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

# FORM 10-Q

**(Mark One)**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014**

**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 1-13265

## CENTERPOINT ENERGY RESOURCES CORP.

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

| **Delaware** | **76-0511406** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **1111 Louisiana** | |
| **Houston, Texas 77002** | **(713) 207-1111** |
| *(Address and zip code of principal executive offices)* | *(Registrant's telephone number, including area code)* |

**CenterPoint Energy Resources Corp. 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 o

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

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

| Large accelerated filer o | Accelerated filer o | Non-accelerated filer ☑<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

As of July 24, 2014, all 1,000 shares of CenterPoint Energy Resources Corp. common stock were held by Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy, Inc.

**CENTERPOINT ENERGY RESOURCES CORP.**
**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTER ENDED JUNE 30, 2014**

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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:

- state and federal legislative and regulatory actions or developments affecting various aspects of our businesses (including the businesses of Enable Midstream Partners, LP (Enable)), including, among others, energy deregulation or re-regulation, pipeline integrity and safety, health care reform, financial reform, tax legislation and actions regarding the rates charged by our regulated businesses;
- local, state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change;
- timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment;
- the timing and outcome of any audits, disputes and other proceedings related to taxes;
- problems with construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or in cost overruns that cannot be recouped in rates;
- industrial, commercial and residential growth in our service territories and changes in market demand, including the effects of energy efficiency measures and demographic patterns;
- the timing and extent of changes in commodity prices, particularly natural gas and natural gas liquids (NGLs), and the effects of geographic and seasonal commodity price differentials;
- weather variations and other natural phenomena, including the impact of severe weather events on operations and capital;
- any direct or indirect effects on our facilities, operations and financial condition resulting from terrorism, cyber attacks, data security breaches or other attempts to disrupt our businesses or the businesses of third parties, or other catastrophic events;
- the impact of unplanned facility outages;
- changes in interest rates or rates of inflation;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by credit rating agencies;
- effectiveness of our risk management activities;
- inability of various counterparties to meet their obligations to us;
- non-payment for our services due to financial distress of our customers;

- the ability of GenOn Energy, Inc. (formerly known as RRI Energy, Inc., Reliant Energy, Inc. and Reliant Resources, Inc.), a wholly owned subsidiary of NRG Energy, Inc., and its subsidiaries to satisfy their obligations to us, including indemnity obligations, or obligations in connection with the contractual arrangements pursuant to which we are their guarantor;

- the outcome of litigation brought by or against us;

- our ability to control costs;

- the investment performance of CenterPoint Energy, Inc.'s pension and postretirement benefit plans;

- our potential business strategies, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses, which we cannot assure you will be completed or will have the anticipated benefits to us;

- acquisition and merger activities involving us or our competitors;

- future economic conditions in regional and national markets and their effect on sales, prices and costs;

- the performance of Enable, the amount of cash distributions we receive from Enable, and the value of our interest in Enable, and factors that may have a material impact on such performance, cash distributions and value, including certain of the factors specified above and:

    - the integration of the operations of the businesses we contributed to Enable with those contributed by OGE Energy Corp. (OGE) and affiliates of ArcLight Capital Partners, LLC (ArcLight);

    - the achievement of anticipated operational and commercial synergies and expected growth opportunities, and the successful implementation of its business plan;

    - competitive conditions in the midstream industry, and actions taken by Enable's customers and competitors, including the extent and timing of the entry of additional competition in the markets served by Enable;

    - the timing and extent of changes in the supply of natural gas and associated commodity prices, particularly prices of natural gas and NGLs, the competitive effects of the available pipeline capacity in the regions served by Enable, and the effects of geographic and seasonal commodity price differentials, including the effects of these circumstances on re-contracting available capacity on Enable's interstate pipelines;

    - the demand for natural gas, NGLs and transportation and storage services;

    - environmental and other governmental regulations, including the availability of drilling permits and the regulation of hydraulic fracturing;

    - changes in tax status;

    - access to growth capital; and

    - the availability and prices of raw materials for current and future construction projects; and

- other factors we discuss in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013 and in Item 1A of Part II of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, which are incorporated herein by reference, and other reports we file from time to time with the Securities and Exchange Commission.

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

PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Millions of Dollars)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Revenues** | $ 1,183 | $ 1,235 | $ 3,714 | $ 3,088 |
| **Expenses:** | | | | |
| Natural gas | 880 | 880 | 2,923 | 2,104 |
| Operation and maintenance | 179 | 209 | 378 | 460 |
| Depreciation and amortization | 51 | 56 | 100 | 133 |
| Taxes other than income taxes | 34 | 34 | 86 | 85 |
| Total | 1,144 | 1,179 | 3,487 | 2,782 |
| **Operating Income** | 39 | 56 | 227 | 306 |
| **Other Income (Expense):** | | | | |
| Interest and other finance charges | (34) | (37) | (69) | (82) |
| Equity in earnings of unconsolidated affiliates, net | 71 | 37 | 162 | 42 |
| Other, net | 2 | (5) | 4 | (5) |
| Total | 39 | (5) | 97 | (45) |
| **Income Before Income Taxes** | 78 | 51 | 324 | 261 |
| Income tax expense | 30 | 213 | 124 | 295 |
| **Net Income (Loss)** | $ 48 | $ (162) | $ 200 | $ (34) |

See Notes to the Interim Condensed Consolidated Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Net income (Loss) | $ 48 | $ (162) | $ 200 | $ (34) |
| Comprehensive income (Loss) | $ 48 | $ (162) | $ 200 | $ (34) |

See Notes to the Interim Condensed Consolidated Financial Statements

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

**ASSETS**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 5 | $ 1 |
| Accounts receivable, less bad debt reserve of $23 and $25, respectively | 486 | 565 |
| Accrued unbilled revenue | 83 | 311 |
| Accounts and notes receivable — affiliated companies | 171 | 44 |
| Materials and supplies | 41 | 34 |
| Natural gas inventory | 140 | 145 |
| Non-trading derivative assets | 26 | 24 |
| Taxes receivable | — | 18 |
| Deferred income tax assets | 16 | 21 |
| Prepaid expenses and other current assets | 93 | 51 |
| Total current assets | 1,061 | 1,214 |
| | | |
| **Property, Plant and Equipment:** | | |
| Property, plant and equipment | 5,052 | 4,815 |
| Less: accumulated depreciation and amortization | 1,460 | 1,379 |
| Property, plant and equipment, net | 3,592 | 3,436 |
| | | |
| **Other Assets:** | | |
| Goodwill | 840 | 840 |
| Non-trading derivative assets | 12 | 10 |
| Investment in unconsolidated affiliates | 4,517 | 4,518 |
| Notes receivable from unconsolidated affiliates | 363 | 363 |
| Other | 145 | 161 |
| Total other assets | 5,877 | 5,892 |
| | | |
| **Total Assets** | $ 10,530 | $ 10,542 |

See Notes to the Interim Condensed Consolidated Financial Statements

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

**LIABILITIES AND STOCKHOLDER'S EQUITY**

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Current Liabilities:** | | |
| Short-term borrowings | $ 42 | $ 43 |
| Accounts payable | 326 | 495 |
| Accounts and notes payable — affiliated companies | 69 | 103 |
| Taxes accrued | 42 | 74 |
| Interest accrued | 36 | 36 |
| Customer deposits | 78 | 78 |
| Non-trading derivative liabilities | 12 | 17 |
| Other | 155 | 163 |
| Total current liabilities | 760 | 1,009 |
| **Other Liabilities:** | | |
| Accumulated deferred income taxes, net | 2,195 | 2,082 |
| Non-trading derivative liabilities | 2 | 4 |
| Benefit obligations | 103 | 102 |
| Regulatory liabilities | 685 | 642 |
| Other | 156 | 160 |
| Total other liabilities | 3,141 | 2,990 |
| **Long-Term Debt** | 2,125 | 2,240 |
| **Commitments and Contingencies (Note 10)** | | |
| **Stockholder's Equity:** | | |
| Common stock | — | — |
| Paid-in capital | 2,417 | 2,416 |
| Retained earnings | 2,082 | 1,882 |
| Accumulated other comprehensive income | 5 | 5 |
| Total stockholder's equity | 4,504 | 4,303 |
| **Total Liabilities and Stockholder's Equity** | $ 10,530 | $ 10,542 |

See Notes to the Interim Condensed Consolidated Financial Statements

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| **Cash Flows from Operating Activities:** | | |
| Net income (loss) | $ 200 | $ (34) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 100 | 133 |
| Amortization of deferred financing costs | 5 | 6 |
| Deferred income taxes | 116 | 289 |
| Write-down of natural gas inventory | — | 3 |
| Equity in earnings of unconsolidated affiliates, net of distributions | 2 | (25) |
| Changes in other assets and liabilities: | | |
| Accounts receivable and unbilled revenues, net | 289 | 168 |
| Accounts receivable/payable - affiliated companies | 18 | (10) |
| Inventory | (2) | (1) |
| Taxes receivable | 18 | — |
| Accounts payable | (174) | (109) |
| Fuel cost recovery | (42) | 116 |
| Interest and taxes accrued | (32) | (22) |
| Non-trading derivatives, net | (11) | — |
| Margin deposits, net | (2) | 7 |
| Other current assets | 13 | 15 |
| Other current liabilities | (11) | (17) |
| Other assets | 13 | (7) |
| Other liabilities | 29 | 14 |
| Other, net | 3 | 1 |
| Net cash provided by operating activities | 532 | 527 |
| **Cash Flows from Investing Activities:** | | |
| Capital expenditures | (227) | (239) |
| Increase in notes receivable from unconsolidated affiliates | (141) | — |
| Investment in unconsolidated affiliates | (1) | — |
| Cash contribution to Enable | — | (38) |
| Other, net | (3) | — |
| Net cash used in investing activities | (372) | (277) |
| **Cash Flows from Financing Activities:** | | |
| Decrease in short-term borrowings, net | (1) | (1) |
| Payments of commercial paper, net | (118) | — |
| Proceeds from long-term debt | — | 1,050 |
| Payments of long-term debt | — | (525) |
| Decrease in notes payable - affiliated companies | (38) | (768) |
| Other, net | 1 | — |
| Net cash used in financing activities | (156) | (244) |
| | | |
| **Net Increase in Cash and Cash Equivalents** | 4 | 6 |
| **Cash and Cash Equivalents at Beginning of Period** | 1 | 1 |
| **Cash and Cash Equivalents at End of Period** | $ 5 | $ 7 |
| | | |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash Payments: | | |
| Interest, net of capitalized interest | $ 64 | $ 85 |
| Income taxes (refunds), net | (1) | 1 |
| Non-cash transactions: | | |
| Accounts payable related to capital expenditures | $ 26 | $ 33 |

See Notes to the Interim Condensed Consolidated Financial Statements

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (1) Background and Basis of Presentation

*General.* Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy Resources Corp. (CERC Corp.) are the condensed consolidated interim financial statements and notes (Interim Condensed Financial Statements) of CenterPoint Energy Resources Corp. and its subsidiaries (collectively, CERC). The Interim Condensed Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Annual Report on Form 10-K of CERC Corp. for the year ended December 31, 2013.

*Background.* CERC owns and operates natural gas distribution systems (Gas Operations) and owns an interest in Enable Midstream Partners, LP (Enable) as described in Note 6. A wholly owned subsidiary of CERC Corp. offers variable and fixed-price physical natural gas supplies primarily to commercial and industrial customers and electric and gas utilities. As of June 30, 2014, CERC Corp. also owned approximately 55.4% of the limited partner interests in Enable, which owns, operates and develops natural gas and crude oil infrastructure assets.

