoint Energy entered into with Texas Genco in connection with the organization and capitalization of Texas Genco was amended to provide that all of Texas Genco's rights and obligations under the separation agreement relating to its fossil generation assets, including Texas Genco's obligation to indemnify us with respect to liabilities associated with the fossil generation assets and related business, were assigned to and assumed by Texas Genco LLC. In addition, under the amended separation agreement, Texas Genco is no longer liable for, and CenterPoint Energy has assumed and agreed to indemnify Texas Genco LLC against, liabilities that Texas Genco originally assumed in connection with its organization to the extent, and only to the extent, that such liabilities are covered by certain insurance policies or other similar agreements held by CenterPoint Energy. If Texas Genco or Texas Genco LLC were unable to satisfy a liability that had been so assumed or indemnified against, and provided Reliant Energy had not been released from the liability in connection with the transfer, we could be responsible for satisfying the liability.

WE, AS A SUBSIDIARY OF CENTERPOINT ENERGY, A HOLDING COMPANY, ARE SUBJECT TO REGULATION UNDER THE 1935 ACT. THE 1935 ACT AND RELATED RULES AND REGULATIONS IMPOSE A NUMBER OF RESTRICTIONS ON OUR ACTIVITIES.

CenterPoint Energy and its subsidiaries, including us, are subject to regulation by the SEC under the 1935 Act. The 1935 Act, among other things, limits the ability of a holding company and its regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliated service, sales and construction contracts.

CenterPoint Energy received an order from the SEC under the 1935 Act on June 29, 2005 relating to its financing activities. Unforeseen events could result in capital needs in excess of authorized amounts, necessitating further authorization from the SEC. Approval of filings under the 1935 Act can take extended periods.

President Bush has signed legislation that repeals the 1935 Act effective in 2006. We cannot predict at this time the effect of the repeal on our business.

OUR INSURANCE COVERAGE MAY NOT BE SUFFICIENT. INSUFFICIENT INSURANCE COVERAGE AND INCREASED INSURANCE COSTS COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

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

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

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

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
3.1	Articles of Organization of CenterPoint Energy Houston Electric, LLC	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(b)
3.2	Limited Liability Company Regulations of CenterPoint Energy Houston Electric, LLC	CenterPoint Houston's Form 8-K dated August 31, 2002 filed with the SEC on September 3, 2002	1-3187	3(c)
4.1.1	\$1,310,000,000 Credit Agreement dated as of November 12, 2002, among CenterPoint Houston and the banks named therein	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(g)(1)
4.1.2	First Amendment to Exhibit 4.1.1, dated as of September 3, 2003	CenterPoint Energy's Form 10-Q for the quarter ended September 30, 2003	1-31447	10.7
4.1.3	Pledge Agreement, dated as of November 12, 2002 executed in connection with Exhibit 4.1.1	CenterPoint Energy's Form 10-K for the year ended December 31, 2002	1-31447	4(g)(2)
4.2	\$200,000,000 Credit Agreement dated as of March 7, 2005 among CenterPoint Houston and the banks named therein	CenterPoint Houston's Form 8-K dated March 7, 2005	1-3187	4.2

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
4.3	\$1,310,000,000 Credit Agreement dated as of March 7, 2005 among CenterPoint Houston and the banks named therein	CenterPoint Houston's Form 8-K dated March 7, 2005	1-3187	4.3
10.1	City of Houston Franchise Ordinance	CenterPoint Energy's Form 10-Q for the quarter ended June 30, 2005	1-31447	10.1
+31.1	Rule 13a-14(a)/15d- 14(a) Certification of David M. McClanahan			
+31.2	Rule 13a-14(a)/15d- 14(a) Certification of Gary L. Whitlock			
+32.1	Section 1350 Certification of David M. McClanahan			
+32.2	Section 1350 Certification of Gary L. Whitlock			
+99.1	Items incorporated by reference from the CenterPoint Houston Form 10-K. Item 1 "Business -- Regulation," " -- Environmental Matters," Item 3 "Legal Proceedings" and Item 7 "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" and Notes 2(e) (Regulatory Assets and Liabilities), 4 (Regulatory Matters) and 9 (Commitments and Contingencies).			

