

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 May 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 MARCH 31, 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), 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 beneficial to us; and
- other factors we discuss in "Risk Factors" beginning on page 10 of the CenterPoint Energy Houston Electric, LLC Annual Report on Form 10-K for the year ended December 31, 2004.

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 MARCH 31,	
	2004	2005
REVENUES.....	\$ 330,313	\$ 344,994
EXPENSES:		
Operation and maintenance.....	133,280	139,307
Depreciation and amortization.....	65,073	75,446
Taxes other than income taxes.....	47,045	50,549
Total.....	245,398	265,302
OPERATING INCOME.....	84,915	79,692
OTHER INCOME (EXPENSE):		
Interest and other finance charges.....	(77,087)	(75,448)
Interest on transition bonds.....	(9,674)	(9,220)
Return on true-up balance.....	--	34,082
Other, net.....	6,903	10,795
Total.....	(79,858)	(39,791)
INCOME BEFORE INCOME TAXES.....	5,057	39,901
Income Tax Expense.....	(1,752)	(11,773)
NET INCOME .....	\$ 3,305	\$ 28,128

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)

ASSETS

	DECEMBER 31, 2004	MARCH 31, 2005
	-----	-----
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents.....	\$ 24,928	\$ 10,414
Accounts and notes receivable, net.....	124,452	115,628
Accounts and notes receivable -- affiliated companies, net.....	57,656	--
Accrued unbilled revenues.....	74,089	64,563
Materials and supplies.....	52,886	50,513
Taxes receivable.....	62,078	126,647
Deferred tax asset.....	78,656	78,656
Other.....	12,201	11,741
	-----	-----
Total current assets.....	486,946	458,162
	-----	-----
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Property, plant and equipment.....	6,245,302	6,279,183
Less accumulated depreciation and amortization.....	(2,203,846)	(2,241,931)
	-----	-----
Property, plant and equipment, net.....	4,041,456	4,037,252
	-----	-----
<b>OTHER ASSETS:</b>		
Other intangibles, net.....	38,349	38,189
Regulatory assets.....	3,328,865	3,367,852
Notes receivable -- affiliated companies.....	814,513	814,513
Other.....	72,624	57,865
	-----	-----
Total other assets.....	4,254,351	4,278,419
	-----	-----
<b>TOTAL ASSETS.....</b>	<b>\$ 8,782,753</b>	<b>\$ 8,773,833</b>
	=====	=====

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)

LIABILITIES AND MEMBER'S EQUITY

	DECEMBER 31, 2004	MARCH 31, 2005
	-----	-----
<b>CURRENT LIABILITIES:</b>		
Current portion of transition bond long-term debt.....	\$ 46,806	\$ 49,352
Current portion of other long-term debt.....	1,310,106	1,310,107
Accounts payable.....	40,852	26,313
Accounts and notes payable -- affiliated companies, net.....	--	74,377
Taxes accrued.....	104,862	46,698
Interest accrued.....	67,897	39,170
Regulatory liabilities.....	224,732	224,732
Other.....	57,706	55,912
	-----	-----
Total current liabilities.....	1,852,961	1,826,661
	-----	-----
<b>OTHER LIABILITIES:</b>		
Accumulated deferred income taxes, net.....	1,377,199	1,390,821
Unamortized investment tax credits.....	48,874	47,131
Benefit obligations.....	128,092	127,519
Regulatory liabilities.....	648,305	601,028
Notes payable -- affiliated companies.....	150,850	150,850
Accounts payable -- affiliated companies.....	303,472	303,472
Other.....	18,174	15,390
	-----	-----
Total other liabilities.....	2,674,966	2,636,211
	-----	-----
<b>LONG-TERM DEBT:</b>		
Transition bonds.....	628,903	610,453
Other.....	1,592,429	1,647,153
	-----	-----
Total long-term debt.....	2,221,332	2,257,606
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 6)</b>		
<b>MEMBER'S EQUITY:</b>		
Common stock.....	1	1
Paid-in capital.....	2,278,090	2,269,823
Retained deficit.....	(244,597)	(216,469)
	-----	-----
Total member's equity.....	2,033,494	2,053,355
	-----	-----
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY.....</b>	<b>\$ 8,782,753</b>	<b>\$ 8,773,833</b>
	=====	=====