CERC Corp. is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company.

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

CERC's Interim Condensed Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the respective periods. Amounts reported in CERC's Condensed Statements of Consolidated Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests.

For a description of CERC's reportable business segments, see Note 12.

### (2) New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08 (ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which significantly changes the existing accounting guidance on discontinued operations. Under ASU 2014-08, only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results should be reported as a discontinued operation. ASU 2014-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. ASU 2014-08 should be applied to components classified as held for sale after its effective date. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption is expected to reduce the number of disposals that meet the definition of a discontinued operation.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09), which supersedes most current revenue recognition guidance. ASU 2014-09 provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner that depicts the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted, and entities have the option of using either a full retrospective or a modified retrospective adoption approach. Accordingly, CERC will adopt ASU 2014-09 on January 1, 2017, and is currently evaluating the impact that this standard will have on its financial position, results of operations, cash flows and disclosures.

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

## (3) Employee Benefit Plans

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (in millions) | | | |
| Interest cost on accumulated benefit obligation | $ 2 | $ 1 | 3 | 2 |
| Amortization of prior service cost | — | — | — | 1 |
| Amortization of loss | — | 1 | — | 1 |
| Net periodic cost | $ 2 | $ 2 | $ 3 | $ 4 |

CERC expects to contribute approximately $7 million to its postretirement benefit plan in 2014, of which $1 million and $3 million was contributed during the three and six months ended June 30, 2014, respectively.

## (4) Derivative Instruments

CERC is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. CERC utilizes derivative instruments such as physical forward contracts, swaps and options to mitigate the impact of changes in commodity prices and weather on its operating results and cash flows. Such derivatives are recognized in CERC's Consolidated Balance Sheets at their fair value unless CERC elects the normal purchase and sales exemption for qualified physical transactions. A derivative may be designated as a normal purchase or sale if the intent is to physically receive or deliver the product for use or sale in the normal course of business.

CenterPoint Energy has a Risk Oversight Committee composed of corporate and business segment officers that oversees all commodity price, weather and credit risk activities, including CERC's marketing, risk management services and hedging activities. The committee's duties are to establish CERC's commodity risk policies, allocate board-approved commercial risk limits, approve the use of new products and commodities, monitor positions and ensure compliance with CERC's risk management policies and procedures and limits established by CenterPoint Energy's board of directors.

CERC's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

### *(a) Non-Trading Activities*

*Derivative Instruments.* CERC enters into certain derivative instruments to manage physical commodity price risk and does not engage in proprietary or speculative commodity trading. These financial instruments do not qualify or are not designated as cash flow or fair value hedges.

*Weather Hedges.* CERC has weather normalization or other rate mechanisms that mitigate the impact of weather on its gas operations in Arkansas, Louisiana, Mississippi and Oklahoma. Gas operations in Texas and Minnesota do not have such mechanisms. As a result, fluctuations from normal weather may have a significant positive or negative effect on Gas Operations' results in these jurisdictions.

CERC entered into heating-degree day swaps for certain Gas Operations jurisdictions to mitigate the effect of fluctuations from normal weather on its results of operations and cash flows for the winter heating season, which contained a bilateral dollar cap of $15 million in 2012 - 2013 and $16 million in 2013 - 2014. The swaps are based on ten-year normal weather. During the three months ended June 30, 2014 and 2013, CERC recognized losses of $-0- and $3 million, respectively, related to these swaps. During the six months ended June 30, 2014 and 2013, CERC recognized losses of $7 million and $6 million, respectively, related to these swaps. Weather hedge gains and losses are included in revenues in the Condensed Statements of Consolidated Income.

*(b) Derivative Fair Values and Income Statement Impacts*

The following tables present information about CERC's derivative instruments and hedging activities. The first four tables provide a balance sheet overview of CERC's Derivative Assets and Liabilities as of June 30, 2014 and December 31, 2013, while the last two tables provide a breakdown of the related income statement impacts for the three and six months ended June 30, 2014 and 2013.

**Fair Value of Derivative Instruments**

| Total derivatives not designated as hedging instruments | Balance Sheet Location | June 30, 2014 Derivative Assets Fair Value | June 30, 2014 Derivative Liabilities Fair Value |
|---|---|---|---|
| | | (in millions) | |
| Natural gas derivatives (1) (2) | Current Assets: Non-trading derivative assets | $ 31 | $ 5 |
| Natural gas derivatives (1) (2) | Other Assets: Non-trading derivative assets | 14 | 2 |
| Natural gas derivatives (1) (2) | Current Liabilities: Non-trading derivative liabilities | 1 | 13 |
| Natural gas derivatives (1) (2) | Other Liabilities: Non-trading derivative liabilities | — | 2 |
| Total | | $ 46 | $ 22 |

(1) The fair value shown for natural gas contracts is comprised of derivative gross volumes totaling 603 Bcf or a net 97 Bcf long position. Of the net long position, basis swaps constitute 97 Bcf.

(2) Natural gas contracts are presented on a net basis in the Condensed Consolidated Balance Sheets. Natural gas contracts are subject to master netting arrangements. This netting applies to all undisputed amounts due or past due and causes derivative assets (liabilities) to be ultimately presented net in a liability (asset) account within the Condensed Consolidated Balance Sheets. The net of total non-trading derivative assets and liabilities was a $24 million asset as shown on CERC's Condensed Consolidated Balance Sheets (and as detailed in the table below), and was comprised of the natural gas contracts derivative assets and liabilities separately shown above.

**Offsetting of Natural Gas Derivative Assets and Liabilities**

| | June 30, 2014 Gross Amounts Recognized (1) | June 30, 2014 Gross Amounts Offset in the Consolidated Balance Sheets | June 30, 2014 Net Amount Presented in the Consolidated Balance Sheets (2) |
|---|---|---|---|
| | | (in millions) | |
| Current Assets: Non-trading derivative assets | $ 32 | $ (6) | $ 26 |
| Other Assets: Non-trading derivative assets | 14 | (2) | 12 |
| Current Liabilities: Non-trading derivative liabilities | (18) | 6 | (12) |
| Other Liabilities: Non-trading derivative liabilities | (4) | 2 | (2) |
| Total | $ 24 | $ — | $ 24 |

(1) Gross amounts recognized include some derivative assets and liabilities that are not subject to master netting arrangements.

(2) The derivative assets and liabilities on the Consolidated Balance Sheets exclude accounts receivable or accounts payable that, should they exist, could be used as offsets to these balances in the event of a default.

**Fair Value of Derivative Instruments**

| Total derivatives not designated as hedging instruments | Balance Sheet Location | December 31, 2013 Derivative Assets Fair Value | December 31, 2013 Derivative Liabilities Fair Value |
|---|---|---|---|
| | | (in millions) | |
| Natural gas derivatives (1) (2) (3) | Current Assets: Non-trading derivative assets | $ 28 | $ 4 |
| Natural gas derivatives (1) (2) | Other Assets: Non-trading derivative assets | 10 | — |
| Natural gas derivatives (1) (2) | Current Liabilities: Non-trading derivative liabilities | 4 | 21 |
| Natural gas derivatives (1) (2) | Other Liabilities: Non-trading derivative liabilities | 1 | 5 |
| Total | | $ 43 | $ 30 |

(1) The fair value shown for natural gas contracts is comprised of derivative gross volumes totaling 607 billion cubic feet (Bcf) or a net 46 Bcf long position. Of the net long position, basis swaps constitute 99 Bcf.

(2) Natural gas contracts are presented on a net basis in the Condensed Consolidated Balance Sheets. Natural gas contracts are subject to master netting arrangements. This netting applies to all undisputed amounts due or past due and causes derivative assets (liabilities) to be ultimately presented net in a liability (asset) account within the Condensed Consolidated Balance Sheets. The net of total non-trading derivative assets and liabilities was a $13 million asset as shown on CERC's Condensed Consolidated Balance Sheets (and as detailed in the table below), and was comprised of the natural gas contracts derivative assets and liabilities separately shown above offset by collateral netting of less than $1 million.

(3) The $28 million Derivative Current Asset includes $1 million related to physical forwards purchased from Enable.

**Offsetting of Natural Gas Derivative Assets and Liabilities**

| | December 31, 2013 Gross Amounts Recognized (1) | December 31, 2013 Gross Amounts Offset in the Consolidated Balance Sheets | December 31, 2013 Net Amount Presented in the Consolidated Balance Sheets (2) |
|---|---|---|---|
| | | (in millions) | |
| Current Assets: Non-trading derivative assets | $ 32 | $ (8) | $ 24 |
| Other Assets: Non-trading derivative assets | 11 | (1) | 10 |
| Current Liabilities: Non-trading derivative liabilities | (25) | 8 | (17) |
| Other Liabilities: Non-trading derivative liabilities | (5) | 1 | (4) |
| Total | $ 13 | $ — | $ 13 |

(1) Gross amounts recognized include some derivative assets and liabilities that are not subject to master netting arrangements.

(2) The derivative assets and liabilities on the Consolidated Balance Sheets exclude accounts receivable or accounts payable that, should they exist, could be used as offsets to these balances in the event of a default.

Realized and unrealized gains and losses on derivatives are recognized in the Condensed Statements of Consolidated Income as revenue for physical natural gas sales derivative contracts and as natural gas expense for financial natural gas derivatives and other physical natural gas derivatives.

**Income Statement Impact of Derivative Activity**

| Total derivatives not designated as hedging instruments | Income Statement Location | Three Months Ended June 30, 2014 | Three Months Ended June 30, 2013 |
|---|---|---|---|
| | | (in millions) | |
| Natural gas derivatives | Gains (Losses) in Revenue | $ 5 | $ 27 |
| Natural gas derivatives (1) | Gains (Losses) in Expense: Natural Gas | 4 | (18) |
| Total | | $ 9 | $ 9 |

**Income Statement Impact of Derivative Activity**

| Total derivatives not designated as hedging instruments | Income Statement Location | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
|---|---|---|---|
| | | (in millions) | |
| Natural gas derivatives | Gains (Losses) in Revenue | $ (96) | $ 13 |
| Natural gas derivatives (1) | Gains (Losses) in Expense: Natural Gas | 114 | (2) |
| Total | | $ 18 | $ 11 |

(1) The Gains (Losses) in Expense: Natural Gas includes $-0- and $2 million during the three and six months ended June 30, 2014 related to physical forwards purchased from Enable.

***(c) Credit Risk Contingent Features***

CERC enters into financial derivative contracts containing material adverse change provisions. These provisions could require CERC to post additional collateral if the Standard & Poor's Ratings Services or Moody's Investors Service, Inc. credit ratings of CERC are downgraded. The total fair value of the derivative instruments that contain credit risk contingent features that are in a net liability position at both June 30, 2014 and December 31, 2013 was $1 million. The aggregate fair value of assets that were posted as collateral was less than $1 million at both June 30, 2014 and December 31, 2013. If all derivative contracts (in a net liability position) containing credit risk contingent features were triggered at June 30, 2014 and December 31, 2013, less than $1 million and $1 million, respectively, of additional assets would be required to be posted as collateral.

**(5) Fair Value Measurements**

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

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are exchange-traded derivatives and equity securities.