SIGNATURES

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

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ James S. Brian

James S. Brian

Senior Vice President and Chief
Accounting Officer

Date: August 11, 2005

EXHIBIT INDEX

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

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CERTIFICATIONS

I, David M. McClanahan, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2005

/s/ David M. McClanahan

David M. McClanahan
Chairman (Principal Executive Officer)

CERTIFICATIONS

I, Gary L. Whitlock, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2005

/s/ Gary L. Whitlock

 Gary L. Whitlock
 Executive Vice President and
 Chief Financial Officer

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

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the period ended June 30, 2005 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Manager and Principal Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

/s/ David M. McClanahan

David M. McClanahan
Manager and Principal Executive Officer
August 11, 2005

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

In connection with the Quarterly Report of CenterPoint Energy Houston Electric, LLC (the "Company") on Form 10-Q for the period ended June 30, 2005 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Gary L. Whitlock, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

/s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer
August 11, 2005

ITEM 1. BUSINESS

REGULATION

We are subject to regulation by various federal, state and local governmental agencies, including the regulations described below.

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

As a subsidiary of a registered public utility holding company, we are subject to a comprehensive regulatory scheme imposed by the SEC in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, we are generally required to obtain approval from the SEC under the 1935 Act.

CenterPoint Energy received an order from the SEC under the 1935 Act on June 30, 2003 and supplemental orders thereafter relating to its financing activities and those of its regulated subsidiaries, including us, as well as other matters. The orders are effective until June 30, 2005. As of December 31, 2004, the orders generally permitted CenterPoint Energy and its subsidiaries, including us, to issue securities to refinance indebtedness outstanding at June 30, 2003, and authorized CenterPoint Energy and its subsidiaries, including us, to issue certain incremental external debt securities and common and preferred stock through June 30, 2005 in specified amounts, without prior authorization from the SEC. The orders also contain certain requirements regarding ratings of CenterPoint Energy's securities, interest rates, maturities, issuance expenses and use of proceeds. The orders require that we maintain a ratio of common equity to total capitalization of at least 30%. We intend to file an application for approval of our post-June 30, 2005 financing activities.

The United States Congress from time to time considers legislation that would repeal the 1935 Act. We cannot predict at this time whether this legislation or any variation thereof will be adopted or, if adopted, the effect of any such law on our business.

FEDERAL ENERGY REGULATORY COMMISSION

We are not a "public utility" under the Federal Power Act and therefore are not generally regulated by the Federal Energy Regulatory Commission (FERC), although certain of our transactions are subject to limited FERC jurisdiction.

STATE AND LOCAL REGULATION

We conduct operations pursuant to a certificate of convenience and necessity issued by the Texas Utility Commission that covers our present service area and facilities. In addition, we hold non-exclusive franchises, typically having a term of 50 years, from the incorporated municipalities in our service territory. These franchises give us the right to construct, operate and maintain our transmission and distribution system within the streets and public ways of these municipalities for the purpose of delivering electric service to the municipality, its residents and businesses in exchange for payment of a fee. The franchise for the City of Houston is scheduled to expire in 2007.

All retail electric providers in our service area pay the same rates and other charges for transmission and distribution services.

Our distribution rates charged to retail electric providers for residential customers are based on amounts of energy delivered, whereas distribution rates for a majority of commercial and industrial customers are based on peak demand. Transmission rates charged to other distribution companies are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted. All distribution companies in ERCOT pay us the same rates and other charges for transmission services. Our transmission and distribution rates have been in effect since January 1, 2002, when electric competition began. This regulated delivery charge includes the transmission and distribution rate (which includes costs for nuclear decommissioning and

municipal franchise fees), a system benefit fund fee imposed by the Texas electric restructuring law, a transition charge associated with securitization of regulatory assets and an excess mitigation credit imposed by the Texas Utility Commission.