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)

	THREE MONTHS ENDED MARCH 31,	
	2004	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income.....	\$ 3,305	\$ 28,128
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization.....	65,073	75,446
Amortization of deferred financing costs.....	7,674	8,282
Deferred income taxes.....	20,666	11,997
Investment tax credits.....	(1,743)	(1,743)
Changes in other assets and liabilities:		
Accounts and notes receivable, net.....	(12,951)	18,350
Accounts receivable/payable, affiliates.....	18,878	(14,298)
Inventory.....	2,145	2,373
Accounts payable.....	(3,595)	(14,539)
Taxes receivable.....	99,110	(64,569)
Interest and taxes accrued.....	(82,087)	(95,158)
Net regulatory assets and liabilities.....	(57,638)	(88,007)
Other current assets.....	3,512	460
Other current liabilities.....	(4,944)	(1,794)
Other assets.....	(10,109)	(7,213)
Other liabilities.....	8,411	(1,732)
Other, net.....	2,136	73
Net cash provided by (used in) operating activities.....	57,843	(143,944)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures and other.....	(44,863)	(53,484)
Net cash used in investing activities.....	(44,863)	(53,484)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Long-term revolving credit facility, net.....	--	55,000
Proceeds from issuance of long-term debt.....	229,050	--
Payments of long-term debt.....	(14,013)	(16,252)
Increase (decrease) in short-term notes with affiliates, net.....	(2,894)	146,331
Decrease in long-term notes payable, affiliates.....	(229,050)	--
Debt issuance costs.....	(10,712)	(2,177)
Other, net.....	7	12
Net cash provided by (used in) financing activities.....	(27,612)	182,914
NET DECREASE IN CASH AND CASH EQUIVALENTS.....	(14,632)	(14,514)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	30,720	24,928
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 16,088	\$ 10,414
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Payments:		
Interest.....	\$ 108,789	\$ 108,563
Income taxes (refunds).....	(13,810)	76,088

See Notes to the Company's Interim Financial Statements



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.

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 March 2005, the Financial Accounting Standards Board (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.

During 2004, the Public Utility Commission of Texas (Texas Utility Commission) issued its final determination of the stranded costs and other amounts the Company will be entitled to recover from customers under the Texas electric restructuring law (True-Up Order). In that True-Up Order, the Texas Utility Commission authorized recovery of approximately \$2.3 billion, including interest through August 31, 2004, and provided for adjustment of the amount to be recovered to reflect interest on the balance until recovery, the principal portion of additional excess mitigation credits (EMCs) returned to customers after August 31, 2004, and certain other matters. The Company had filed for recovery of \$3.7 billion, not including interest. 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. A hearing on the True-Up Order appeal is scheduled for August 2005. In view of the Texas Utility Commission's ruling that EMCs must continue, even after the determination of stranded costs, the Company also filed with the Supreme Court of Texas (Texas Supreme Court) a petition for a writ of mandamus, seeking a ruling that the EMCs should terminate and that CenterPoint Houston should be allowed to recover fully the EMCs previously issued. The Texas Supreme Court has discretion to grant or reject the petition, and it has requested the parties to file briefs on issues raised in the petition, but it is still unknown whether the court will grant the relief requested or when it might complete its consideration of the petition.

As a result of a settlement reached in a separate proceeding involving Reliant Energy, Inc.'s (RRI) Price-to Beat, EMCs were terminated as of April 29, 2005. Nevertheless, the Company will continue to pursue its writ of mandamus to recover the portion of EMCs the Company is not permitted to recover under the True-Up Order.