Level 2: Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are derivatives with fair values based on inputs from actively quoted markets. A market approach is utilized to value CERC's Level 2 assets or liabilities.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Unobservable inputs reflect CERC's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. CERC develops these inputs based on the best information available, including CERC's own data. A market approach is utilized to value CERC's Level 3 assets or liabilities. Currently, CERC's Level 3 assets and liabilities are comprised of physical forward contracts and options. Level 3 physical forward contracts are valued using a discounted cash flow model which includes illiquid forward price curve locations (ranging from $2.62 to $4.98 per one million British thermal units) as an unobservable input. Level 3 options are valued through Black-Scholes (including forward start) option models which include option volatilities (ranging from 0 to 62%) as an unobservable input. CERC's Level 3 derivative assets and liabilities consist of both long and short positions (forwards and options) and their fair value is sensitive to forward prices and volatilities. If forward prices decrease, CERC's long forwards lose value whereas its short forwards gain in value. If volatility decreases, CERC's long options lose value whereas its short options gain in value.

CERC determines the appropriate level for each financial asset and liability on a quarterly basis and recognizes transfers between levels at the end of the reporting period. For the six months ended June 30, 2014, there were no transfers between Level 1 and 2. CERC also recognizes purchases of Level 3 financial assets and liabilities at their fair market value at the end of the reporting period.

The following tables present information about CERC's assets and liabilities (including derivatives that are presented net) measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, and indicate the fair value hierarchy of the valuation techniques utilized by CERC to determine such fair value.

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Netting Adjustments (1) | Balance as of June 30, 2014 |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **Assets** | | | | | |
| Corporate equities | $ 2 | $ — | $ — | $ — | $ 2 |
| Investments, including money market funds | 11 | — | — | — | 11 |
| Natural gas derivatives | 3 | 37 | 6 | (8) | 38 |
| Total assets | $ 16 | $ 37 | $ 6 | $ (8) | $ 51 |
| **Liabilities** | | | | | |
| Natural gas derivatives | $ 1 | $ 19 | $ 2 | $ (8) | $ 14 |
| Total liabilities | $ 1 | $ 19 | $ 2 | $ (8) | $ 14 |

(1) Amounts represent the impact of legally enforceable master netting arrangements that allow CERC to settle positive and negative positions and also include cash collateral of $-0- posted with the same counterparties.

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Netting Adjustments (1) | Balance as of December 31, 2013 |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **Assets** | | | | | |
| Corporate equities | $ 2 | $ — | $ — | $ — | $ 2 |
| Investments, including money market funds | 11 | — | — | — | 11 |
| Natural gas derivatives (2) | 5 | 33 | 5 | (9) | 34 |
| Total assets | $ 18 | $ 33 | $ 5 | $ (9) | $ 47 |
| **Liabilities** | | | | | |
| Natural gas derivatives | $ 1 | $ 27 | $ 2 | $ (9) | $ 21 |
| Total liabilities | $ 1 | $ 27 | $ 2 | $ (9) | $ 21 |

(1) Amounts represent the impact of legally enforceable master netting arrangements that allow CERC to settle positive and negative positions and also include cash collateral of less than $1 million posted with the same counterparties.

(2) The (Level 2) Natural gas derivative assets of $33 million includes $1 million related to physical forwards purchased from Enable.

The following table presents additional information about assets or liabilities, including derivatives that are measured at fair value on a recurring basis for which CERC has utilized Level 3 inputs to determine fair value:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| | Derivative Assets and Liabilities, net | | | |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| | (in millions) | | | |
| Beginning balance | $ 1 | $ 3 | $ 3 | $ 2 |
| Total gains | 2 | 1 | — | 3 |
| Total settlements | 1 | — | 2 | (1) |
| Transfers into Level 3 | — | — | (1) | — |
| Ending balance [(1)] | $ 4 | $ 4 | $ 4 | $ 4 |
| The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date | $ 1 | $ 2 | $ 2 | $ 3 |

(1) CERC did not have significant Level 3 purchases, sales or transfers out of Level 3 during the three or six months ended June 30, 2014 or 2013.

***Estimated Fair Value of Financial Instruments***

The fair values of cash and cash equivalents and short-term borrowings are estimated to be approximately equivalent to carrying amounts and have been excluded from the table below. Non-trading derivative assets and liabilities are stated at fair value and are excluded from the table below. The fair value of each debt instrument is determined by multiplying the principal amount of each debt instrument by the market price. These assets and liabilities, which are not measured at fair value in the Condensed Consolidated Balance Sheets but for which the fair value is disclosed, would be classified as Level 1 or Level 2 in the fair value hierarchy.

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in millions) | | | |
| Financial assets: | | | | |
| Notes receivable from unconsolidated affiliates | $ 363 | $ 369 | $ 363 | $ 363 |
| Financial liabilities: | | | | |
| Long-term debt | $ 2,125 | $ 2,466 | $ 2,240 | $ 2,466 |

**(6) Unconsolidated Affiliates**

On May 1, 2013 (the Closing Date) CERC Corp., OGE Energy Corp. (OGE) and ArcLight Capital Partners, LLC (ArcLight) closed on the formation of Enable. CERC has the ability to significantly influence the operating and financial policies of Enable and, accordingly, accounts for its investment in Enable using the equity method of accounting. Under the equity method, CERC will adjust its investment in Enable each period for contributions made, distributions received, CERC's share of Enable's comprehensive income and accretion of differences, as appropriate. CERC evaluates its equity method investments for impairment when events or changes in circumstances indicate there is a loss in value of the investment that is other than a temporary decline.

CERC's investment in Enable is considered to be a variable interest entity (VIE) because the power to direct the activities that most significantly impact Enable's economic performance does not reside with the holders of equity investment at risk. However, CERC is not considered the primary beneficiary of Enable since it does not have the power to direct the activities of Enable that are considered most significant to the economic performance of Enable. CERC's maximum exposure to loss related to Enable is limited to its equity investment as presented in the Condensed Consolidated Balance Sheet at June 30, 2014, CERC Corp.'s guarantee of collection of Enable's $1.1 billion senior notes due 2019 and 2024 (Guaranteed Senior Notes) and other guarantees discussed in Note 10, CERC Corp.'s $363 million notes receivable from Enable and outstanding current accounts receivable from Enable. CERC Corp.'s guarantee of Enable's Guaranteed Senior Notes is subordinated to all senior debt of CERC and is subject to automatic release on May 1, 2016. The $363 million of notes receivable from Enable bears interest at an annual rate of 2.10% to 2.45% and matures

in 2017. CERC recorded interest income of $2 million and $1 million during the three months ended June 30, 2014 and 2013, respectively, and $4 million and $1 million during the six months ended June 30, 2014 and 2013, respectively, for interest earned on or after the Closing Date and had interest receivable from Enable of $5 million and $4 million as of June 30, 2014 and December 31, 2013, respectively, on its notes receivable from Enable.

Effective on the Closing Date, CenterPoint Energy and Enable entered into a Services Agreement, Employee Transition Agreement, Transitional Services Agreement and other agreements (collectively, Transition Agreements) whereby CERC agreed to provide certain support services to Enable such as accounting, legal, risk management and treasury functions for an initial term ending on April 30, 2016. The support services automatically extend year-to-year at the end of the initial term, unless terminated by Enable with at least 90 days' notice. Enable may terminate the initial support services at any time with 180 days' notice if approved by the board of Enable's general partner. Additionally, CERC agreed to provide seconded employees to Enable to support its operations for an initial term ending on December 31, 2014, unless revised by mutual agreement with CERC, OGE and Enable prior to that date.

CERC billed Enable for reimbursement of transitional services, including the costs of seconded employees, $37 million and $28 million during the three months ended June 30, 2014 and 2013, respectively, and $82 million and $28 million during the six months ended June 30, 2014 and 2013, respectively, under the Transition Agreements for transition services incurred on or after the Closing Date. Actual transitional services costs are recorded net of reimbursements received from Enable. Effective April 1, 2014, Enable's general partner, CERC and OGE agreed to reduce certain governance related costs billed to Enable for transition services. CERC had accounts receivable from Enable of $20 million and $21 million as of June 30, 2014 and December 31, 2013, respectively, for amounts billed for transitional services, including the cost of seconded employees.

Enable, at its discretion, has the right to select and offer employment to seconded employees from CERC. CERC did not transfer any employees to Enable at formation of the partnership or at any time during the period from the Closing Date through June 30, 2014. As of June 30, 2014, CERC determined it cannot reasonably estimate the impact of the costs associated with the termination of employees related to the formation of Enable or transfer of employees from CERC to Enable, including the impact of the changes to the actuarial determination of employee benefit plan obligations. Pursuant to the Transition Agreements, Enable has agreed to reimburse CERC for severance and termination costs related to the termination of CERC's seconded employees, regardless of whether such seconded employees are offered employment by Enable.

On April 16, 2014, Enable completed its initial public offering (IPO) of 28,750,000 common units, at a price of $20.00 per unit, which included 3,750,000 common units sold by ArcLight pursuant to an over-allotment option that was fully exercised by the underwriters. Enable received $464 million in net proceeds from the sale of the units, after deducting underwriting fees, structuring fees and other offering costs. In connection with Enable's IPO, a portion of CERC's common units were converted into subordinated units, as discussed further below. Subsequent to the IPO, Enable continues to be equally controlled by CERC and OGE; each own 50% of the management rights in the general partner of Enable. CERC and OGE also own a 40% and 60% economic interest, respectively, in the incentive distribution rights held by the general partner of Enable.

As a result of Enable's IPO, CERC's limited partner interest in Enable was reduced from approximately 58.3% to approximately 54.7%. CERC accounted for the dilution of its investment in Enable as a result of Enable's IPO as a failed partial sale of in-substance real estate. CERC did not receive any cash from Enable's IPO and, as such, CERC did not recognize a gain or loss. CERC's basis difference in Enable was reduced for the impact of the Enable IPO.

In accordance with the Enable formation agreements, CERC had certain put rights, and Enable had certain call rights, exercisable with respect to the 25.05% interest in Southeast Supply Header, LLC (SESH) retained by CERC, under which CERC would contribute its retained interest in SESH, in exchange for a specified number of limited partner units in Enable and a cash payment, payable either from CERC to Enable or from Enable to CERC, to the extent of changes in the value of SESH subject to certain restrictions. Specifically, the rights were and are exercisable with respect to (1) a 24.95% interest in SESH (24.95% Put), which closed on May 30, 2014 as discussed below and (2) a 0.1% interest in SESH, which may be exercised no earlier than June 2015 for 25,341 common units in Enable.

On May 30, 2014, CERC closed its 24.95% Put and contributed to Enable its 24.95% interest in SESH in exchange for 6,322,457 common units of Enable, which increased CERC's limited partner interest in Enable from approximately 54.7% to approximately 55.4%. No cash payment was required to be made pursuant to the Enable formation agreements in connection with CERC's exercise of the 24.95% Put. CERC accounted for the contribution of its 24.95% interest in SESH to Enable in exchange for common units of Enable as a non-monetary transaction of in-substance real estate equity method investments. As such, CERC recorded the 6,322,457 common units at the historical cost of the contributed 24.95% interest in SESH of $198 million and recorded no gain or loss in

connection with its exercise of the 24.95% Put. As a result, CERC's basis difference in Enable was reduced for the impact of its exercise of the 24.95% Put.

CERC incurred natural gas expenses, including transportation and storage costs, of $27 million and $28 million, during the three months ended June 30, 2014 and 2013, respectively, and $75 million and $28 million during the six months ended June 30, 2014 and 2013, respectively, for transactions with Enable occurring on or after the Closing Date. CERC had accounts payable to Enable of $15 million and $22 million at June 30, 2014 and December 31, 2013, respectively, from such transactions.