ENVIRONMENTAL MATTERS

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

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

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

- construct or acquire new equipment; and
- modify or replace existing and proposed equipment.

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

The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. We try to anticipate future regulatory requirements that might be imposed and plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance.

We do not believe that compliance with federal, state or local environmental laws and regulations will have a material adverse effect on our business, financial position or results of operations. In addition, we believe that the various environmental remediation activities in which we are presently engaged will not materially interrupt or diminish our operational ability. We cannot assure you, however, that future events, such as changes in existing laws, the promulgation of new laws, or the development or discovery of new facts or conditions will not cause us to incur significant costs. The following is a discussion of all material environmental and safety laws and regulations that relate to our operations. We believe that we are in substantial compliance with all of these environmental laws and regulations.

AIR EMISSIONS

Our operations are subject to the federal Clean Air Act and comparable state laws and regulations. These laws and regulations regulate emissions of air pollutants from various industrial sources and also impose various monitoring and reporting requirements. Such laws and regulations may require that we obtain pre-approval for the construction or modification of certain projects or facilities expected to produce air emissions or result in the increase of existing air emissions, obtain and strictly comply with air permits containing various emissions and operational limitations, or utilize specific emission control technologies to limit emissions. Our failure to comply with these requirements could subject us to monetary penalties, injunctions, conditions or restrictions on operations, and potentially criminal enforcement actions. We may be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions. We believe, however, that our operations will not be materially adversely affected by such requirements, and the requirements are not expected to be any more burdensome to us than to any other similarly situated companies.

WATER DISCHARGES

Our operations are subject to the Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state laws and regulations. These laws and regulations impose detailed requirements and strict controls regarding the discharge of pollutants into waters of the United States. The unpermitted discharge of pollutants, including discharges resulting from a spill or leak incident, is prohibited. The Clean Water Act and regulations implemented thereunder also prohibit discharges of dredged and fill material in wetlands and other waters of the United States unless authorized by an appropriately issued permit. Any unpermitted release of petroleum or other pollutants from our pipelines or facilities could result in fines or penalties as well as significant remedial obligations.

HAZARDOUS WASTE

Our operations generate wastes, including some hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act (RCRA), and comparable state laws, which impose detailed requirements for the handling, storage, treatment and disposal of hazardous and solid waste. RCRA currently exempts many natural gas gathering and field processing wastes from classification as hazardous waste. Specifically, RCRA excludes from the definition of hazardous waste produced waters and other wastes associated with the exploration, development, or production of crude oil and natural gas. However, these oil and gas exploration and production wastes are still regulated under state law and the less stringent non-hazardous waste requirements of RCRA. Moreover, ordinary industrial wastes such as paint wastes, waste solvents, laboratory wastes, and waste compressor oils may be regulated as hazardous waste. The transportation of natural gas in pipelines may also generate some hazardous wastes that are subject to RCRA or comparable state law requirements.

LIABILITY FOR REMEDIATION

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), also known as "Superfund," and comparable state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons responsible for the release of hazardous substances into the environment. Such classes of persons include the current and past owners or operators of sites where a hazardous substance was released, and companies that disposed or arranged for disposal of hazardous substances at offsite locations such as landfills. In the course of our ordinary operations we generate wastes that may fall within the definition of a "hazardous substance." CERCLA authorizes the United States Environmental Protection Agency (EPA) and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. Under CERCLA, we could be subject to joint and several liability for the costs of cleaning up and restoring sites where hazardous substances have been released, for damages to natural resources, and for the costs of certain health studies.