The Company expects to recover the amounts authorized in the True-Up Order either through proceeds from the issuance of transition bonds under the Texas electric restructuring law or through the imposition of a non-bypassable charge called a Competition Transition Charge (CTC). On March 16, 2005, the Texas Utility Commission issued its written financing order to the Company. The financing order authorized the issuance of transition bonds under the terms of the Texas electric restructuring law in the amount of approximately \$1.8 billion so that the Company could begin to recover its stranded costs and certain other amounts authorized under the Texas electric restructuring law.

Several parties have filed appeals of the financing order with the district court in Travis County, Texas. Those appeals include, among other claims, assertions that transition bonds cannot be issued until after pending appeals of the True-Up Order are finally resolved, that the amount of transition bonds authorized was excessive based on the parties' views of the stranded costs that the Texas Utility Commission should have authorized the Company to recover, and that the Texas Utility Commission was in error in ordering that the effects of certain accumulated deferred federal income taxes be reflected in a reduction in the proposed CTC instead of as a reduction of the amount of transition bonds.

The Texas electric restructuring law provides for expedited appeals from a financing order. Appeals were required to be filed with the district court in Travis County, Texas, within 15 days of the issuance of a financing order by the Texas Utility Commission, and any further appeals from a decision of the district court must be made directly to the Texas Supreme Court, bypassing review by the court of appeals. The Texas electric restructuring law also limits appeals to whether the financing order conforms to the Texas Constitution and law and is within the authority of the Texas Utility Commission. The Texas Supreme Court has previously held that securitization is constitutional. Expedited securitization appeals are based on the Texas Utility Commission record and appellate briefs.

While it is not possible to predict with certainty the outcome of these appeals of the financing order or the timing of their ultimate resolution, the Company intends to vigorously oppose them and to seek expedited consideration of them as directed by the statute. The Company intends to argue that the financing order should be affirmed because plaintiffs' contentions do not satisfy the statutory requirements for an appeal, and the financing order is within the authority of the Texas Utility Commission.

The Company will not be able to issue transition bonds while the appeals of the financing order are pending. Prior to the appeals, 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. A hearing on the appeals is scheduled for August 2005.

In January 2005, the Company filed an application with the Texas Utility Commission for a CTC under which it would recover its adjusted true-up balance that has not been securitized. Hearings were conducted in early April 2005 on that application, with an order expected from the Texas Utility Commission in late May 2005.

The Company recorded as a regulatory asset a return of \$62 million on the true-up balance for the first quarter of 2005 as allowed by the True-Up Order. The Company, under the True-Up Order, will continue to accrue a return until the true-up balance is recovered by the Company. 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 debt return of \$34 million is 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 \$28 million has been deferred and will be recognized in income as it is collected through rates in the future. As of March 31, 2005, the Company has recognized a regulatory asset of \$260 million related to the debt return on its true-up balance and has deferred an equity return of \$176 million.

(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.

(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 would lower or raise the increment to LIBOR depending on whether ratings improved or were lowered. As of March 31, 2005, borrowings of \$55 million were 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. Changes in credit ratings would 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	MARCH 31, 2005
	-----	-----
	(IN MILLIONS)	
Accounts receivable from affiliates.....	\$ 17	\$ 26
Accounts payable to affiliates.....	(32)	(27)
Notes receivable/(payable) -- affiliated companies (1).....	73	(73)
	-----	-----
Accounts and notes receivable/(payable) -- affiliated companies, net...	\$ 58	\$ (74)
	=====	=====
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) This note represents money pool borrowings and investments.

For the three months ended March 31, 2004 and 2005, the Company had net interest income related to affiliate borrowings of \$2 million and \$9 million, 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 \$24 million and \$26 million for the three months ended March 31, 2004 and 2005, respectively, and are included primarily in operation and maintenance expenses.

Major Customers. During the three months ended March 31, 2004 and 2005, revenues derived from energy delivery charges provided by the Company to a subsidiary of RRI totaled \$199 million and \$183 million, respectively.

(6) COMMITMENTS AND CONTINGENCIES

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, but the time for appeal of that decision has not yet passed. 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 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. 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.