As of June 30, 2014, CERC held an approximate 55.4% limited partner interest in Enable consisting of 94,126,366 common units and 139,704,916 subordinated units and a 0.1% interest in SESH. The principal difference between Enable common units and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution of available cash until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. If Enable does not pay distributions on its subordinated units, the subordinated units will not accrue arrearages for those unpaid distributions. At the end of the subordination period, CERC's subordinated units in Enable will be converted to common units in Enable on a one-for-one basis. On June 30, 2014, Enable's common units closed at $26.19 per unit on the New York Stock Exchange.

***Investment in Unconsolidated Affiliates:***

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| | (in millions) | |
| Enable | $ 4,517 | $ 4,319 |
| SESH (1) | — | 199 |
| Total | $ 4,517 | $ 4,518 |

(1) On May 30, 2014, CERC contributed a 24.95% interest in SESH to Enable, leaving CERC with a 0.1% interest in SESH as of June 30, 2014.

***Equity in Earnings of Unconsolidated Affiliates, net:***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (in millions) | | | |
| Enable (1) | $ 69 | $ 33 | $ 157 | $ 33 |
| SESH (2) | 2 | 4 | 5 | 9 |
| | $ 71 | $ 37 | $ 162 | $ 42 |

(1) On May 1, 2013, CERC formed Enable with OGE and ArcLight.

(2) On each of May 1, 2013 and May 30, 2014, CERC contributed a 24.95% interest in SESH to Enable, leaving CERC with a 0.1% interest in SESH as of June 30, 2014.

Summarized unaudited consolidated income information for Enable is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 (1) | 2014 | 2013 (1) |
| | (in millions) | | | |
| Operating revenues | $ 826 | $ 502 | $ 1,828 | $ 502 |
| Cost of sales, excluding depreciation and amortization | 478 | 295 | 1,111 | 295 |
| Operating income | 139 | 75 | 301 | 75 |
| Net income attributable to Enable | 120 | 65 | 269 | 65 |
| | | | | |
| CERC's approximate interest | $ 67 | $ 38 | $ 154 | $ 38 |
| Basis difference accretion (amortization) | 2 | (5) | 3 | (5) |
| CERC's equity in earnings, net | $ 69 | $ 33 | $ 157 | $ 33 |

(1) The summarized income information for Enable and CERC's equity in earnings, net of basis difference amortization, presented for the three and six months ended June 30, 2013 reflects Enable's operating results with the contributions from both OGE and CERC recorded at historical cost for the two-month period from the Closing Date to June 30, 2013.

Enable concluded that its formation was considered a business combination, in which the fair value of the consideration paid for Enogex, LLC (Enogex), the businesses contributed by OGE, was allocated to the assets acquired and liabilities assumed by Enable on the Closing Date. In the third quarter of 2013, Enable completed its valuation of Enogex, and Enogex's assets, liabilities and equity, and the related depreciation and amortization for the two-month period ended June 30, 2013, was accordingly adjusted to estimated fair value as of the Closing Date. CERC's equity in earnings, net of basis difference, in the second quarter of 2013 was not materially different as a result of the final fair value determination.

Summarized unaudited consolidated balance sheet information for Enable is as follows:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| | (in millions) | |
| Current assets | $ 923 | $ 549 |
| Non-current assets | 10,815 | 10,683 |
| Current liabilities | 584 | 720 |
| Non-current liabilities | 2,343 | 2,331 |
| Non-controlling interest | 32 | 33 |
| Enable partners' capital | 8,779 | 8,148 |
| | | |
| CERC's ownership interest in Enable's partner capital | $ 4,862 | $ 4,753 |
| CERC's basis difference | (345) | (434) |
| CERC's investment in Enable | $ 4,517 | $ 4,319 |

Cash distributions received from Enable and SESH were approximately $90 million and $4 million, respectively, during the three months ended June 30, 2014 and were $-0- and $8 million, respectively, during the three months ended June 30, 2013. Cash distributions received from Enable and SESH were approximately $157 million and $7 million, respectively, during the six months ended June 30, 2014 and were $-0- and $17 million, respectively, during the six months ended June 30, 2013.

## (7) Goodwill

Goodwill by reportable business segment as of both June 30, 2014 and December 31, 2013 is as follows (in millions):

| | |
|---|---|
| Natural Gas Distribution | $ 746 |
| Energy Services | 83 |
| Other Operations | 11 |
| Total | $ 840 |

## (8) Related Party Transactions

CERC participates in a "money pool" through which it can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings under CenterPoint Energy's revolving credit facility or the sale of CenterPoint Energy's commercial paper. CERC had investments in the money pool of $141 million and borrowings from the money pool of $38 million at June 30, 2014 and December 31, 2013, respectively, which are included in accounts and notes receivable — affiliated companies and accounts and notes payable — affiliated companies, respectively, in the Condensed Consolidated Balance Sheets.

CERC had net interest income of less than $1 million and net interest expense of less than $1 million related to affiliate borrowings for the three and six months ended June 30, 2014, respectively, and net interest expense of less than $1 million and $1 million for the three and six months ended June 30, 2013, respectively.

CenterPoint Energy provides some corporate services to CERC. The costs of services have been charged directly to CERC using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment and proportionate corporate formulas based on operating expenses, assets, gross margin, employees and a composite of assets, gross margin and employees. These charges are not necessarily indicative of what would have been incurred had CERC not been an affiliate of CenterPoint Energy. Amounts charged to CERC for these services were $31 million and $23 million for the three months ended June 30, 2014 and 2013, respectively, and $59 million and $60 million for the six months ended June 30, 2014 and 2013, respectively, and are included primarily in operation and maintenance expenses.

## (9) Short-term Borrowings and Long-term Debt

### *(a) Short-term Borrowings*

*Inventory Financing.* Gas Operations has asset management agreements associated with its utility distribution service in Arkansas, north Louisiana and Oklahoma that extend through 2015. Pursuant to the provisions of the agreements, Gas Operations sells natural gas and agrees to repurchase an equivalent amount of natural gas during the winter heating seasons at the same cost, plus a financing charge. These transactions are accounted for as a financing and had an associated principal obligation of $42 million and $43 million as of June 30, 2014 and December 31, 2013, respectively.

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

*Revolving Credit Facility.* As of June 30, 2014 and December 31, 2013, CERC had the following revolving credit facility and utilization of such facility (in millions):

| | June 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| Size of Facility | Loans | Letters of Credit | Commercial Paper | Loans | Letters of Credit | Commercial Paper |
| $ 600 | $ — | $ — | $ — | $ — | $ — | $ 118 |

CERC Corp.'s $600 million revolving credit facility, which is scheduled to terminate on September 9, 2018, can be drawn at the London Interbank Offered Rate plus 150 basis points based on CERC Corp.'s current credit ratings. The revolving credit facility contains a financial covenant which limits CERC's consolidated debt to an amount not to exceed 65% of CERC's consolidated capitalization.

CERC Corp. was in compliance with all financial covenants in its revolving credit facility as of June 30, 2014.

## (10) Commitments and Contingencies

### *(a) Natural Gas Supply Commitments*

Natural gas supply commitments include natural gas contracts related to CERC's Natural Gas Distribution and Energy Services business segments, which have various quantity requirements and durations, that are not classified as non-trading derivative assets and liabilities in CERC's Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 as these contracts meet an exception as "normal purchases contracts" or do not meet the definition of a derivative. Natural gas supply commitments also include natural gas transportation contracts that do not meet the definition of a derivative. As of June 30, 2014, minimum payment obligations for natural gas supply commitments are approximately $259 million for the remaining six months in 2014, $528 million in 2015, $454 million in 2016, $384 million in 2017, $376 million in 2018 and $174 million after 2018.

### *(b) Legal, Environmental and Other Regulatory Matters*

#### *Legal Matters*

*Gas Market Manipulation Cases*. CenterPoint Energy, CenterPoint Energy Houston Electric, LLC or their predecessor, Reliant Energy, Incorporated (Reliant Energy), and certain of their former subsidiaries have been named as defendants in certain lawsuits described below. Under a master separation agreement between CenterPoint Energy and a former subsidiary, Reliant Resources, Inc. (RRI), CenterPoint Energy and its subsidiaries are entitled to be indemnified by RRI and its successors for any losses, including certain attorneys' fees and other costs, arising out of these lawsuits. In May 2009, RRI sold its Texas retail business to a subsidiary of NRG and RRI changed its name to RRI Energy, Inc. In December 2010, Mirant Corporation merged with and became a wholly owned subsidiary of RRI, and RRI changed its name to GenOn Energy, Inc. (GenOn). In December 2012, NRG acquired GenOn through a merger in which GenOn became a wholly owned subsidiary of NRG. None of the sale of the retail business, the merger with Mirant Corporation, or the acquisition of GenOn by NRG alters RRI's (now GenOn's) contractual obligations to indemnify CenterPoint Energy and its subsidiaries, including CenterPoint Houston, for certain liabilities, including their indemnification obligations regarding the gas market manipulation litigation, nor does it affect the terms of existing guarantee arrangements for certain GenOn gas transportation contracts discussed below.

A large number of lawsuits were filed against numerous gas market participants in a number of federal and western state courts in connection with the operation of the natural gas markets in 2000-2002. CenterPoint Energy and its affiliates have since been released or dismissed from all but one such case. CenterPoint Energy Services, Inc. (CES), a subsidiary of CERC Corp., is a defendant in a case now pending in federal court in Nevada alleging a conspiracy to inflate Wisconsin natural gas prices in 2000-2002. In July 2011, the court issued an order dismissing the plaintiffs' claims against other defendants in the case, each of whom had demonstrated Federal Energy Regulatory Commission jurisdictional sales for resale during the relevant period, based on federal preemption. The plaintiffs appealed this ruling to the United States Court of Appeals for the Ninth Circuit, which reversed the trial court's dismissal of the plaintiffs' claims. In August 2013, the other defendants filed a petition for review with the U.S. Supreme Court, which the court granted on June 30, 2014. CenterPoint Energy believes that CES is not a proper defendant in this case and will continue to pursue a dismissal. CERC does not expect the ultimate outcome of this matter to have a material impact on its financial condition, results of operations or cash flows.

#### *Environmental Matters*

*Manufactured Gas Plant Sites.* CERC and its predecessors operated manufactured gas plants (MGPs) in the past. There are seven MGP sites in CERC's Minnesota service territory. CERC believes it never owned or operated, and therefore has no liability with respect to, two of these sites. With respect to two other sites, CERC has completed state ordered remediation, other than ongoing monitoring and water treatment.

At June 30, 2014, CERC had recorded a liability of $13 million for remediation of these Minnesota sites. The estimated range of possible remediation costs for the sites for which CERC believes it may have responsibility was $6 million to $41 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRPs), if any, and the remediation methods used. The Minnesota Public Utilities Commission includes approximately $285,000 annually in rates to fund normal ongoing remediation costs. As of June 30, 2014, CERC had collected $6 million from insurance companies to be used for future environmental remediation.

In addition to the Minnesota sites, the United States Environmental Protection Agency and other regulators have investigated MGP sites that were owned or operated by CERC or may have been owned by one of its former affiliates. CERC and CenterPoint

Energy do not expect the ultimate outcome of these investigations will have a material adverse impact on the financial condition, results of operations or cash flows of either CenterPoint Energy or CERC.