LIABILITY FOR PREEXISTING CONDITIONS

Asbestos. A number of facilities owned by CenterPoint Energy contain significant amounts of asbestos insulation and other asbestos-containing materials. CenterPoint Energy or its subsidiaries, including us, have been named, along with numerous others, as a defendant in lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos. Most claimants in such litigation have been workers who participated in construction of various industrial facilities, including power plants. Some of the claimants have worked at locations owned by CenterPoint Energy, but most existing claims relate to facilities previously owned by CenterPoint Energy but currently owned by Texas Genco LLC. We anticipate that additional claims like those received may be asserted in the future. Under the terms of the separation agreement between CenterPoint Energy and Texas Genco, ultimate financial responsibility for uninsured losses relating to these claims has been assumed by Texas Genco, but under the terms of its agreement to sell Texas Genco to Texas Genco LLC, CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from Texas Genco LLC. Although their ultimate outcome cannot be predicted at this time, we intend to continue vigorously contesting claims that we do not consider to have merit and do not believe, based on our experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 3. LEGAL PROCEEDINGS

For a brief description of certain legal and regulatory proceedings affecting us, please read "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 4 and 9(b) to our consolidated financial statements, which information is incorporated herein by reference.

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS - CERTAIN FACTORS AFFECTING FUTURE EARNINGS

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

Our past earnings and results of operations are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on or be affected by numerous factors including:

- the timing and amount of our recovery of the true-up components;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation, constraints placed on our activities or business by the 1935 Act, changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
 - allowed rates of return;
 - rate structures;
 - recovery of investments; and
 - operation and construction of facilities;
- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- changes in interest rates or rates of inflation;
- weather variations and other natural phenomena;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, receipt of certain financing approvals under the 1935 Act, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- non-payment for our services due to financial distress of our customers, including RRI;
- the outcome of the pending securities lawsuits against us, Reliant Energy and RRI;
- the ability of RRI to satisfy its obligations to us, including indemnity obligations;
- our ability to control costs;
- the investment performance of CenterPoint Energy's employee benefit plans;
- our internal restructuring or other restructuring options that may be pursued;
- our potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed or beneficial to us; and
- other factors discussed in Item 1 of this report under "Risk Factors."

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) REGULATORY ASSETS AND LIABILITIES

The Company applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2003 and 2004:

	DECEMBER 31,	
	2003	2004
	(IN MILLIONS)	
Recoverable electric generation-related regulatory assets.....	\$ 3,226	\$ 1,946
Securitized regulatory asset.....	682	647
Unamortized loss on reacquired debt.....	80	80
Estimated removal costs.....	(232)	(249)
Other long-term regulatory assets/liabilities.....	32	32
	-----	-----
Total.....	\$ 3,788	\$ 2,456

If events were to occur that would make the recovery of these assets and liabilities no longer probable, the Company would be required to write-off or write-down these regulatory assets and liabilities. During 2004, the Company wrote-off net regulatory assets of \$1.5 billion in response to the Public Utility Commission of Texas' (Texas Utility Commission) order on the Company's final true-up application. For further discussion of regulatory assets, see Note 4.

The Company's rate-regulated businesses recognize removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2003 and 2004, these removal costs of \$232 million and \$249 million, respectively, are classified as regulatory liabilities in the Consolidated Balance Sheets. The Company has also identified other asset retirement obligations that cannot be estimated because the assets associated with the retirement obligations have an indeterminate life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) REGULATORY MATTERS

(a) 2004 TRUE-UP PROCEEDING

In March 2004, the Company filed the final true-up application required by the Texas electric restructuring law with the Texas Utility Commission (2004 True-Up Proceeding). The Company's requested true-up balance was \$3.7 billion, excluding interest and net of the retail clawback from RRI described below. In June, July and September 2004, the Texas Utility Commission conducted hearings on, and held public meetings addressing, the Company's true-up application. In December 2004, the Texas Utility Commission approved a final order in the Company's true-up proceeding (2004 Final Order) authorizing the Company to recover \$2.3 billion including interest through August 31, 2004, subject to adjustments to reflect the benefit of certain deferred taxes and the accrual of interest and payment of excess mitigation credits after August 31, 2004. As a result of the 2004 Final Order, the Company wrote-off net regulatory assets of \$1.5 billion and recorded a related income tax benefit of \$526 million, resulting in an after-tax charge of \$977 million, which is reflected as an extraordinary loss in the Company's Statements of Consolidated Operations. The Company recorded an expected loss of \$894 million in the third quarter of 2004 and increased this amount by \$83 million in the fourth quarter of 2004 based on the Company's assessment of the amounts ultimately recoverable. In January 2005, the Company appealed certain aspects of the final order seeking to increase the true-up balance ultimately recovered by the Company. Other parties have also appealed the order, seeking to reduce the amount authorized for the Company's recovery. Although the Company believes it has meritorious arguments and that the other parties' appeals are without merit, no prediction can be made as to the ultimate outcome or timing of such appeals.