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 and have asked the trial court to reconsider its ruling certifying the class. The case is currently scheduled for trial in early 2006.

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.

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 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.

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.

#### Other 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.

#### 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.

#### Nuclear Decommissioning Trusts

The Company, as collection agent for the nuclear decommissioning charge assessed on its transmission and distribution customers, contributed \$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 contribute \$2.9 million in 2005. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the Nuclear Regulatory Commission (NRC) 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. The securities held by the trusts for decommissioning costs had an estimated fair value of \$217 million as of March 31, 2005. In May 2004, an outside consultant estimated Texas Genco's portion of decommissioning costs to be approximately \$456 million. While the funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. 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 MARCH 31,	
	2004	2005
	(IN MILLIONS)	
Interest cost.....	\$ 4	\$ 4
Expected return on plan assets.....	(2)	(3)
Net amortization.....	2	2
	-----	-----
Net periodic cost.....	\$ 4	\$ 3
	=====	=====

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 March 31, 2005, \$2 million has been contributed.

On January 21, 2005, the Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) released final regulations governing the Medicare prescription drug benefit and other key elements of the Medicare Modernization Act (MNA) that will go into effect January 1, 2006. Under the final regulations, it has been determined that a greater portion of benefits offered under the Company's plans meets the definition of actuarial equivalence and therefore qualifies for federal subsidies equal to 28% of allowable drug costs. As a result, the Company has remeasured its obligations and costs to take into account the new regulations.

(8) QUASI-REORGANIZATION

On December 30, 2004, the Manager of CenterPoint Houston adopted a plan for an accounting reorganization of the Company, to be effective as of January 1, 2005. The plan was adopted in order to eliminate the accumulated retained earnings deficit that exists at the Company.

The plan, as amended on February 23, 2005, required: (1) a report to be presented to and reviewed by the Company's Manager on or before February 28, 2005 as to the completion of the valuation analysis of the accounting reorganization and the effects of the accounting reorganization on the Company's financial statements, (2) a determination that the accounting reorganization is in accordance with accounting principles generally accepted in the United States, and (3) that there be no determination by the Company's Manager on or before May 10, 2005 that the accounting reorganization is inconsistent with the Company's regulatory obligations.

On April 27, 2005, the Manager of CenterPoint Houston determined that an accounting reorganization should not be implemented.



## 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 Ability to Issue Securities 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 months ended March 31, 2004 and the three months ended March 31, 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

During 2004, the Public Utility Commission of Texas (Texas Utility Commission) issued its final determination (True-Up Order) of the stranded costs and other amounts we will be entitled to recover from customers under the Texas Electric Choice Plan (Texas electric restructuring law). In that True-Up Order, the Texas Utility Commission authorized recovery of approximately \$2.3 billion, including interest through August 31, 2004, and provided for adjustment of the amount to be recovered to reflect interest on the balance until recovery, the principal portion of additional excess mitigation credits (EMCs) returned to customers after August 31, 2004, and certain other matters. We had filed for recovery of \$3.7 billion, not including interest. Both we and other parties filed appeals of the True-Up Order, and those appeals remain pending before a state district court in Travis County, Texas. A hearing on the True-Up Order appeal is scheduled for August 2005. In view of the Texas Utility Commission's ruling that EMCs must continue, even after the determination of stranded costs, we also filed with the Supreme Court of Texas (Texas Supreme Court) a petition for a writ of mandamus, seeking a ruling that the EMCs should terminate and that we should be allowed to recover fully the EMCs previously issued. The Texas Supreme Court has discretion to grant or reject the petition, and it has requested the parties to file briefs on issues raised in the petition, but it is still unknown whether the court will grant the relief requested or when it might complete its consideration of the petition.

As a result of a settlement reached in a separate proceeding involving Reliant Energy, Inc.'s (RRI) Price-to Beat, EMCs were terminated as of April 29, 2005. Nevertheless, we will continue to pursue our writ of mandamus to recover the portion of EMCs we are not permitted to recover under the True-Up Order.