*Asbestos.* Some facilities owned by CERC's predecessors contain or have contained asbestos insulation and other asbestos-containing materials. CERC or its predecessor companies have been named, along with numerous others, as a defendant in lawsuits filed by a number of individuals who claim injury due to exposure to asbestos. Some of the claimants have worked at locations owned by CERC, but most existing claims relate to facilities previously owned by CERC's subsidiaries. CERC anticipates that additional claims like those received may be asserted in the future. Although their ultimate outcome cannot be predicted at this time, CERC intends to continue vigorously contesting claims that it does not consider to have merit and, based on its experience to date, does not expect these matters, either individually or in the aggregate, to have a material adverse effect on its financial condition, results of operations or cash flows.

*Other Environmental.* From time to time CERC identifies the presence of environmental contaminants on property where it conducts or has conducted operations. Other such sites involving contaminants may be identified in the future. CERC has and expects to continue to remediate identified sites consistent with its legal obligations. From time to time CERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, CERC has been named from time to time as a defendant in litigation related to such sites. Although the ultimate outcome of such matters cannot be predicted at this time, CERC does not expect, based on its experience to date, these matters, either individually or in the aggregate, to have a material adverse effect on its financial condition, results of operations or cash flows.

***Other Proceedings***

CERC is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. From time to time, CERC is also a defendant in legal proceedings with respect to claims brought by various plaintiffs against broad groups of participants in the energy industry. Some of these proceedings involve substantial amounts. CERC regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. CERC does not expect the disposition of these matters to have a material adverse effect on its financial condition, results of operations or cash flows.

***(c) Guarantees***

Prior to the distribution of CenterPoint Energy’s ownership in RRI to its shareholders, CERC had guaranteed certain contractual obligations of what became RRI’s trading subsidiary. When the companies separated, RRI agreed to secure CERC against obligations under the guarantees RRI had been unable to extinguish by the time of separation. Pursuant to such agreement, as amended in December 2007, RRI (now GenOn) agreed to provide to CERC cash or letters of credit as security against CERC’s obligations under its remaining guarantees for demand charges under certain gas transportation agreements if and to the extent changes in market conditions expose CERC to a risk of loss on those guarantees based on an annual calculation, with any required collateral to be posted each December. The undiscounted maximum potential payout of the demand charges under these transportation contracts, which will be in effect until 2018, was approximately $51 million as of June 30, 2014. Based on market conditions in the fourth quarter of 2013 at the time the most recent annual calculation was made under the agreement, GenOn was not obligated to post any security. If GenOn should fail to perform the contractual obligations, CERC could have to honor its guarantee and, in such event, any collateral then provided as security may be insufficient to satisfy CERC’s obligations.

CERC Corp. has also provided a guarantee of collection of $1.1 billion of Enable's Guaranteed Senior Notes. This guarantee is subordinated to all senior debt of CERC Corp. and is subject to automatic release on May 1, 2016.

As of June 30, 2014, no amounts had been recorded in the Condensed Consolidated Balance Sheets related to these guarantees.

## (11) Income Taxes

The effective tax rate reported for both the three and six months ended June 30, 2014 was 38% compared to 418% and 113%, respectively, for the same periods in 2013. The higher effective tax rate for the three and six months ended June 30, 2013 was primarily associated with the formation of Enable. As a result of the Enable formation, a deferred tax liability of $225 million was recorded for the book-to-tax basis differences in CERC’s investment resulting from the goodwill that was contributed by CERC. In addition, CERC recognized a tax benefit of $27 million associated with the remeasurement of state deferred taxes related to the Enable formation.

CERC reported no uncertain tax liability as of June 30, 2014 and expects no significant change to the uncertain tax liability over the next twelve months ending June 30, 2015. CenterPoint Energy's consolidated federal income tax return filed for the year ended December 31, 2012 is currently under audit by the Internal Revenue Service, and all other consolidated federal income tax returns have been audited and settled through the tax year 2011.

**(12) Reportable Business Segments**

Because CERC is an indirect wholly owned subsidiary of CenterPoint Energy, CERC's determination of reportable business segments considers the strategic operating units under which CenterPoint Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. CERC uses operating income as the measure of profit or loss for its business segments.

CERC's reportable business segments include the following: Natural Gas Distribution, Energy Services, Midstream Investments and Other Operations. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers. Energy Services represents CERC's non-rate regulated gas sales and services operations. Midstream Investments consists primarily of CERC's investment in Enable and its retained interest in SESH. The Other Operations business segment includes unallocated corporate costs and inter-segment eliminations.

Prior to May 1, 2013, CERC also reported an Interstate Pipelines business segment, which included CERC's interstate natural gas pipeline operations, and a Field Services business segment, which included CERC's non-rate regulated natural gas gathering, processing and treating operations. The formation of Enable closed on May 1, 2013. Enable now owns substantially all of CERC's former Interstate Pipelines and Field Services business segments, except for a 0.1% interest in SESH. As a result, effective May 1, 2013, CERC reports equity earnings associated with its interest in Enable and equity earnings associated with its interest in SESH under the Midstream Investments segment, and no longer has Interstate Pipelines and Field Services reporting segments prospectively.

Financial data for business segments is as follows (in millions):

| | For the Three Months Ended June 30, 2014 | | |
|---|---|---|---|
| | Revenues from External Customers | Inter-segment Revenues | Operating Income (Loss) |
| Natural Gas Distribution | $ 526 | $ 6 | $ 30 |
| Energy Services | 657 | 19 | 11 |
| Midstream Investments (1) | — | — | — |
| Other | — | — | (2) |
| Reconciling Eliminations | — | (25) | — |
| Consolidated | $ 1,183 | $ — | $ 39 |

| | For the Three Months Ended June 30, 2013 | | |
|---|---|---|---|
| | Revenues from External Customers | Inter-segment Revenues | Operating Income (Loss) |
| Natural Gas Distribution | $ 524 | $ 5 | $ 25 |
| Energy Services | 622 | 6 | 3 |
| Interstate Pipelines (2) | 41 | 13 | 20 |
| Field Services (2) | 48 | 7 | 20 |
| Midstream Investments (1) | — | — | — |
| Other | — | — | (12) |
| Reconciling Eliminations | — | (31) | — |
| Consolidated | $ 1,235 | $ — | $ 56 |

| | For the Six Months Ended June 30, 2014 | | | Total Assets as of June 30, 2014 |
|---|---|---|---|---|
| | Revenues from External Customers | Inter-segment Revenues | Operating Income (Loss) | |
| Natural Gas Distribution | $ 2,004 | $ 15 | $ 192 | $ 4,989 |
| Energy Services | 1,709 | 51 | 37 | 896 |
| Midstream Investments (1) | — | — | — | 4,517 |
| Other | 1 | — | (2) | 889 |
| Reconciling Eliminations | — | (66) | — | (761) |
| Consolidated | $ 3,714 | $ — | $ 227 | $ 10,530 |

| | For the Six Months Ended June 30, 2013 | | | Total Assets as of December 31, 2013 |
|---|---|---|---|---|
| | Revenues from External Customers | Inter-segment Revenues | Operating Income (Loss) | |
| Natural Gas Distribution | $ 1,567 | $ 13 | $ 164 | $ 4,976 |
| Energy Services | 1,210 | 15 | 10 | 895 |
| Interstate Pipelines (2) | 133 | 53 | 72 | — |
| Field Services (2) | 178 | 18 | 73 | — |
| Midstream Investments (1) | — | — | — | 4,518 |
| Other | — | — | (13) | 1,149 |
| Reconciling Eliminations | — | (99) | — | (996) |
| Consolidated | $ 3,088 | $ — | $ 306 | $ 10,542 |

(1) Midstream Investments reported equity earnings of $69 million from Enable and $2 million of equity earnings from CenterPoint Energy's retained interest in SESH for the three months ended June 30, 2014. Midstream Investments reported equity earnings of $157 million from Enable and $5 million of equity earnings from CenterPoint Energy's retained interest in SESH for the six months ended June 30, 2014. Midstream Investments reported equity earnings of $33 million from Enable and $2 million of equity earnings from CenterPoint Energy's interest in SESH for the months of May and June 2013. Included in total assets of Midstream Investments as of June 30, 2014 and December 31, 2013 is $4,517 million and $4,319 million, respectively, related to CenterPoint Energy's investment in Enable and $-0- and $199 million, respectively, related to CenterPoint Energy's interest in SESH.

(2) Results reflected in the three months ended June 30, 2013 represent only the month of April 2013. Results reflected in the six months ended June 30, 2013 represent only January 2013 through April 2013.

## (13) Other Current Assets and Liabilities

Included in other current assets on the Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 were $6 million and $4 million, respectively, of margin deposits and $71 million and $22 million, respectively, of under-recovered gas cost. Included in other current liabilities on the Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 were $62 million and $42 million, respectively, of over-recovered gas cost.

**Item 2. MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS**

*The following narrative analysis should be read in combination with our Interim Condensed Financial Statements contained in Item 1 of this report and our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K).*

We meet the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and are therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, we have omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in our revenue and expense items between the three and six months ended June 30, 2014 and the three and six months ended June 30, 2013. Reference is made to "Management's Narrative Analysis of Results of Operations" in Item 7 of our 2013 Form 10-K.

**EXECUTIVE SUMMARY**

**Recent Events**

***Enable Initial Public Offering.*** On April 16, 2014, Enable Midstream Partners, LP (Enable) completed its initial public offering (IPO) of 28,750,000 common units at a price of $20.00 per unit, which included 3,750,000 common units sold by ArcLight Capital Partners, LLC (ArcLight) pursuant to an over-allotment option that was fully exercised by the underwriters. Enable received approximately $464 million in net proceeds from the sale of the units, after deducting underwriting fees, structuring fees and other offering costs.

In connection with its IPO, on March 25, 2014, Enable effected a 1 for 1.279082616 reverse unit split. Immediately following the unit split, we owned 227,508,825 common units, representing a 58.3% limited partner interest in Enable. Also in connection with Enable's IPO, 139,704,916 of our common units and 68,150,514 of OGE Energy Corp.'s (OGE) common units were converted into subordinated units.

Immediately following Enable's IPO, we owned 87,803,909 common units and 139,704,916 subordinated units in Enable, representing a 54.7% limited partner interest. Enable is equally controlled by us and OGE; each own 50% of the management rights in the general partner of Enable. We and OGE also own a 40% and 60% economic interest, respectively, in the incentive distribution rights held by the general partner of Enable.

Subsequent to Enable's IPO, Enable is expected to pay a minimum quarterly distribution of $0.2875 per unit on its outstanding units to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to its general partner and its affiliates (referred to as "available cash") within 45 days after the end of each quarter. Enable adjusted the amount of this distribution for the period from the completion of its IPO through June 30, 2014 based on the actual length of the period.

***Put Rights.*** In accordance with the Enable formation agreements, we had certain put rights, and Enable had certain call rights, exercisable with respect to the 25.05% interest in Southeast Supply Header, LLC (SESH) retained by us, under which we would contribute our retained interest in SESH, in exchange for a specified number of limited partner units in Enable and a cash payment, payable either from us to Enable or from Enable to us, for changes in the value of SESH. Specifically, the rights were and are exercisable with respect to (1) a 24.95% interest in SESH (24.95% Put), which closed on May 30, 2014 and (2) a 0.1% interest in SESH, which may be exercised no earlier than June 2015 for 25,341 common units in Enable. Subject to certain restrictions, if the fair market value of the contributed SESH interest is more or less than the value of the common units issued as consideration for the SESH interest, a cash payment may be required to be made by either Enable or us.