The Company has recorded as a regulatory asset a return of \$374 million on the true-up balance for the period from January 1, 2002 through December 31, 2004 as allowed by the Texas Utility Commission's 2004 Final Order. The Company, under the 2004 Final Order, will continue to accrue a return until the true-up balance is recovered by the Company, either from rate payers or through a securitization offering as discussed below. The rate of return is based on the Company's cost of capital, established in the Texas Utility Commission's final order issued in October 2001 (2001 Final Order), which is derived from the Company's cost to finance assets and an allowance for earnings on shareholders' investment. Accordingly, in accordance with SFAS No. 92, "Regulated Enterprises - Accounting for Phase-in Plans," the rate of return has been bifurcated into components representing a return of costs to finance assets and an allowance for earnings on shareholders' investment. The component representing a return of costs to finance assets of \$226 million has been recognized in the fourth quarter of 2004 and is included in other income in the Company's Statements of Consolidated Operations. The component representing a return of costs to finance assets will continue to be recognized as earned going forward. The component representing an allowance for earnings on shareholders' investment of \$148 million has been deferred and will be recognized as it is collected through rates in the future.

In November 2004, RRI paid \$177 million to the Company, representing the "retail clawback" determined by the Texas Utility Commission in the 2004 True-Up Proceeding. The Texas electric restructuring law requires the Texas Utility Commission to determine the retail clawback if the formerly integrated utility's affiliated retail electric provider retained more than 40 percent of its residential price-to-beat customers within the utility's service area as of January 1, 2004 (offset by new customers added outside the service territory). That retail clawback is a credit against the stranded costs the utility is entitled to recover and was reflected in the \$2.3 billion recovery authorized. Under the terms of a master separation agreement between RRI and the Company, RRI agreed to pay the Company the amount of the retail clawback determined by the Texas Utility Commission. The payment was used by the Company to reduce outstanding indebtedness.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Texas electric restructuring law provides for the use of special purpose entities to issue transition bonds for the economic value of generation-related regulatory assets and stranded costs. These transition bonds will be amortized over a period not to exceed 15 years through non-bypassable transition charges. In October 2001, a special purpose subsidiary of the Company issued \$749 million of transition bonds to securitize certain generation-related regulatory assets. These transition bonds have a final maturity date of September 15, 2015 and are non-recourse to the Company and its subsidiaries other than to the special purpose issuer. Payments on the transition bonds are made solely out of funds from non-bypassable transition charges.

In December 2004, the Company filed for approval of a financing order to issue transition bonds to securitize its true-up balance. On March 9, 2005, the Texas Utility Commission issued a financing order allowing the Company to securitize approximately \$1.8 billion and requiring that the benefit of certain deferred taxes be reflected as a reduction in the competition transition charge. The Company anticipates that a new special purpose subsidiary of the Company will issue bonds in one or more series through an underwritten offering. Depending on market conditions and the impact of possible appeals of the financing order, among other factors, the Company anticipates completing such an offering in 2005.

In January 2005, the Company filed an application for a competition transition charge to recover its true-up balance. The Company will adjust the amount sought through that charge to the extent that it is able to securitize any of such amount. Under the Texas Utility Commission's rules, the unrecovered true-up balance to be recovered through the competition transition charge earns a return until fully recovered.