We expect to recover the amounts authorized in the True-Up Order either through proceeds from the issuance of transition bonds under the Texas electric restructuring law or through the imposition of a non-bypassable charge called a Competition Transition Charge (CTC). On March 16, 2005, the Texas Utility Commission issued its written financing order to us. The financing order authorized the issuance of transition bonds under the terms of the Texas electric restructuring law in the amount of approximately \$1.8 billion so that we could begin to recover our stranded costs and certain other amounts authorized under the Texas electric restructuring law.

Several parties have filed appeals of the financing order with the district court in Travis County, Texas. Those appeals include, among other claims, assertions that transition bonds cannot be issued until after pending appeals of the True-Up Order are finally resolved, that the amount of transition bonds authorized was excessive based on the parties' views of the stranded costs that the Texas Utility Commission should have authorized us to recover, and that the Texas Utility Commission was in error in ordering that the effects of certain accumulated deferred federal

income taxes be reflected in a reduction in the proposed CTC instead of as a reduction of the amount of transition bonds.

The Texas electric restructuring law provides for expedited appeals from a financing order. Appeals were required to be filed with the district court in Travis County, Texas, within 15 days of the issuance of a financing order by the Texas Utility Commission, and any further appeals from a decision of the district court must be made directly to the Texas Supreme Court, bypassing review by the court of appeals. The Texas electric restructuring law also limits appeals to whether the financing order conforms to the Texas Constitution and law and is within the authority of the Texas Utility Commission. The Texas Supreme Court has previously held that securitization is constitutional. Expedited securitization appeals are based on the Texas Utility Commission record and appellate briefs.

While it is not possible to predict with certainty the outcome of these appeals of the financing order or the timing of their ultimate resolution, we intend to vigorously oppose them and to seek expedited consideration of them as directed by the statute. We intend to argue that the financing order should be affirmed because plaintiffs' contentions do not satisfy the statutory requirements for an appeal, and the financing order is within the authority of the Texas Utility Commission.

We will not be able to issue transition bonds while the appeals of the financing order are pending. Prior to the appeals, 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. A hearing on the appeals is scheduled for August 2005.

In January 2005, we filed an application with the Texas Utility Commission for a CTC under which we would recover our adjusted true-up balance that has not been securitized. Hearings were conducted in early April 2005 on that application, with an order expected from the Texas Utility Commission in late May 2005.

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

We may rely on our existing \$1.31 billion senior secured backstop credit facility to refinance our \$1.31 billion term loan when it matures in November 2005. That credit facility was obtained specifically to address such a situation and will effectively provide a two-year term loan at significantly lower interest rates to refinance the existing loan on maturity.

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 "Business -- Risk Factors" in Item 1 of the CenterPoint Houston Form 10-K and "Management's Narrative Analysis of Results of Operations -- Certain Factors Affecting Future Earnings" in Item 7 of the CenterPoint Houston Form 10-K, each of which is incorporated herein by reference.

The following table sets forth our consolidated results of operations for the three months ended March 31, 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 MARCH 31,	
	2004	2005
	(IN MILLIONS)	
Revenues:		
Electric revenues.....	\$ 315	\$ 323
Transition bond revenues.....	15	22
Total revenues.....	330	345
Expenses:		
Operation and maintenance.....	133	138
Depreciation and amortization.....	60	64
Taxes other than income taxes.....	47	50
Transition bond expenses.....	5	13
Total expenses.....	245	265
Operating income.....	85	80
Interest and other finance charges.....	(87)	(85)
Return on true-up balance.....	--	34
Other income, net.....	7	11
Income before income taxes.....	5	40
Income tax expense.....	(2)	(12)
Net income.....	\$ 3	\$ 28
	=====	=====
Actual gigawatt-hours (GWh) delivered:		
Residential.....	4,402	4,142
Total (1).....	15,520	15,826

(1) Usage volumes for commercial and industrial customers are included in total GWh delivered; however, the majority of these customers are billed on a peak demand (KW) basis and, as a result, revenues do not vary based on consumption.