On May 30, 2014, we closed our 24.95% Put and contributed to Enable our 24.95% interest in SESH in exchange for 6,322,457 common units of Enable, which increased our limited partner interest in Enable from approximately 54.7% to approximately 55.4%. No cash payment was required to be made pursuant to the Enable formation agreements in connection with our exercise of the 24.95% Put.

## CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by seasonal fluctuations in the demand for natural gas and price movements of energy commodities as well as natural gas basis differentials. Our results of operations are also affected by, among other things, the actions of various federal, state and local governmental authorities having jurisdiction over rates we charge, competition in our various business operations, the effectiveness of our risk management activities, debt service costs and income tax expense. For more information regarding factors that may affect the future results of operations of our business, please read "Risk Factors" in Item 1A of Part I of our 2013 Form 10-K and in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (First Quarter Form 10-Q).

The following table sets forth our consolidated results of operations for the three and six months ended June 30, 2014 and 2013, followed by a discussion of our consolidated results of operations.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (in millions) | | | |
| Revenues | $ 1,183 | $ 1,235 | $ 3,714 | $ 3,088 |
| Expenses: | | | | |
| Natural gas | 880 | 880 | 2,923 | 2,104 |
| Operation and maintenance | 179 | 209 | 378 | 460 |
| Depreciation and amortization | 51 | 56 | 100 | 133 |
| Taxes other than income taxes | 34 | 34 | 86 | 85 |
| Total | 1,144 | 1,179 | 3,487 | 2,782 |
| Operating Income | 39 | 56 | 227 | 306 |
| Interest and other finance charges | (34) | (37) | (69) | (82) |
| Equity in earnings of unconsolidated affiliates, net | 71 | 37 | 162 | 42 |
| Other expense, net | 2 | (5) | 4 | (5) |
| Income Before Income Taxes | 78 | 51 | 324 | 261 |
| Income tax expense | 30 | 213 | 124 | 295 |
| Net Income (Loss) | $ 48 | $ (162) | $ 200 | $ (34) |

***Three months ended June 30, 2014 compared to three months ended June 30, 2013***

We reported net income of $48 million for the three months ended June 30, 2014 compared to a net loss of $162 million for the same period in 2013. The increase in net income of $210 million was primarily due to decreased income tax expense ($183 million) and increased equity earnings of unconsolidated affiliates ($34 million), which were partially offset by decreased operating income ($17 million) (discussed by segment below).

***Six months ended June 30, 2014 compared to six months ended June 30, 2013***

We reported net income of $200 million for the six months ended June 30, 2014 compared to a net loss of $34 million for the same period in 2013. The increase in net income of $234 million was primarily due to decreased income tax expense ($171 million), increased equity earnings of unconsolidated affiliates ($120 million) and decreased interest expense ($13 million), which were partially offset by decreased operating income ($79 million) (discussed by segment below).

*Income Tax Expense*. Our effective tax rate reported for both the three and six months ended June 30, 2014 was 38%, compared to 418% and 113% for the same periods in 2013. The higher effective tax rate for the three and six months ended June 30, 2013 was primarily associated with the formation of Enable. As a result of the Enable formation, a deferred tax liability of $225 million was recorded for the book-to-tax basis differences in our investment resulting from the goodwill that we contributed. In addition, we recognized a tax benefit of $27 million associated with the remeasurement of state deferred taxes related to the Enable formation.

## RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income (loss) for each of our business segments for the three and six months ended June 30, 2014 and 2013, followed by a discussion of the results of operations by business segment based on operating income. Included in revenues are intersegment sales. We account for intersegment sales as if the sales were to third parties, that is, at current market prices.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (in millions) | | | |
| Natural Gas Distribution | $ 30 | $ 25 | $ 192 | $ 164 |
| Energy Services | 11 | 3 | 37 | 10 |
| Interstate Pipelines | — | 20 (1) | — | 72 (2) |
| Field Services | — | 20 (1) | — | 73 (2) |
| Other Operations | (2) | (12) | (2) | (13) |
| Total Consolidated Operating Income | $ 39 | $ 56 | $ 227 | $ 306 |

(1) Represents April 2013 results only.

(2) Represents January 2013 through April 2013 results only.

### Natural Gas Distribution

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Risk Factors — Risk Factors Affecting Our Businesses," "— Risk Factors Associated with Our Consolidated Financial Condition" and "— Other Risks" in Item 1A of Part I of our 2013 Form 10-K and in Item 1A of Part II of our First Quarter Form 10-Q.

The following table provides summary data of our Natural Gas Distribution business segment for the three and six months ended June 30, 2014 and 2013 (in millions, except throughput and customer data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ 532 | $ 529 | $ 2,019 | $ 1,580 |
| Expenses: | | | | |
| Natural gas | 251 | 268 | 1,290 | 924 |
| Operation and maintenance | 168 | 160 | 355 | 330 |
| Depreciation and amortization | 49 | 46 | 97 | 91 |
| Taxes other than income taxes | 34 | 30 | 85 | 71 |
| Total expenses | 502 | 504 | 1,827 | 1,416 |
| Operating Income | $ 30 | $ 25 | $ 192 | $ 164 |
| Throughput (in billion cubic feet (Bcf)): | | | | |
| Residential | 21 | 25 | 128 | 105 |
| Commercial and industrial | 55 | 56 | 151 | 142 |
| Total Throughput | 76 | 81 | 279 | 247 |
| Number of customers at end of period: | | | | |
| Residential | 3,080,462 | 3,051,621 | 3,080,462 | 3,051,621 |
| Commercial and industrial | 246,055 | 244,215 | 246,055 | 244,215 |
| Total | 3,326,517 | 3,295,836 | 3,326,517 | 3,295,836 |

***Three months ended June 30, 2014 compared to three months ended June 30, 2013***

Our Natural Gas Distribution business segment reported operating income of $30 million for the three months ended June 30, 2014 compared to $25 million for the three months ended June 30, 2013. Operating income increased $5 million due to increased usage primarily due to colder than normal weather, partially mitigated by weather hedges and weather normalization adjustments

($3 million), increased economic activity across our footprint including the addition of approximately 31,000 customers ($2 million) and rate increases ($10 million). These increases were partially offset by higher depreciation ($3 million), higher property taxes ($1 million) and higher operating expenses ($6 million). Increased expense related to energy efficiency programs ($2 million) and increased expense related to higher gross receipt taxes ($3 million) were offset by the related revenues.

***Six months ended June 30, 2014 compared to six months ended June 30, 2013***

Our Natural Gas Distribution business segment reported operating income of $192 million for the six months ended June 30, 2014 compared to $164 million for the six months ended June 30, 2013. Operating income increased $28 million due to increased usage primarily due to colder than normal weather, partially mitigated by weather hedges and weather normalization adjustments ($16 million), rate increases ($25 million) and increased economic activity across our footprint including the addition of approximately 31,000 customers ($6 million). These increases were partially offset by higher depreciation ($5 million), higher bad debt expense ($5 million), an increase in property taxes ($3 million), and other operating expenses ($6 million). Increased expense related to energy efficiency programs ($8 million) and increased expense related to higher gross receipt taxes ($10 million) were offset by the related revenues.

**Energy Services**

For information regarding factors that may affect the future results of operations of our Energy Services business segment, please read “Risk Factors — Risk Factors Affecting Our Businesses,” “— Risk Factors Associated with Our Consolidated Financial Condition” and “— Other Risks” in Item 1A of Part I of our 2013 Form 10-K and in Item 1A of Part II of our First Quarter Form 10-Q.

The following table provides summary data of our Energy Services business segment for the three and six months ended June 30, 2014 and 2013 (in millions, except throughput and customer data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ 676 | $ 628 | $ 1,760 | $ 1,225 |
| Expenses: | | | | |
| Natural gas | 653 | 612 | 1,698 | 1,190 |
| Operation and maintenance | 10 | 11 | 22 | 22 |
| Depreciation and amortization | 1 | 1 | 2 | 2 |
| Taxes other than income taxes | 1 | 1 | 1 | 1 |
| Total expenses | 665 | 625 | 1,723 | 1,215 |
| Operating Income | $ 11 | $ 3 | $ 37 | $ 10 |
| Throughput (in Bcf) | 139 | 137 | 323 | 299 |
| Number of customers at end of period | 17,746 | 17,190 | 17,746 | 17,190 |

***Three months ended June 30, 2014 compared to three months ended June 30, 2013***

Our Energy Services business segment reported operating income of $11 million for the three months ended June 30, 2014 compared to $3 million for the three months ended June 30, 2013. The increase in operating income of $8 million was primarily due to $4 million of improved margins, decreased fixed transportation costs and basis volatility early in the quarter due to an extended winter. This quarter included a $6 million benefit resulting from mark-to-market accounting for derivatives associated with certain forward natural gas purchases and sales used to lock in economic margins compared to a benefit of $6 million for the same period of 2013.

***Six months ended June 30, 2014 compared to six months ended June 30, 2013***

Our Energy Services business segment reported operating income of $37 million for the six months ended June 30, 2014 compared to $10 million for the six months ended June 30, 2013. The increase in operating income of $27 million was primarily due to $15 million of improved margins resulting from optimization of existing gas transportation assets, reduced fixed costs, increased throughput and price volatility. The first half of 2014 included a $10 million benefit resulting from mark-to-market accounting for derivatives associated with certain forward natural gas purchases and sales used to lock in economic margins compared to a benefit of $1 million for the same period of 2013.

**Interstate Pipelines**

For information regarding factors that may affect our historical Interstate Pipelines business segment, please read "Risk Factors — Risk Factors Affecting Our Businesses," "— Risk Factors Associated with Our Consolidated Financial Condition" and "— Other Risks" in Item 1A of Part I of our 2013 Form 10-K and and in Item 1A of Part II of our First Quarter Form 10-Q.

The following table provides summary data of our historical Interstate Pipelines business segment for the three and six months ended June 30, 2013 (in millions, except throughput data):

| | Three Months Ended June 30, 2013 (1) | Six Months Ended June 30, 2013 (2) |
|---|---|---|
| Revenues | $ 54 | $ 186 |
| Expenses: | | |
| Natural gas | 15 | 35 |
| Operation and maintenance | 13 | 51 |
| Depreciation and amortization | 5 | 20 |
| Taxes other than income taxes | 1 | 8 |
| Total expenses | 34 | 114 |
| Operating Income | $ 20 | $ 72 |
| | | |
| Equity in earnings of unconsolidated affiliates | $ 2 | $ 7 |
| | | |
| Transportation throughput (in Bcf) | 117 | 482 |

(1) Represents April 2013 results only.

(2) Represents January 2013 through April 2013 results only.

Our Interstate Pipeline business segment reported operating income of $20 million and $72 million for the three and six months ended June 30, 2013, respectively. Substantially all of this segment was contributed to Enable on May 1, 2013. As a result, the three and six months ended June 30, 2014 are not comparable to the same periods in the prior year. Effective May 1, 2013, our equity method investment and related equity income in Enable are included in our Midstream Investments segment.

*Equity Earnings.* In addition, this business segment recorded equity income from its ownership in SESH, a jointly owned pipeline, of $2 million and $7 million for the three and six months ended June 30, 2013. Beginning May 1, 2013, equity earnings related to our interest in SESH and Enable are reported as components of equity income in our Midstream Investments segment.