In the 2001 Final Order, the Texas Utility Commission established the transmission and distribution rates that became effective in January 2002. Based on its 2001 revision of the 1998 stranded cost estimates, the Texas Utility Commission determined that the Company had over-mitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its 1998 transition plan and the Texas electric restructuring law. In the 2001 Final Order, the Company was required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the 1998 transition plan and the Texas electric restructuring law. In accordance with the 2001 Final Order, the Company recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation, and in January 2002 the Company began paying excess mitigation credits, which were to be paid over a seven-year period with interest at 7 1/2% per annum. The annual payment of excess mitigation credits is approximately \$264 million. In its December 2004 final order in the 2004 True-Up Proceeding, the Texas Utility Commission found that the Company did, in fact, have stranded costs (as originally estimated in 1998). Despite this ruling, the Texas Utility Commission denied the Company recovery of approximately \$180 million of the interest portion of the excess mitigation credits already paid by the Company and refused to terminate future excess mitigation credits. In January 2005, the Company filed a writ of mandamus petition with the Texas Supreme Court asking that court to order the Texas Utility Commission to terminate immediately the payment of all excess mitigation credits and to ensure full recovery of all excess mitigation credits. Although the Company believes it has meritorious arguments, a writ of mandamus is an extraordinary remedy and no prediction can be made as to the ultimate outcome or timing of the mandamus petition. If the Supreme Court denies the Company's mandamus petition, it will continue to pursue this issue through regular appellate mechanisms. On March 1, 2005, a non-unanimous settlement was filed in Docket No. 30774, which involves the adjustment of RRI's Price-to-Beat. Under the terms of that settlement, the excess mitigation credits being paid by the Company would be terminated as of April 29, 2005. The Texas Utility Commission approved the settlement on March 9, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(b) FINAL FUEL RECONCILIATION

On March 4, 2004, an Administrative Law Judge (ALJ) issued a Proposal for Decision (PFD) relating to the Company's final fuel reconciliation. The Company reserved \$117 million, including \$30 million of interest, in the fourth quarter of 2003 reflecting the ALJ's recommendation. On April 15, 2004, the Texas Utility Commission affirmed the PFD's finding in part, reversed in part, and remanded one issue back to the ALJ. On May 28, 2004, the Texas Utility Commission approved a settlement of the remanded issue and issued a final order which reduced the disallowance. As a result of the final order, the Company reversed \$23 million, including \$8 million of interest, of the \$117 million reserve recorded in the fourth quarter of 2003. The results of the Texas Utility Commission's final decision are a component of the 2004 True-Up Proceeding. The Company has appealed certain portions of the Texas Utility Commission's final order involving a disallowance of approximately \$67 million relating to the final fuel reconciliation plus interest of \$10 million. Briefs on this issue were filed on January 5, 2005, and a hearing on this issue is scheduled for April 22, 2005.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) COMMITMENTS AND CONTINGENCIES

(a) LEASE COMMITMENTS

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2004, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions).

2005.....	\$ 5
2006.....	6
2007.....	5
2008.....	3
2009.....	-

Total.....	\$ 19
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Total lease expense for all operating leases was approximately \$5 million, \$5 million and \$4 million for the years ended December 31, 2002, 2003 and 2004, respectively.

(b) LEGAL AND ENVIRONMENTAL MATTERS

Legal Matters

RRI Indemnified Litigation

The Company, CenterPoint Energy or their predecessor, Reliant Energy, and certain of their former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between CenterPoint Energy and RRI, CenterPoint Energy and its subsidiaries, including the Company, are entitled to be indemnified by RRI for any losses, including attorneys' fees and other costs, arising out of the lawsuits described below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. Pursuant to the indemnification obligation, RRI is defending CenterPoint Energy and its subsidiaries, including the Company, to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