THREE MONTHS ENDED MARCH 31, 2005 COMPARED TO THREE MONTHS ENDED MARCH 31, 2004

We reported operating income of \$80 million for the three months ended March 31, 2005, consisting of \$71 million for the regulated electric transmission and distribution utility and \$9 million for the transition bond company. For the three months ended March 31, 2004, operating income totaled \$85 million, consisting of \$75 million for the regulated electric transmission and distribution utility and \$10 million for the transition bond company. The transition bond company's operating income represents the amount necessary to pay interest on the transition bonds. Operating revenues increased \$8 million primarily from continued customer growth with the addition of 43,000 metered customers since March 2004 and higher transmission cost recovery. Additionally, operating expenses in 2005 increased primarily due to higher net transmission costs of \$5 million, higher property and state franchise taxes of \$5 million and increased depreciation and amortization of \$4 million, partially offset by reduced pension expense of \$4 million. Additionally, the increase in other income was primarily related to a \$34 million return on our true-up balance recorded in the first quarter of 2005 as a result of the True-Up Order.

## 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 and "Risk Factors" in Item 1 of Part I of the CenterPoint Houston Form 10-K, each of which is incorporated herein by reference.

### 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 remainder of 2005 include the following:

- the maturity of our \$1.31 billion term loan;
- approximately \$227 million of capital expenditures;
- an estimated \$10 million in refunds of excess mitigation credits through April 29, 2005, the date of termination of the credits; 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 may be utilized to refinance the \$1.31 billion term loan at maturity. 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.

The 1935 Act regulates our financing ability, as more fully described in "-- Certain Contractual and Regulatory Limits on Ability to Issue Securities 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 would 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. 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. Changes in credit ratings would 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 May 1, 2005, we had the following credit facilities (in millions):

DATE EXECUTED	SIZE OF FACILITY	AMOUNT UTILIZED AT	
		MAY 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 May 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 May 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 March 31, 2005 is approximately \$500 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 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 applicable to registered public utility holding companies under the 1935 Act and under an order from the SEC relating to our financing activities on June 30, 2003 (June 2003 Financing Order). This order expires in June 2005; however, CenterPoint Energy and its subsidiaries, including us, are seeking a new order providing appropriate approval for participation in the money pool by the end of June 2005. Our money pool borrowing limit under existing orders is \$600 million. At March 31, 2005, we had borrowings from the money pool of \$73 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 May 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 would 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.

Borrowings under our \$200 million credit facility and our \$1.31 billion 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.

**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 May 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 1 of the CenterPoint Houston Form 10-K.

**Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends.** Limitations imposed on us under the 1935 Act affect our ability to issue securities, pay dividends on our common stock or take other actions that affect our capitalization.

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 also contain EBITDA to interest covenants.

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.

The June 2003 Financing Order and the several subsequent orders we have received that provide additional financing authority are effective until June 30, 2005. These orders establish 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. As of April 30, 2005, we are authorized to issue an additional aggregate \$89 million of debt and an aggregate \$250 million of preferred stock and

preferred securities. The SEC has reserved jurisdiction over, and must take further action to permit the issuance of \$250 million of additional debt by us.

The orders require that if CenterPoint Energy or any of its regulated subsidiaries, including us, issue any securities that are rated by a nationally recognized statistical rating organization (NRSRO), the security to be issued must obtain an investment grade rating from at least one NRSRO and, as a condition to such issuance, all outstanding rated securities of the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The orders also contain certain requirements for interest rates, maturities, issuance expenses and use of proceeds.

CenterPoint Energy and certain of its subsidiaries, including us, have an application currently pending with the SEC for a new financing order which would govern financing by CenterPoint Energy and its subsidiaries after the expiration of the June 2003 Financing Order. We anticipate that the new order will be issued at or before the expiration of the existing order.

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 2003 Financing Order requires that we maintain a ratio of common equity to total capitalization of at least 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 March 31, 2005, our ratio (excluding transition bonds) was 41%.