**Field Services**

For information regarding factors that may affect our historical Field Services business segment, please read “Risk Factors — Risk Factors Affecting Our Businesses,” “— Risk Factors Associated with Our Consolidated Financial Condition” and “— Other Risks” in Item 1A of Part I of our 2013 Form 10-K and in Item 1A of Part II of our First Quarter Form 10-Q.

The following table provides summary data of our historical Field Services business segment for the three and six months ended June 30, 2013 (in millions, except throughput data):

| | Three Months Ended June 30, 2013 (1) | Six Months Ended June 30, 2013 (2) |
|---|---|---|
| Revenues | $ 55 | $ 196 |
| Expenses: | | |
| Natural gas | 16 | 54 |
| Operation and maintenance | 13 | 45 |
| Depreciation and amortization | 5 | 20 |
| Taxes other than income taxes | 1 | 4 |
| Total expenses | 35 | 123 |
| Operating Income | $ 20 | $ 73 |
| | | |
| Gathering throughput (in Bcf) | 62 | 252 |

(1) Represents April 2013 results only.

(2) Represents January 2013 through April 2013 results only.

Our Field Services business segment reported operating income of $20 million and $73 million for the three and six months ended June 30, 2013, respectively. Substantially all of this segment was contributed to Enable on May 1, 2013. As a result, the three and six months ended June 30, 2014 are not comparable to the same periods in the prior year. Effective May 1, 2013, our equity method investment and related equity income in Enable are included in our Midstream Investments segment.

**Midstream Investments**

For information regarding factors that may affect the future results of operations of our Midstream Investments business segment, please read “Risk Factors — Risk Factors Affecting Our Natural Gas Distribution, Energy Services, Interstate Pipelines and Field Services Businesses,” “— Risk Factors Associated with Our Consolidated Financial Condition” and “— Risks Common to Our Businesses and Other Risks” in Item 1A of Part I of our 2013 Form 10-K and in Item 1A of Part II of our First Quarter Form 10-Q.

The following table provides pre-tax equity income of our Midstream Investments business segment for the three and six months ended June 30, 2014 and 2013 (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 (1) | 2014 | 2013 (1) |
| Enable | $ 69 | $ 33 | $ 157 | $ 33 |
| SESH | 2 | 2 | 5 | 2 |
| Total | $ 71 | $ 35 | $ 162 | $ 35 |

(1) Represents our 58.3% limited partner interest in Enable and our 25.05% interest in SESH for the months of May and June 2013.

## CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, please read “Risk Factors” in Item 1A of Part I of our 2013 Form 10-K and “Management’s Narrative Analysis of Results of Operations — Certain Factors Affecting Future Earnings” in Item 7 of Part II of our 2013 Form 10-K, “Risk Factors” in Item 1A of Part II in this Quarterly Report on Form 10-Q and “Cautionary Statement Regarding Forward-Looking Information” in our First Quarter Form 10-Q.

## LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, tax payments and working capital needs. Substantially all of our capital expenditures are expected to be used for investment in infrastructure for our natural gas transmission and distribution operations. These capital expenditures relate to reliability, safety and system expansions. Our principal cash requirements for the remaining six months of 2014 include approximately $299 million of capital expenditures.

We expect that borrowings under our credit facility, proceeds from commercial paper, anticipated cash flows from operations, intercompany borrowings and distributions from Enable will be sufficient to meet our anticipated cash needs for the remaining six months of 2014. Discretionary financing or refinancing may result in the issuance of debt securities in the capital markets or the arrangement of additional credit facilities. Issuances of debt in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

### Off-Balance Sheet Arrangements

Prior to the distribution of CenterPoint Energy's ownership in Reliant Resources, Inc. (RRI) to its shareholders, we had guaranteed certain contractual obligations of what became RRI’s trading subsidiary. When the companies separated, RRI agreed to secure us against obligations under the guarantees RRI had been unable to extinguish by the time of separation. Pursuant to such agreement, as amended in December 2007, RRI (now GenOn Energy, Inc. (GenOn)) agreed to provide to us cash or letters of credit as security against our obligations under our remaining guarantees for demand charges under certain gas transportation agreements if and to the extent changes in market conditions expose us to a risk of loss on those guarantees based on an annual calculation, with any required collateral to be posted each December. The undiscounted maximum potential payout of the demand charges under these transportation contracts, which will be in effect until 2018, was approximately $51 million as of June 30, 2014. Based on market conditions in the fourth quarter of 2013 at the time the most recent annual calculation was made under the agreement, GenOn was not obligated to post any security. If GenOn should fail to perform the contractual obligations, we could have to honor our guarantee and, in such event, any collateral provided as security may be insufficient to satisfy our obligations.

We have also provided a guarantee of collection of $1.1 billion of Enable's Guaranteed Senior Notes. This guarantee is subordinated to all our senior debt and is subject to automatic release on May 1, 2016.

Other than the guarantees described above and operating leases, we have no off-balance sheet arrangements.

### Regulatory Matters

Significant regulatory developments that have occurred since our First Quarter Form 10-Q was filed with the Securities and Exchange Commission (SEC) are discussed below.

#### *Gas Operations*

*Houston, South Texas and Beaumont/East Texas Gas Reliability Infrastructure Programs (GRIP).* The natural gas distribution business of CERC’s (Gas Operations) Houston, South Texas and Beaumont/East Texas Divisions each submitted annual GRIP filings on March 31, 2014. For the Houston Division, we had asked that our GRIP filing to recover costs related to $66.6 million in incremental capital expenditures that were incurred in 2013 be operationally suspended for one year so as to ensure earnings more consistent with those currently approved. For the South Texas Division, the filing is to recover costs related to $15.9 million in incremental capital expenditures that were incurred in 2013. The increase in revenue requirements for this filing period is $1.8 million annually based on an authorized rate of return of 8.75%. Rates were implemented for certain customers in May 2014. In those areas in which the jurisdictional deadline was extended by regulatory action, the rates were implemented in July 2014 after final approval by the Railroad Commission of Texas (Railroad Commission). For the Beaumont/East Texas Division, the first GRIP filing is to recover costs related to $31.4 million in incremental capital expenditures that were incurred in 2012 and 2013. The increase in revenue requirements for this filing period is $3.0 million annually based on an authorized rate of return of 8.51%. Rates were implemented

for certain customers in May 2014. In those areas in which the jurisdictional deadline was extended by regulatory action, the rates were implemented in July 2014 after final approval by the Railroad Commission.

*Minnesota Rate Proceeding.* On August 2, 2013, Gas Operations filed a general rate case in Minnesota to increase base rates by $44.3 million (including the movement of a $15 million energy efficiency rider into base rates), based on a rate base of $700 million and return on equity (ROE) of 10.3%. In compliance with state law, Gas Operations implemented interim rates reflecting $42.9 million dollars of the requested increase for gas used on and after October 1, 2013. This rate filing is intended to recover significant capital expenditures Gas Operations is making in Minnesota and included moving $15 million of energy efficiency expenditures to base rates. Evidentiary hearings were held before an administrative law judge (ALJ) in January 2014. On April 9, 2014 the ALJ issued its findings of fact and recommendations, which support a $31.6 million revenue increase based on a 9.59% ROE. In May 2014, the Minnesota Public Utility Commission (MPUC) entered an order approving a rate increase of $33 million based on a 9.59% ROE and a 52.6% equity ratio. The MPUC also authorized the implementation of a three-year pilot revenue decoupling mechanism with an effective date of July 1, 2015. Gas Operations anticipates final rates will be implemented in the fourth quarter of 2014. Since the adopted revenue increase is less than the interim revenue increase, a refund to customers, which has been accrued, is anticipated in the fourth quarter of 2014.

## Other Matters

### *Credit Facility*

As of July 24, 2014, we had the following revolving credit facility (in millions):

| Date Executed | Size of Facility | Amount Utilized at July 24, 2014 | Termination Date |
|---|---|---|---|
| September 9, 2011 | $ 600 | $ — | September 9, 2018 |

CERC Corp.’s $600 million revolving credit facility can be drawn at the London Interbank Offered Rate (LIBOR) plus 150 basis points based on CERC Corp.’s current credit ratings. The revolving credit facility contains a financial covenant which limits our consolidated debt to an amount not to exceed 65% of our consolidated capitalization.

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

CERC Corp.'s $600 million revolving credit facility backstops its $600 million commercial paper program. As of July 24, 2014, CERC Corp. had no outstanding commercial paper.

### *Securities Registered with the SEC*

We have filed a shelf registration statement with the SEC registering an indeterminate principal amounts of our senior debt securities.

### *Temporary Investments*

As of July 24, 2014, we had external temporary investments of approximately $63 million.

### *Money Pool*

We participate in a money pool through which we and certain of our affiliates can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings by CenterPoint Energy under its revolving credit facility or the sale by CenterPoint Energy of its commercial paper. At July 24, 2014, we had investments in the money pool of approximately $154 million. The money pool may not provide sufficient funds to meet our cash needs.

***Impact on Liquidity of a Downgrade in Credit Ratings***

The interest on borrowings under our credit facility is based on our credit rating. As of July 24, 2014, Moody’s Investors Service, Inc. (Moody’s), Standard & Poor’s Ratings Services (S&P), a division of The McGraw-Hill Companies, and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior unsecured debt:

| Moody’s | | S&P | | Fitch | |
|---|---|---|---|---|---|
| **Rating** | **Outlook (1)** | **Rating** | **Outlook (2)** | **Rating** | **Outlook (3)** |
| Baa2 | Stable | A- | Stable | BBB | Stable |

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

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

(3) A Fitch rating outlook indicates the direction a rating is likely to move over a one- to two-year period.

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

A decline in credit ratings could increase borrowing costs under our $600 million revolving credit facility. If our credit ratings had been downgraded one notch by each of the three principal credit rating agencies from the ratings that existed at June 30, 2014, the impact on the borrowing costs under our credit facility would have been immaterial. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and could negatively impact our ability to complete capital market transactions and to access the commercial paper market. Additionally, a decline in credit ratings could increase cash collateral requirements and reduce earnings of our Natural Gas Distribution and Energy Services business segments.

We and our subsidiaries purchase natural gas from one of their suppliers under supply agreements that contain an aggregate credit threshold of $140 million based on CERC Corp.'s S&P senior unsecured long-term debt rating of A-. Under these agreements, we may need to provide collateral if the aggregate threshold is exceeded or if the S&P senior unsecured long-term debt rating is downgraded below BBB+.

CenterPoint Energy Services, Inc. (CES), our wholly owned subsidiary operating in our Energy Services business segment, provides natural gas sales and services primarily to commercial and industrial customers and electric and gas utilities throughout the central and eastern United States. In order to economically hedge its exposure to natural gas prices, CES uses derivatives with provisions standard for the industry, including those pertaining to credit thresholds. Typically, the credit threshold negotiated with each counterparty defines the amount of unsecured credit that such counterparty will extend to CES. To the extent that the credit exposure that a counterparty has to CES at a particular time does not exceed that credit threshold, CES is not obligated to provide collateral. Mark-to-market exposure in excess of the credit threshold is routinely collateralized by CES. As of June 30, 2014, the amount posted as collateral aggregated approximately $6 million. Should the credit ratings of CERC Corp. (as the credit support provider for CES) fall below certain levels, CES would be required to provide additional collateral up to the amount of its previously unsecured credit limit. We estimate that as of June 30, 2014, unsecured credit limits extended to CES by counterparties aggregated $308 million, and less than $1 million of such amount was utilized.