Electricity and Gas Market Manipulation Cases. A large number of lawsuits have been filed against numerous market participants and remain pending in both federal and state courts in California and Nevada in connection with the operation of the electricity and natural gas markets in California and certain other western states in 2000-2001, a time of power shortages and significant increases in prices. These lawsuits, many of which have been filed as class actions, are based on a number of legal theories, including violation of state and federal antitrust laws, laws against unfair and unlawful business practices, the federal Racketeer Influenced Corrupt Organization Act, false claims statutes and similar theories and breaches of contracts to supply power to governmental entities. Plaintiffs in these lawsuits, which include state officials and governmental entities as well as private litigants, are seeking a variety of forms of relief, including recovery of compensatory damages (in some cases in excess of \$1 billion), a trebling of compensatory damages and punitive damages, injunctive relief, restitution, interest due, disgorgement, civil penalties and fines, costs of suit, attorneys' fees and divestiture of assets. To date, some of these complaints have been dismissed by the trial court and are on appeal, several of which dismissals have been affirmed by the appellate courts, but most of the lawsuits remain in early procedural stages. The Company's former subsidiary, RRI, was a participant in the California markets, owning generating plants in the state and participating in both electricity and natural gas trading in that state and in western power markets generally. RRI, some of its subsidiaries and, in some cases, corporate officers of some of those companies have been named as defendants in these suits.

CenterPoint Energy or its and the Company's predecessor, Reliant Energy, have been named in approximately 30 of these lawsuits, which were instituted between 2001 and 2004 and are pending in California state courts in Alameda County, Los Angeles County, San Francisco County, San Mateo County and San Diego County, in Nevada state court in Clark County, in federal district courts in San Francisco, San Diego, Los Angeles, Fresno, Sacramento and Nevada and before the Ninth Circuit Court of Appeals. However, the Company, CenterPoint Energy and Reliant Energy were not participants in the electricity or natural gas markets in California. CenterPoint Energy and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court and CenterPoint Energy believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from such remaining cases.

On July 6, 2004 and on October 12, 2004, the Ninth Circuit affirmed CenterPoint Energy's removal to federal district court of two electric cases brought by the California Attorney General and affirmed the federal court's dismissal of these cases based upon the filed rate doctrine and federal preemption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Class Action Lawsuits. Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of RRI and/or Reliant Energy have been consolidated in federal district court in Houston. RRI and certain of its former and current executive officers are named as defendants. The consolidated complaint also names RRI, Reliant Energy, the underwriters of the initial public offering of RRI's common stock in May 2001 (RRI Offering), and RRI's and Reliant Energy's independent auditors as defendants. The consolidated amended complaint seeks monetary relief purportedly on behalf of purchasers of common stock of Reliant Energy or RRI during certain time periods ranging from February 2000 to May 2002, and purchasers of common stock that can be traced to the RRI Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001. In January 2004 the trial judge dismissed the plaintiffs' allegations that the defendants had engaged in fraud, but claims based on alleged misrepresentations in the registration statement issued in the RRI Offering remain. In June 2004, the plaintiffs filed a motion for class certification, which the court granted in February 2005. The defendants have appealed the court's order certifying the class.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former officers of RRI for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to artificially inflate trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law. In January 2004 the trial judge ordered dismissal of plaintiffs' claims on the ground that they did not set forth a claim. The plaintiffs filed an amended complaint in March 2004, which the defendants asked the court to dismiss. On August 18, 2004, the court granted the defendants' motion to dismiss with prejudice.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Two of the lawsuits have been dismissed without prejudice. Reliant Energy and certain current and former members of its benefits committee are the remaining defendants in the third lawsuit. That lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act of 1974. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaint seeks monetary damages for losses suffered on behalf of the plans and a putative class of plan participants whose accounts held Reliant Energy or RRI securities, as well as restitution. In July 2004, another class action suit was filed in federal court on behalf of the Reliant Energy Savings Plan and a class consisting of participants in that plan against Reliant Energy and the Reliant Energy Benefits Committee. The allegations and the relief sought in the new suit are substantially similar to those in the previously pending suit; however, the new suit also alleges that Reliant Energy and its Benefits Committee breached their fiduciary duties to the Savings Plan and its participants by investing plan funds in Reliant Energy stock when Reliant Energy or its subsidiaries were allegedly manipulating the California energy market. On October 14, 2004, the plaintiff voluntarily dismissed the newly filed lawsuit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In October 2002, a derivative action was filed in the federal district court in Houston against the directors and officers of the Company. The complaint set forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleged that the defendants caused the Company to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleged breach of fiduciary duty in connection with the spin-off of RRI and the RRI Offering. The complaint sought monetary damages on behalf of the Company as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. The Company's board of directors investigated that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a Company shareholder. The second letter demanded that the Company take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. In June 2003, the board determined that these proposed actions would not be in the best interests of the Company. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on the Company before filing suit. Thereafter, the plaintiff sent another demand asserting the same claims.