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. 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.

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 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 our electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Significant accounting estimates embedded within the application of SFAS No. 71 relate to \$2.1 billion of recoverable electric generation-related regulatory assets as of March 31, 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.

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

#### OTHER SIGNIFICANT MATTERS

Quasi-Reorganization. On December 30, 2004, the Manager of CenterPoint Houston adopted a plan for an accounting reorganization of the company, to be effective as of January 1, 2005. The plan was adopted in order to eliminate the accumulated retained earnings deficit that exists at our company.

The plan, as amended on February 23, 2005, required: (1) a report to be presented to and reviewed by our Manager on or before February 28, 2005 as to the completion of the valuation analysis of the accounting reorganization and the effects of the accounting reorganization on our financial statements, (2) a determination that the accounting reorganization is in accordance with accounting principles generally accepted in the United States, and (3) that there be no determination by our Manager on or before May 10, 2005 that the accounting reorganization is inconsistent with our regulatory obligations.

On April 27, 2005, the Manager of CenterPoint Houston determined that an accounting reorganization should not be implemented.

#### ITEM 4. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 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 March 31, 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, 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 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
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
+31.1	Rule 13a-14(a)/15d-14(a) Certification of David M. McClanahan			

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
+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," " -- Risk Factors," 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

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James S. Brian  
Senior Vice President and Chief  
Accounting Officer

Date: May 11, 2005

## EXHIBIT INDEX

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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: May 11, 2005

/s/ David M. McClanahan

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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: May 11, 2005

/s/ Gary L. Whitlock

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 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 March 31, 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

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David M. McClanahan  
Manager and Principal Executive Officer  
May 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 March 31, 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

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Gary L. Whitlock  
Executive Vice President and Chief Financial Officer  
May 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.

## 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.

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. Although we believe we have 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. 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.

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 56 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 69% of our \$102 million in billed receivables from retail electric providers at December 31, 2004 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 incurred in a test year. Thus, the rates that we are allowed to charge may not match our expenses at any given time. While rate regulation in Texas is premised on providing an opportunity to recover reasonable and necessary operating expenses and to earn a reasonable return on our invested capital, there can be no assurance that the regulatory process in which rates are determined will 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 December 31, 2004, we had \$3.6 billion of outstanding indebtedness on a consolidated basis. As of March 11, 2005, approximately \$1.3 billion principal amount of this debt must be paid through 2006, excluding principal repayments of approximately \$101 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.

As of March 1, 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 \$500 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 December 31, 2004, 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 7 of Part II of this report. We cannot assure you that these credit ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. 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 December 31, 2004, 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. While we may seek to use interest rate swaps in order to hedge portions of our floating-rate debt, we may not be successful in obtaining hedges on acceptable terms. 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 March 11, 2005, CenterPoint Energy and its subsidiaries other than us have approximately \$518 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. We cannot assure you that CenterPoint Energy and its other subsidiaries will 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 December 31, 2004 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, Incorporated 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 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, Incorporated has not been released from the liability in connection with the transfer, we or CenterPoint Energy could be responsible for satisfying the liability.

RRI reported in its Annual Report on Form 10-K for the year ended December 31, 2004 that as of December 31, 2004 it had \$5.2 billion of total debt and its 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 30, 2003 relating to its financing activities, which is effective until June 30, 2005. Although authorized levels of financing, together with current levels of liquidity, are believed to be adequate during the period the order is effective, 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.

We must seek a new financing order under the 1935 Act for approval of our post-June 30, 2005 financing activities before the current financing order expires on June 30, 2005. If we are unable to obtain a new financing order, we would generally be unable to engage in any financing transactions, including the refinancing of existing obligations after June 30, 2005.

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.

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 would be entitled to seek to recover such loss or damage through a change in our regulated rates, although there is no assurance that we ultimately would obtain any such rate recovery or that any such rate recovery would be timely granted. Therefore, we cannot assure you that we will 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 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.

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.....	-
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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.



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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.

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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.

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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.