Pipeline tariffs and contracts typically provide that if the credit ratings of a shipper or the shipper’s guarantor drop below a threshold level, which is generally investment grade ratings from both Moody’s and S&P, cash or other collateral may be demanded from the shipper in an amount equal to the sum of three months’ charges for pipeline services plus the unrecouped cost of any lateral built for such shipper. If the credit ratings of CERC Corp. decline below the applicable threshold levels, CERC Corp. might need to provide cash or other collateral of as much as $161 million as of June 30, 2014. The amount of collateral will depend on seasonal variations in transportation levels.

### *Cross Defaults*

Under CenterPoint Energy's revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding $75 million by us will cause a default. In addition, three outstanding series of CenterPoint Energy's senior notes, aggregating $750 million in principal amount as of June 30, 2014, provide that a payment default by us in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of $50 million, will cause a default. A default by CenterPoint Energy would not trigger a default under our debt instruments or revolving credit facility.

### *Possible Acquisitions, Divestitures and Joint Ventures*

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

### *Enable Midstream Partners*

Certain of the entities contributed to Enable by us are obligated on approximately $363 million of indebtedness owed to a wholly owned subsidiary of ours that is scheduled to mature in 2017.

Prior to its IPO, Enable was obligated to distribute 100% of its distributable cash (as such term was defined in its partnership agreement) to its limited partners each fiscal quarter within 45 days following the end of the applicable quarter. During the three months ended June 30, 2014, we received a cash distribution of approximately $90 million from Enable made with respect to our limited partner interest in Enable for the first quarter of 2014. We expect to receive a cash distribution of approximately $13 million with respect to the period commencing April 1, 2014 and ending on April 15, 2014, the date immediately prior to the completion of Enable's IPO. Following its IPO, Enable is expected to pay a minimum quarterly distribution of $0.2875 per unit on its outstanding units to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to its general partner and its affiliates (referred to as “available cash”) within 45 days after the end of each quarter. On July 25, 2014, Enable declared a quarterly cash distribution of $0.2464 per unit on all of its outstanding common and subordinated units for the quarter ended June 30, 2014, which amount was adjusted for the period from the completion of its IPO through June 30, 2014 based on the actual length of the period. The distribution equates to $0.2950 per unit on a full-quarter basis. Accordingly, we expect to receive an additional cash distribution of approximately $58 million from Enable in the third quarter of 2014 to be made with respect to the remainder of the second quarter of 2014.

### *Dodd-Frank Swaps Regulation*

We use derivative instruments such as physical forward contracts, swaps and options to mitigate the impact of changes in commodity prices and weather on our operating results and cash flows. Following enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in July 2010, the Commodity Futures Trading Commission (CFTC) has promulgated regulations to implement Dodd-Frank’s changes to the Commodity Exchange Act, including the definition of commodity-based swaps subject to those regulations. The CFTC regulations are intended to implement new reporting and record keeping requirements related to their swap transactions and a mandatory clearing and exchange-execution regime for various types, categories or classes of swaps, subject to certain exemptions, including the trade-option and end-user exemptions. Although we anticipate that most if not all of our swap transactions should qualify for an exemption to the clearing and exchange-execution requirements, we will still be subject to record keeping and reporting requirements. Other changes to the Commodity Exchange Act made as a result of Dodd-Frank and the CFTC’s implementing regulations could increase the cost of entering into new swaps.

### *Other Factors that Could Affect Cash Requirements*

In addition to the above factors, our liquidity and capital resources could be affected by:

- cash collateral requirements that could exist in connection with certain contracts, including our weather hedging arrangements, and gas purchases, gas price and gas storage activities of our Natural Gas Distribution and Energy Services business segments;

- acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of natural gas suppliers;
- increased costs related to the acquisition of natural gas;
- increases in interest expense in connection with debt refinancings and borrowings under credit facilities;
- various legislative or regulatory actions;
- incremental collateral, if any, that may be required due to regulation of derivatives;
- the ability of GenOn and its subsidiaries to satisfy their obligations in respect of GenOn's indemnity obligations to CenterPoint Energy and its subsidiaries;
- slower customer payments and increased write-offs of receivables due to higher gas prices or changing economic conditions;
- the outcome of litigation brought by and against us;
- restoration costs and revenue losses resulting from future natural disasters such as hurricanes and the timing of recovery of such restoration costs; and
- various other risks identified in "Risk Factors" in Item 1A of Part I of our 2013 Form 10-K and in Item 1A of Part II of our First Quarter Form 10-Q.

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

Our revolving credit facility limits our consolidated debt to an amount not to exceed 65% of our consolidated capitalization.

***Relationship with CenterPoint Energy***

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

## NEW ACCOUNTING PRONOUNCEMENTS

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

## Item 4. CONTROLS AND PROCEDURES

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued an updated version of its Internal Control - Integrated Framework (2013 Framework). Originally issued in 1992 (1992 Framework), the framework helps organizations design, implement and evaluate the effectiveness of internal control concepts and simplify their use and application. The 1992 Framework remains available during the transition period, which extends to December 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. As of March 31, 2014, we continue to utilize the 1992 Framework and will transition to the 2013 Framework by the end of 2014.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2014 to provide assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

There has been no change in our internal controls over financial reporting that occurred during the three months ended June 30, 2014 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 read Note 10(b) to our Interim Condensed Financial Statements, each of which is incorporated herein by reference. See also “Business — Regulation” and “— Environmental Matters” in Item 1 and “Legal Proceedings” in Item 3 of our 2013 Form 10-K.

### Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our 2013 Form 10-K and First Quarter Form 10-Q.

### Item 5. OTHER INFORMATION

*Ratio of Earnings to Fixed Charges.* Our ratio of earnings to fixed charges for the six months ended June 30, 2014 and 2013 was 5.59 and 3.74, respectively. We do not believe that the ratios for these six-month periods are necessarily indicative of the ratios for the twelve-month periods due to the seasonal nature of our business. The ratios were calculated pursuant to applicable rules of the Securities and Exchange Commission.

**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 as indicated.

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

| Exhibit Number | Description | Report or Registration Statement | SEC File or Registration Number | Exhibit Reference |
|---|---|---|---|---|
| 3.1.1 | Certificate of Incorporation of RERC Corp. | Form 10-K for the year ended December 31, 1997 | 1-13265 | 3(a)(1) |
| 3.1.2 | Certificate of Merger merging former NorAm Energy Corp. with and into HI Merger, Inc. dated August 6, 1997 | Form 10-K for the year ended December 31, 1997 | 1-13265 | 3(a)(2) |
| 3.1.3 | Certificate of Amendment changing the name to Reliant Energy Resources Corp. | Form 10-K for the year ended December 31, 1998 | 1-13265 | 3(a)(3) |
| 3.1.4 | Certificate of Amendment changing the name to CenterPoint Energy Resources Corp. | Form 10-Q for the quarter ended June 30, 2003 | 1-13265 | 3(a)(4) |
| 3.2 | Bylaws of RERC Corp. | Form 10-K for the year ended December 31, 1997 | 1-13265 | 3(b) |
| 4.1 | $950,000,000 Credit Agreement, dated as of September 9, 2011, among CERC Corp., as Borrower, and the banks named therein | Form 8-K dated September 9, 2011 | 1-13265 | 4.3 |
| 4.2 | First Amendment to Credit Agreement, dated as of April 11, 2013, among CERC Corp., as Borrower, and the banks named therein | Form 8-K dated April 11, 2013 | 1-13265 | 4.2 |
| 4.3 | Second Amendment to Credit Agreement, dated as of September 9, 2013, among CERC Corp., as Borrower, and the banks named therein | Form 8-K dated September 9, 2013 | 1-13265 | 4.3 |
| 10.1 | Indenture, dated as of May 27, 2014, between Enable Midstream Partners, LP and U.S. Bank National Association, as trustee. | Form 8-K dated May 27, 2014 | 1-13265 | 10.1 |
| 10.2 | First Supplemental Indenture, dated as of May 27, 2014, among Enable Midstream Partners, LP, CenterPoint Energy Resources Corp., as guarantor, and U.S. Bank National Association, as trustee. | Form 8-K dated May 27, 2014 | 1-13265 | 10.2 |
| 10.3 | Registration Rights Agreement, dated as of May 27, 2014, by and among Enable Midstream Partners, LP, CenterPoint Energy Resources Corp., as guarantor, and RBS Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, and RBC Capital Markets, LLC, as representatives of the initial purchasers. | Form 8-K dated May 27, 2014 | 1-13265 | 10.3 |
| +12 | Computation of Ratios of Earnings to Fixed Charges | | | |
| +31.1 | Rule 13a-14(a)/15d-14(a) Certification of Scott M. Prochazka | | | |
| +31.2 | Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock | | | |
| +32.1 | Section 1350 Certification of Scott M. Prochazka | | | |
| +32.2 | Section 1350 Certification of Gary L. Whitlock | | | |

| Exhibit Number | Description | Report or Registration Statement | SEC File or Registration Number | Exhibit Reference |
|---|---|---|---|---|
| +101.INS | XBRL Instance Document | | | |
| +101.SCH | XBRL Taxonomy Extension Schema Document | | | |
| +101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | |
| +101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | |
| +101.LAB | XBRL Taxonomy Extension Labels Linkbase Document | | | |
| +101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | |

## SIGNATURES

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

**CENTERPOINT ENERGY RESOURCES CORP.**

By: /s/ Walter L. Fitzgerald

Walter L. Fitzgerald

Senior Vice President and Chief Accounting Officer

Date: August 11, 2014

**Index to Exhibits**

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| +101.LAB | XBRL Taxonomy Extension Labels Linkbase Document | | | |
| +101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | |

**Exhibit 12**

**CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES**
**(An Indirect Wholly Owned Subsidiary of CenterPoint Energy, Inc.)**

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 (1) | 2013 (1) |
| Net Income (Loss) | $ 200 | $ (34) |
| Equity in earnings of unconsolidated affiliates, net of distributions | 2 | (25) |
| Income taxes | 124 | 295 |
| | 326 | 236 |
| | | |
| Fixed charges, as defined: | | |
| | | |
| Interest | 69 | 82 |
| Interest component of rentals charged to operating expense | 2 | 4 |
| Total fixed charges | 71 | 86 |
| | | |
| Earnings, as defined | $ 397 | $ 322 |
| | | |
| Ratio of earnings to fixed charges | 5.59 | 3.74 |

(1) Excluded from the computation of fixed charges for the three months ended June 30, 2014 and 2013 is interest expense of $9 million and interest income of less than $1 million, respectively, which is included in income tax expense.

Exhibit 31.1

**CERTIFICATIONS**

I, Scott M. Prochazka, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2014

/s/ Scott M. Prochazka

Scott M. Prochazka

President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATIONS**

I, Gary L. Whitlock, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenterPoint Energy Resources Corp.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2014

/s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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 Resources Corp. (the “Company”) on Form 10-Q for the three months ended June 30, 2014 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Scott M. Prochazka, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott M. Prochazka

Scott M. Prochazka
President and Chief Executive Officer
August 11, 2014

Exhibit 32.2

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 Resources Corp. (the “Company”) on Form 10-Q for the three months ended June 30, 2014 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Gary L. Whitlock, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gary L. Whitlock

Gary L. Whitlock
Executive Vice President and Chief Financial Officer
August 11, 2014