The Company believes that none of the lawsuits described under Other Class Action Lawsuits has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to the plaintiffs.

Other Legal Matters

Texas Antitrust Actions. In July 2003, Texas Commercial Energy filed in federal court in Corpus Christi, Texas a lawsuit against Reliant Energy, the Company and CenterPoint Energy, as successors to Reliant Energy, Genco LP, RRI, Reliant Energy Solutions, LLC, several other RRI subsidiaries and a number of other participants in the Electric Reliability Council of Texas (ERCOT) power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit sought damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. In June 2004, the federal court dismissed the plaintiff's claims and in July 2004, the plaintiff filed a notice of appeal. The Company is vigorously contesting the appeal. The ultimate outcome of this matter cannot be predicted at this time.

In February 2005, Utility Choice Electric filed in federal court in Houston, Texas a lawsuit against the Company, CenterPoint Energy, CenterPoint Energy Gas Services, Inc., CenterPoint Energy Alternative Fuels, Inc., Genco LP and a number of other participants in the ERCOT power market. The plaintiff, a retail electricity provider with the ERCOT market, alleged that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws, intentionally interfered with prospective business relationships and contracts, and committed fraud and negligent misrepresentation. The plaintiff's principal allegations had previously been investigated by the Texas Utility Commission and found to be without merit. The Company intends to vigorously defend the case. The ultimate outcome of this matter cannot be predicted at this time.

Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit in state district court in Harris County, Texas for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of the Company's predecessor, Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claimed that they were entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. After a jury trial involving the Three Cities' claims (but not the class of cities), the trial court entered a judgment on the Three Cities' breach of contract claims for \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. It also decertified the class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 27, 2003, a state court of appeals in Houston rendered an opinion reversing the judgment against the Company and rendering judgment that the Three Cities take nothing by their claims. The court of appeals held that all of the Three Cities' claims were barred by the jury's finding of laches, a defense similar to the statute of limitations, due to the Three Cities' having unreasonably delayed bringing their claims during the more than 30 years since the alleged wrongs began. The court also held that the Three Cities were not entitled to recover any attorneys' fees. The Three Cities filed a petition for review to the Texas Supreme Court, which declined to hear the case. Thus, the Three Cities' claims have been finally resolved in the Company's favor, but the individual claims of the 45 cities remain pending in the same court.

ENVIRONMENTAL MATTERS

Asbestos. A number of facilities owned by CenterPoint Energy contain significant amounts of asbestos insulation and other asbestos-containing materials. CenterPoint Energy or its subsidiaries, including the Company, have been named, along with numerous others, as a defendant in lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos. Most claimants in such litigation have been workers who participated in construction of various industrial facilities, including power plants. Some of the claimants have worked at locations owned by CenterPoint Energy, but most existing claims relate to facilities previously owned by CenterPoint Energy but currently owned by Texas Genco LLC. The Company anticipates that additional claims like those received may be asserted in the future. Under the terms of the separation agreement between CenterPoint Energy and Texas Genco, ultimate financial responsibility for uninsured losses relating to these claims has been assumed by Texas Genco, but under the terms of its agreement to sell Texas Genco to Texas Genco LLC, CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from Texas Genco LLC. Although their ultimate outcome cannot be predicted at this time, the Company intends to continue vigorously contesting claims that it does not consider to have merit and does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Other Proceedings

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.